INNOVATION RESEARCH CENTRE

BACK TO THE FUTURE: TIMELESS LESSONS FOR ORGANIZATIONAL SUCCESS

by

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ABSTRACT

Everywhere managers are being bombarded with so-called new management techniques and ideas. This article takes the position that until managers master the "old lessons", there's not much point in tackling new ones.

Seven fundamental lessons for management success are reviewed. Through current examples, the author shows that they are as relevant today, in the 1990's, as they ever were before.

BACK TO THE FUTURE:

TIMELESS LESSONS FOR ORGANIZATIONAL SUCCESS

One of the greatest challenges that every manager appears to face is that of "keeping-up". That is, trying to stay abreast of the latest management wisdom being touted and spouted by various "experts". The problem is that there just seems to be too darn much to absorb. And surely everything that's being written can't be important?

What to do?

Having taught and consulted in the strategic planning field for the last twelve years causes me to offer the following advice: forget about trying to learn all the new lessons, just remember the old ones! After all, what's the point of trying to be up-to-date about "chaos theory", "strategic group analysis" , "self-directed work teams" and "multi-variate regression forecasting" when you still haven't mastered the basics. Moreover, I believe that when the dust settles, most of the latest "fad management" wisdom being published currently will turn out to be more smoke and mirrors than timeless principles for long term success.

Let me then offer some personal insights into what I consider to be **seven** of the more important and fundamental management "lessons" that are critical for competitive survival.

Each one will seem fairly simple - even obvious. They are definitely not new. However, failing to adhere to these lessons represents some of the most common and **recurring** "mistakes" that managers seem to enjoy making over and over again. However, they are also "lessons" that managers must somehow learn - or else they will be "doomed", as many currently are, to continuously suffering the consequences.

Lesson #1: Focus on what's "really important"!

This may sound pretty basic but it is amazing how many firms fail to "walk-the-talk" on this one. In the end, every organization must do everything fairly well. But no organization can do everything it wants, well, all at once. Some things are more important than others. Also, given limited and scarce resources, there's just not enough money and time. Yet, how many times do senior managers demand that their staff members simultaneously provide outstanding customer service, breathtaking cost efficiency, and lightening creativity and innovation while managing the day-to-day stuff "with excellence". Sadly, there are just too many "blinking lights on the organization's console" for employees to respond to. So, they do the obvious. They ignore them. Or worse, they actually try to do them all and emerge frustrated and demoralized by their failure.

Yet, the method for conquering this challenge is fairly straightforward: list all the things that need to be done, prioritize them (note: there are some simple techniques for doing this) and focus the organization on their accomplishment **one-step-at-a-time**.

This is essentially what Komatsu did as it transformed itself from being a low price, high cost, low quality, poor service, non-innovative company into the second most formidable earthmoving equipment manufacturer in the world. "Phase one" of the transformation began in 1964 when the president of the company ordered his staff to "ignore costs and produce to world standards." Spectacular results followed three years later. Warranty claims decreased by 70 percent. It was only then that the company turned its attention to the priority of "phase two" and began a three year campaign of cost reduction - done with the understanding that quality would not be allowed to drop. Phase one and two were repeated again in 1972 and 1976 respectively. By 1982, Komatsu had doubled its world market share. Such results could not have been achieved without such a highly focussed approach to their priorities.

To be sure, some short term sacrifices (i.e. losses) may occur as one priority takes precedence over another. However, I have found that this is both acceptable and sellable to the organization's governing board once the directors can see a time-sequenced progression and anticipate the results (good or bad) that follow.

Lesson #2: Don't get distracted

While essentially a variation on Lesson #1, this lesson still requires separate treatment. That's because there will always be new things coming along which managers can grab as an "excuse" for abandoning their original game plan.

Yes, things change. But, far too many organizations respond - typically in knee-jerk fashion - to a new signal without fully analyzing and understanding both its implications. Seldom is there any in-depth discussion or justification for departing from the previously agreed-upon priority.

Often times, distraction happens when (a) losses hit the organization, (b) when elusive (yet artificial) financial goals are not being realized, or (c) when senior managers have prematurely convinced themselves that they face seemingly insurmountable problems. It is then that the cries of "diversification" and "acquisition" begin to be heard. Yet, such moves are the equivalent of "running away from an unhappy marriage". It would be far better either to reduce expectations (as in the case of unrealistic goals) or to persist in trying to fix the problems at home before starting "an affair".

Oddly enough, one of the times when distraction is also most likely to occur is when performance is not suffering at all. Management simply gets to feeling bored and looks for other ways to take-up the slack in their otherwise carefree lives - usually with dire consequences. This is basically what happened to Robert Campeau (an excellent real estate developer but lousy retail merchant), Donald Trump (another excellent real estate developer but lousy airline, hotel and casino owner) and Conrad Black (an excellent newspaper publisher but lousy food merchant and farm equipment manufacturer). As Bob, Don and Con each learned through bitter experiences: sometimes, what an organization is currently doing is all that it can ever do - and it ain't all that bad either.

Lesson #3: Blame yourself!

Managers and staff always seem able to provide a litany of reasons as to why some events are not happening as planned or anticipated. Yet, how many times do these same individuals "blame themselves" for the cause of the problems. Far too frequently, the problems encountered are somebody else's doing: managers blame subordinates; subordinates grouse about their bosses; everyone blames the competition and the government; and sometimes it's even the customer's fault.

My experience suggests, however, that organizations spend far too much time trying to lay blame on others when most of the serious problems lie close to home. Moreover, most organizations spend an inordinate amount of time complaining about things over which they have little or no control - such as, NAFTA, taxes, interest rates and the unfair trade practices of others. Such breast-beating, however, is usually no more than a convenient excuse for failing to address the problems over which the organization has some control - fixing itself!

As organizations look out to the future, my advice is to take an unusual perspective. For every problem that the organization encounters, **each staff member** must be made to say to himself or herself: this is "my" fault, now what can "I" do about it? Blaming others is unacceptable.

The starting point for this new perspective is to make a list of all the organization's problems, prioritize them, and then ask each staff member what **they personally** can do to correct them. And it can't cost a lot of money either!

I have worked with several organizations which have saved and/or made tens of millions of dollars by essentially following this remarkably simple procedure. One firm, in particular, even pays its employees a bounty of twenty dollars for "A-type" ideas and five dollars for "B-type" ideas. Last year, their forty-two employees contributed 5000 ideas for which they received $50,000 in bounties. While only fifteen hundred ideas were implemented, the firm estimates a return of approximately $7,000,000! Not bad.

Lesson #4: Know why you exist!

Most private sector organizations think that the reason why they exist is to make profits - or at least break-even. While it is true that continued losses will eventually signal the end of any organization, focussing on profits can be a narrow and dysfunctional activity. It is important to know why the profits happen in the first place.

The key to the question of existence lies in the notion of "stakeholders". There are many parties (i.e. individuals and groups) who contribute to and determine the existence of any organization.

Number one on the list is, of course, **the customer**. Unless an organization is able to successfully trade with customers, then it will not exist. Yet, just how much time and attention do most organizations give their customers before **and after** the sale? How many organizations routinely (i.e. every three to six months) survey their customers to determine their level of satisfaction? Amazingly, the answer is fewer than 5 percent in the private sector

- and probably non-existent in the not-for-profit arena. Yet, there is probably no better way of ensuring continued existence than by **anticipating customer needs and solving customer problems**. It's as simple as that.

After customers, the second most important stakeholder group is an organization's **employees**. Without their loyalty, dedication, commitment and support, an organization is impervious to change and technically brain dead. Nothing will get done. But, given the usually appalling treatment of customers, it is not that surprising that most organizations don't even recognize employees as a stakeholder group essential to their existence. Indeed, most organizations routinely "abuse" (both mentally and physically) what they "claim" is their most valued asset. Yet, when was the last time you asked your staff how satisfied they were with their jobs and work environment. Most managers don't because they fear that employees will hold them up to ransom over wages. However, countless research studies have shown that money is a low priority in most employees' minds. What matters most is respect, recognition, social interaction and the absence of boredom. Why, then, are most organizations so reluctant to deal with this?

Finally, while there are many other stakeholder groups, the third most important one to recognize is **society** as a whole. Today, no organization **will be allowed to exist** unless it acts in a socially responsible fashion. Witness the current grief of forest giant

MacMillan Bloedel in its **worldwide** battle with Greenpeace over the cutting of virgin forests in Clayoquot Sound. MacBlo is going to lose a lot of money here. But, the loss to its reputation and image (and the lost future sales that this represents) is inestimatable.

Jack Welch, the CEO of General Electric (and the most admired business executive in the world), has stated that the secret of survival in the nineties and beyond is "simply to make products of the highest quality and offer them to customers at the lowest price while acting in an environmentally responsible and sensitive manner." He's right. So, in the immortal words of NIKE: Just do it! Ignoring this notion - or even worse, fighting it - will get your organization nowhere. In fact, those who respond first to the demands of their multiple stakeholders may have such an advantage that they will actually make it impossible for their competitors ever to catch up.

Lesson #5: Constantly communicate the strategy to the troops

Even when an organization understands the importance of setting priorities (lesson #1), not getting distracted (lesson #2) and satisfying multiple stakeholder needs (lesson #4), I am constantly amazed at how reluctant most senior managers are when it comes to openly and frequently discussing their goals, strategies and expectations. The reasons for this are equally amazing. Some senior managers seem to believe, for example, that their lower level staff members are mind readers and that there really is no need to describe, let alone explain, the organization's strategy. But, this is tantamount to asking combat troops to charge into battle without a clear understanding of what is to be accomplished, who the enemy is, and what the potential risks and rewards might be. Also, as any qualified marriage counsellor will attest: open and frequent communication is the key to a successful marital partnership. The same holds true for business.

Other senior managers, however, think that communicating the organization's strategy **once** should be enough. To quote one misguided manager: "It's a sign that my staff is paying attention and on-the-ball." But, listen to what Roger Smith, the widely criticized CEO of General Motors, confessed just prior to the end of his career with the company:

> If I had an opportunity to do everything over again...I sure wish I'd done a better job of communicating with GM people. I'd do that differently a second time around and make sure they understood and shared my vision for the company. Then they would have known why I was tearing the place up, taking out whole divisions, changing our whole production structure. If people understand the "why", they'll work at it. Like I say, I never got that across.

Roger should have talked with any high school teacher or junior sports coach in North America and he or she would have told him that it is the repetition of the lesson and practicing the drills ad nauseam that ultimately drives the message home. Similarly, in business, it is open and frequent communication regarding goals, strategy and expectations that is critical for keeping an organization focussed on its priorities. As a minimum, it also serves to remind senior management itself about what it is trying to accomplish.

The key to really effective communication, however, is to follow the KISS principle - "keep it simple and straightforward". And, if the organization is focussed (lessons #1 and #2), doing so should be relatively easy.

Lesson # 6: Avoid competing on price!

Most firms find it relatively easy to satisfy their market share, volume and profit objectives in high growth environments. In mature markets, however, capturing and holding onto **new** customers can be especially problematic.

Essentially, there are only two ways of **pro-actively** competing for customers (i.e. taking share away) in mature markets: offering a comparable or identical product/service at a price lower than the competition (in which case the aggressor firm should have significantly lower costs) or by differentiating the product/service (hopefully,in such a way that a premium price is obtained). In almost all circumstances, differentiation is the preferred route to go.

This is because attacking a competitor's market share with a low price strategy does not tend to provide a sustainable competitive advantage. Most "victim firms", sensing a loss in their market share, will respond fairly rapidly to the price reduction manoeuvres of their competitors and then work aggressively on their own cost reduction programmes to restore margins. And, therein lies the un-attractiveness of this approach. Price competition generally proves to be futile - particularly among equally large companies. Witness, for example, the horrific price battles during the cola wars of the '70's and '80's. While consumers got some fantastic deals, Coke and Pepsi's relative competitive position remained, in the end, unchanged. The same holds true in the slug-fest occurring today among the world's major airlines.

The only time it makes sense for a firm to aggressively pursue a low price strategy (i.e. launch a price war) is when it is confident that already weakened competitors will succumb to defeat i.e. competitors may lower their prices but they will not be able to meet an aggressor's cost structure. Typically, it is the smaller, regional players in an industry who are most vulnerable to such attacks. For example, it was they who went out of business during the cola wars - unlike Coca Cola, which had hundreds of millions of dollars to defend itself against the "Pepsi Challenge". And it is also the smaller players which have recently been driven from the airline industry. Small companies should, therefore, be especially careful not to provoke confrontations will their larger, more powerful competitors - unless, of course, they are confident about being able to deliver "the fatal blow."

A differentiation strategy, on the other hand, avoids almost all of the problems associated with using a lower price to increase market share. It does this by changing the rules of the game. As a consequence, competitors are either neutralized or removed from the playing field - usually for a considerable period of time. This is essentially what Canon did when it decided to sell its photocopier machines through distributors (as opposed to mimicking Xerox's direct sales force); what CNN did when it chose to concentrate on television news and market itself globally through cable companies (as opposed to copying the standard format of most domestic broadcasters); and what WalMart did when it chose to offer its products to small rural locations (as opposed following the example of the giant discount retailers who preferred to concentrate on large, urban cities). It is during this period of "no direct competition" that enormous profits can be made, consumers' loyalty reshaped and strong competitive positions staked out. And the stronger the differentiation (especially through new product innovation), the more difficult for competitors to play "the match game".

Lesson #7: Lead by example!

There is no question that if senior managers want the most performance out of their employees, they must lead by example. For instance, if they want their employees to work hard, then it is the senior managers who should be at work the earliest and stay the latest. Every action must reflect the priorities that they want their staff to emulate. And no action should be taken without judging how it will be interpreted and the significance of its impact on others.

I know of one CEO who, on his first day on the job, asked for a pencil holder for his desk. His secretary showed up several hours later with a real spiffy looking one - obviously manufactured specifically to grace some "grand poobah's" desk. The CEO asked his secretary how much it cost. When she told him, he immediately ordered her to take it back and get him a coffee cup for his pencils. By the end of the day, the story had spread like wildfire throughout the 400 person organization. "You could be sure that I didn't get any gold-plated proposals after that happened", he remarked to me months later.

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