The Editor's Chair

Back to the Future: Timeless Lessons for Organizational Success

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One of the greatest challenges any manager can face is "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 is just too much to absorb. Surely *everything* that is being written about can't be so important?

Having taught and consulted in the strategic planning field for the last 12 years, I offer the following advice: Forget about trying to learn all the new lessons; just remember the old ones. What is the point of trying to be up-to-date on chaos theory, strategic group analysis, self-directed work teams, and multivariate regression forecasting when you still haven't mastered the basics? When the dust settles, most of the latest fad management wisdom being published will turn out to be more smoke and mirrors than timeless principles for long-term success.

Allow me, then, to offer some personal insights into what I consider to be seven of the most important and fundamental management lessons critical to competitive survival. Each will seem fairly simple—obvious, even, for the lessons definitely are not new. Failing to learn them or adhere to them, however, can result in some of the most common mistakes managers make.

1. Focus on what is "really important."

This may sound basic, yet 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 excel at everything it wants all at once. Some things are more important than others. Also, given limited and scarce resources, there just is not enough money and time. Nevertheless, how many times do senior managers demand that their staff members simultaneously provide outstanding customer service, breathtaking cost efficiency, and lightning creativity and innovation while managing the day-to-day stuff "with excellence"? Sadly, there are too many blinking lights on the organization's console for employees to heed. 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.

Forget the new for the moment. Concentrate instead on these oldies but goodies from the corporate wars.

The method for conquering this challenge is fairly straightforward: List all things that need to be done, make priorities (Note: there are some simple techniques for doing this), and focus the organization on accomplishing them *one step at a time.* This is essentially what Komatsu did as it transformed itself one step at a time 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 com-

pany ordered his staff to ignore costs and produce to world standards. Spectacular results followed three years later. Warranty claims decreased by 70 percent. Then the company turned its attention to the priority of Phase Two and began a three-year campaign of cost reduction—with the understanding that quality would not be allowed to drop. Phases 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 focused approach to its priorities.

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Some short-term sacrifices—in other words, losses—may occur as one priority takes precedence over another. However, I have found that this is both acceptable and sellable to the firm's governing board once the directors can see a time-sequenced progression and anticipate the results (good or bad) that follow.

2. Don't get distracted.

Though essentially a variation on the first lesson, this one still requires separate treatment. There will always be something new coming along that managers can grab as an excuse for abandoning their original game plan.

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

Often, distraction happens when (a) losses hit the organization, (b) elusive yet artificial financial goals are not being realized, or (c) senior managers have prematurely convinced themselves that they face seemingly insurmountable problems. Then the cries of "Diversification!" and "Acquisition!" begin to be heard. Such moves, though, 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.

It is odd that one of the times distraction is most likely to occur is when performance is not suffering at all. Management simply becomes bored and looks for other ways to take up the slack in their otherwise carefree lives—usually with dire consequences. This is what happened to Robert Campeau (an excellent real estate developer but a poor retail merchant), Donald Trump (another excellent real estate developer but a poor airline, hotel, and casino owner) and Conrad Black (an excellent newspaper publisher but a poor 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 isn't all that bad, either.

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. In fact, often the problems encountered *are* somebody else's doing. Managers blame subordinates. Subordinates grouse about their bosses. Everyone blames the competition and the government. Sometimes it's even the customer's fault.

Yet how many times do these people blame themselves for the cause of the problems? My experience suggests that organizations spend far too much time trying to blame others when most of their serious problems actually lie close to home. Moreover, most firms spend an inordinate amount of time complaining about things over which they have little or no control—NAFTA, taxes, interest rates, the unfair trade practices of others, whatever. Such breast-beating, however, is usually no more than a convenient excuse for failing to address those problems over which the organization has some control.

As companies look to the future, my advice is to take an unusual perspective. For every problem the company encounters, *each staff member* must be made to think: This is "my" fault, so what can "I" do about it? Blaming others is unacceptable. The starting point for this new perspective is to list all the organization's problems, make priorities, and then ask each staff member what *he or she personally* can do to correct them. Their solutions can't cost a lot of money, either.

I have worked with several organizations that have saved or made tens of millions of dollars by following this remarkably simple procedure. One firm in particular even pays its employees a bounty of $20 for "A-type" ideas and $5 for "B-type" ideas. Last year its 42 employees contributed 5,000 ideas for which they received $50,000 in bounties. Although only 1,500 ideas were implemented, the firm estimates a return of approximately $7,000,000!

4. Know why you exist.

Most private-sector organizations think that the reason they exist is to make profits—or at least break even. Though it is true that continued

losses eventually signal the end of any organization, focusing only 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 individuals and groups who contribute to and determine the existence of any organization. First on the list, of course, is *the customer.* Unless an organization is able to successfully trade with customers, it will not exist. Yet how much time and attention do most firms give their customers before *and after* a sale? How many routinely survey their customers—say, every three to six months—to determine their level of satisfaction? Amazingly, the answer is fewer than 5 percent in the private sector—and probably none in the not-for-profit arena. Yet there is probably no better way of ensuring continued existence than by anticipating customers' needs and solving their problems. It's as simple as that.

After customers, a company's second most important stakeholder group is its *employees.* Without their loyalty, dedication, commitment, and support, a company is impervious to change and technically brain dead. Nothing will be done. Given the usually appalling treatment of customers, it is not surprising that most firms don't even recognize employees as a stakeholder group essential to their existence. Indeed, most routinely abuse, both mentally and physically, what they claim is their most valued asset. When was the last time you asked your staff how satisfied they were with their jobs and work environment? Most managers don't do that because they fear employees will hold them up for 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 firms so reluctant to deal with this?

Among the many other stakeholder groups, the third most important one to recognize is *society.* 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 Canada's Clayoquot Sound in British Columbia. MacBlo is going to lose a lot of money; the loss to its reputation and image (and the lost future sales that this represents) is inestimable.

Jack Welch, CEO of General Electric and the most admired business executive in the world, has stated that the secret of survival in the 1990s and beyond is "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 take your organization nowhere. 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.

5. Constantly communicate the strategy to the troops.

Even when an organization understands the importance of setting priorities (lesson 1), not becoming 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. Their reasons for this are equally amazing. Some, for example, seem to believe that their lower-level staff members are mind readers and that there really is no need to describe or explain the firm's strategy. 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. Just as open and frequent communication is the key to a successful marital partnership, so too is it vital for business.

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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." Heed 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. . . . I never got that across.

Roger should have talked with some high school teachers or junior sports coaches in North America. Any one of them could have told him that it is the repetition of the lesson and practic-

ing the drills that ultimately drive the message home. Similarly, in business, open and frequent communication regarding goals, strategy, and expectations is critical for keeping an organization focused on its priorities. At the minimum, it serves to remind senior management itself about what it is trying to accomplish.

The key to truly effective communication, however, is to follow the KISS principle: "Keep it simple and straightforward." If the company is focused, doing so should be relatively easy.

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.

There are only two ways of actively competing for customers (taking share away) in mature markets: (a) offering a comparable or identical product or service at a price lower than the competition, in which case the aggressor firm should have significantly lower costs; or (b) differentiating the product or service, preferably in such a way that a premium price is obtained. In almost all circumstances, differentiation is the preferred route.

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 maneuvers of their competitors and then work aggressively on their own cost reduction programs to restore margins. Therein lies the lack of 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 1970s and 1980s. Though consumers received some fantastic deals, Coke's and Pepsi's relative competitive positions remained, in the end, unchanged. The same holds true in the slugfest occurring today among the world's major airlines.

The only time it makes sense for a firm to aggressively pursue a low-price strategy (launch a price war) is when it is confident that already weakened competitors will succumb to defeat. Competitors may lower their prices but they will not be able to meet an aggressor's cost structure. Typically, smaller regional players in an industry are most vulnerable to such attacks. For example, smaller companies went out of business during the cola wars—unlike Coca-Cola, which had hundreds of millions of dollars with which to defend itself against the "Pepsi Challenge." The smaller players also have recently been driven from the airline industry. Small companies, therefore, should be especially careful not to provoke confrontations with 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 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 what Canon did when it decided to sell its photocopier machines through distributors rather than mimic Xerox's direct sales force. It is what CNN did when it chose to concentrate on television news and market itself globally through cable companies instead of copy the standard format of most domestic broadcasters. Wal-Mart also did it when it chose to offer its products in rural locations rather than follow the example of the giant discount retailers, who preferred to concentrate on urban areas.

It is during this period of "no direct competition" that companies can make enormous profits, reshape consumers' loyalty, and stake out strong competitive positions. The stronger the differentiation (especially through new product innovation), the more difficult it is for competitors to play "the match game."

7. Lead by example.

There is no question that if senior managers want the best performance out of their employees, they must perform well themselves. For instance, if they want their employees to work hard, then senior managers should be at work the earliest and stay the latest. Every action must reflect the priorities they want their staff to emulate. No action should be taken without judging how it will be interpreted and anticipating 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 the desk of some grand poobah. 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.

It is discouraging to realize that there are leaders of major corporations today who still don't understand how their own negative behavior affects their organizations. For instance, in its annual survey of America's toughest bosses, *For-*

tune reports of one company in which the president makes his divisional managers bark for their pay checks. (One can only imagine what those managers make their own staff do. Shame on them all!)

If they wield them skillfully and wisely, however, senior managers can use their actions to condition and internalize appropriate behaviors in their lower-level managers. Leading by example can become the means by which to pass along wisdom to a firm's younger—and aspiring—members, who are always trying to answer the question: "What do I have to do to get ahead here, to be respected, and to get rewarded?" Even more important, however, leading by positive example helps to create, instill, and reinforce a company value system that will continue to influence lower level manager behaviors long after the leader has died (Thomas Watson at IBM), retired (Alfred Sloan at General Motors), or simply moved farther away from the grassroots operations as the organization grows (Phil Knight at Nike).

Thus, learning by watching can be just as important—and maybe more so—than learning by doing. Senior managers therefore need to recognize that subordinate managers are watching them closely and are eager to follow the direction and example of their superiors. In the corporate context, imitation becomes more than flattery—it is the essence of learning.

Organizations need to know many things as they march down the road to the twenty-first century. However, the position taken in this article is that before learning any new lessons, it is important to first master the old ones. So beware of the consultant or guru bearing the latest flavor-of-the-month management wisdom.

The lessons presented here are those that my experience has shown to be the most important for continued success. If most organizations would work on mastering them, many of the problems they face would either be drastically diminished or perhaps totally disappear. I therefore challenge you to test your own management practices against these lessons as an indicator of your organization's current and future performance. Good luck! ❐

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