

StrategyLetter®

AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

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A turning point for leadership

Just when you thought it was safe to put your head up....

The world is suddenly a very dangerous place. There are many reasons for concern. Chief among them are fears of terrorism, a dangerous impasse in the Middle East, tension between India and Pakistan, the implosion of Latin American economies, economic backsliding in Japan, a continuing "lack of visibility" for many businesses, and continuing job cuts. But the really big issue in 2002 is *corporate behaviour*. And this is a can of worms that threatens not just short-term confidence, but the very foundations on which capitalist society works.

Under the over-arching theme of corporate governance, three specific issues are grabbing headlines: leadership, board performance, and accounting practices. Shocking failures in all three combine to make a poisonous brew.

Many famous business leaders have behaved appallingly. Caught up in the get-rich-quick hype of the dotcom boom, they're now being exposed as pathetic money-grabbers. Too concerned with their own wealth and perks, they lost sight of the fact that they were employees with a fiduciary duty to shareholders. They promoted idiotic strategies, involved their firms in hair-brained schemes, and treated their people with callous disdain.

Corporate boards let these crazies have their way. Smart people bought stupid strategies, and either didn't look or didn't worry when their CEOs acted badly. Accounting practices have become dangerously lax. Standards have been ignored or skirted. Laws have been broken. Tricks have been used to inflate earnings, hide costs, camouflage dodgy deals, and evade taxes. Yet no one takes the blame.

If 2000 will be remembered for the bursting of the technology bubble, and 2001 as the first year of the war against terror, 2002 will go down as a turning point for leadership. So this, Issue No. 30 of my *StrategyLetter* is devoted to that vital topic.

Coincidentally, my latest book, *Discovering The Essence of Leadership* (published by Zebra Books) hits the shelves this month. I hope you read it and enjoy it. Meanwhile, here are some ideas you can use right away.

Tony Manning/*Strategist*

CONSULTANT IN COMPETITIVE STRATEGY & CHANGE MANAGEMENT

P.O. Box 750 Morningside 2057 South Africa Phone 27 11 884-2635 Mobile 082 800-5862 Fax 27 11 884-6006

E-mail strategy@tonymanning.com

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More volatility ahead

In my last *StrategyLetter* (May 2002) I gave reasons why a double-dip recession in the United States was possible. At the time, most forecasters saw that as a minor risk. But the odds are growing. Recent signals have caused widespread alarm at the state of the US economy – and about the prospect of extremely negative conditions spreading across the globe.

At the time of the Asian crisis, the world's financial managers had a good deal of scope for intervention. They were also able to step in and stabilize things surprisingly fast after September 11 last year. Now, they have far less room to move. Another terror attack at this time would have unimaginable consequences.

But leave aside that awful prospect. Many signs point to the likelihood that the world economy will cool fast in the months ahead. If the worst case scenario is too awful to contemplate, even the best case scenario is not particularly positive.

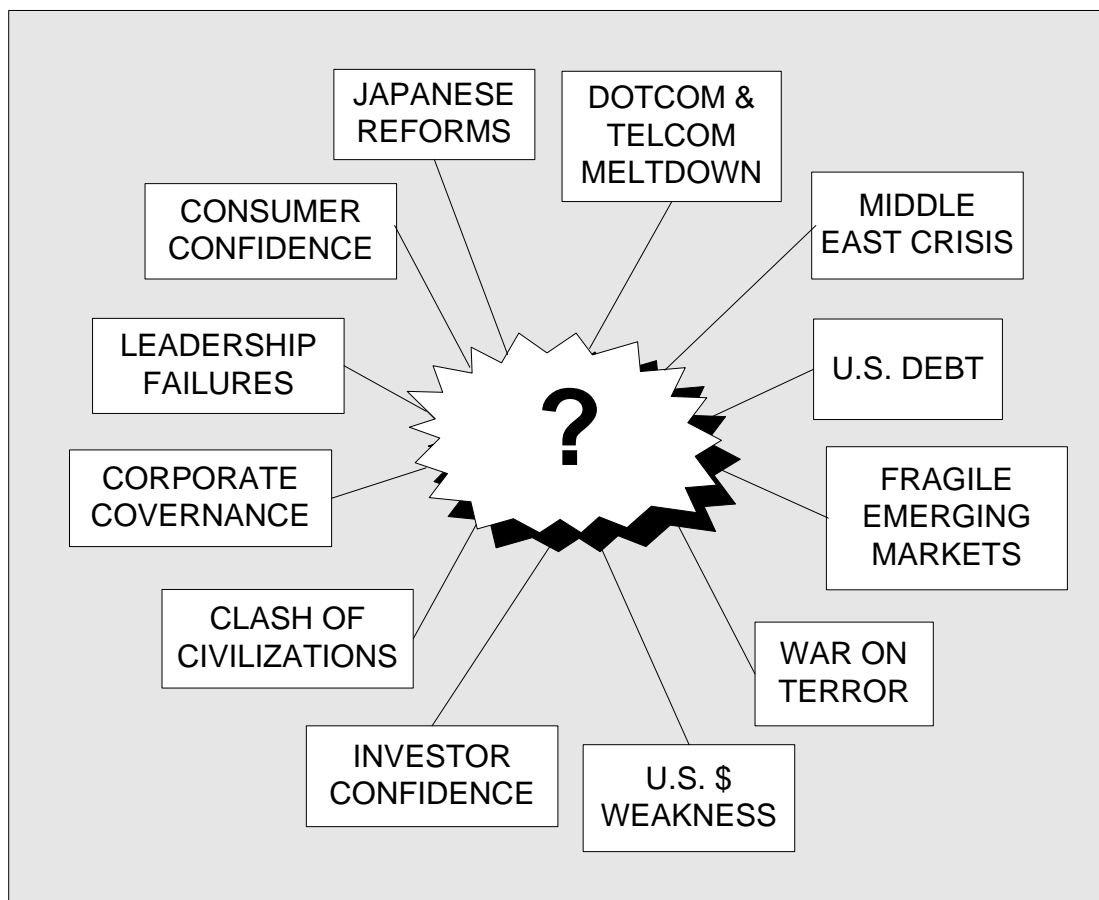


Figure 1

So far this year, South Africa seems largely to have escaped the effects of slowdowns elsewhere. The Rand has been surprisingly resilient, yet still weak enough to benefit exporters. The Africa Growth and Opportunities Act has helped many firms make big inroads into the American market. Inbound tourism is booming. Local shoppers have kept spending. (retail sales jumped 8% in June over the same month last year.) The Earth Summit will be a major boost.

But can this good fortune continue? Don't bet on it.

On the one hand, foreign customers for just about everything are getting nervous and shutting their wallets. On the other, local consumers are starting to feel the impact of three interest rate hikes (and fear the prospect of another, before the year is out). Downturns have just been

reported in Sacob's trade activity index and the Investec purchasing managers index: sales of cars and electronics goods are slowing. Personal debt at the poor end of society is exploding. The costs of HIV/AIDS are starting to be felt.

In the wake of corporate woes in Europe and the US, many reports have shown how hard it is for any firm to sustain performance over a long period. It may be possible to grow faster than the underlying economy for a year or maybe even a few years, but not forever.

Given the robustness of the SA economy in the first half of 2002, some economists are now raising their estimates of growth in GDP for the full year, and are even more optimistic about 2003. But business leaders should be extremely cautious about assuming that easier times lie ahead. On the contrary, they should be readying their organizations for a long uphill run.

First, get back to basics

Of course, the rallying cry in every firm should be, "We're going to growth!" But even while executives look aggressively for new opportunities, they should also devote more time and effort to making their current businesses sustainable.

This sounds terribly obvious. But in my consulting work with many firms during the past year, I have found it increasingly necessary to remind executives of *the need for a healthy balance between managing the basics and striving for breakthroughs*. The trouble is, innovation has been made into a big deal. "The basics" are boring whereas breakthroughs get the juices going.

I have personally been a vocal champion of radical change for many years. There is no question that it is essential. But nor can there be any doubt that there is room in many – if not *most* – companies to get better results from their present customers, products, processes, and people. Nor should there be any debate about the need to fix the foundations before you build a skyscraper.

Business leaders must always walk a narrow line between today and tomorrow. For some, there is a pressing need to sell today's business, restructure their industry, or radically alter their competitive standing through mergers or acquisitions. *For the vast majority, though, squeezing the current business is the most realistic thing to do.*

Leaders must drive continuous improvement – and that means innovation – in everything. *Operational excellence is a source of real competitive advantage. For all the efforts that have been made in the name of lean production, six sigma quality, supply chain management, and the like, no company can claim to have hit the limits.*

In SA, "the basics" fall into two categories (Figure 2). Operational issues are the obvious ones to attack first. But a number of macro factors have become critically important, and in the long run will make or break you; they too, must be seen as "basics" for doing business in this country. Be sure you give them the attention they deserve – *now*, while you have time.

OPERATIONAL	MACRO FACTORS
<ul style="list-style-type: none"> • Market/customer definition • Offering (value proposition) • Delivery system (business model) • Execution • Costs 	<ul style="list-style-type: none"> • HIV/AIDS • Transformation (employment equity) • Black economic empowerment • Affirmative procurement • Safety, health, environment

Figure 2

Organizing for uncertainty

Companies are profit machines. Leaders have to ensure that they produce more money than they consume. Task #1 is to make the machine work to its potential no matter what happens around it.

As the record shows, it's not easy to create and manage an organization that can survive fair weather. Foul weather is another matter entirely. And that's what's on the radar screen.

How fit is your organization for the future? Here's a quick test. Rate your company 1-5 (where 1 = poor and 5 = excellent).

1. We have a critical mass of competent people in "pivotal" jobs.
2. Our team has a shared set of assumptions about the environment we operate in and what we must do, and is alert to changes.
3. Our goals, priorities, and actions are clear and there is commitment to them, but when it makes sense, we change our minds.
4. We have the skills and experience we need to make our strategy reality.
5. Our strategic conversation is focused, honest, and robust.
6. We are relentless about executing our plans.

Note that there's no mention here of other resources (finance, technology, raw materials, etc.) and no question about structure, politics, culture, incentives, and so on. Not because they don't matter. But rather, because they too easily become distractions.

Corporate performance is a result of many things. But a few things have disproportionate influence. Get them right, and much else will fall into place and take care of itself. Get them wrong, and everything else grabs the headlines.

Needed: a new toolkit

It is hardly surprising that the birth of the African Union has been greeted with scepticism. The continent, after all, is riven by conflict, plagued by corruption, and ravaged by unemployment, poverty, and disease. Political leaders do little to inspire confidence.

Governments have a key role in the upliftment of this continent, but it is predictable that they will fail in many of their efforts for lack of executive capacity. 'Delivery' will be their Achilles heel. To make matters worse, companies, too, will be unable to do what they must.

There's plenty of happy talk of lifting South Africa's GDP growth rate to 5-6% p.a. (One super-optimist recently suggested to me that 12% was possible!) But there are few practical suggestions about the "how." So the gap between dream and reality is likely to stay wide.

A decade or so go, it was estimated that SA would have a shortage of 200 000 managers by 2000. Now, it's said that we're short of 500 000. Given deficiencies in the education system, continuing emigration of skilled people, and the possibility that 20-24% of the workforce will be infected with HIV/AIDS within 10 years, the situation is unlikely to improve.

For some years I have warned that the management deficit is the No. 1 crisis facing South Africa. That without competent people running organizations of every type, results would go out the window. At last, others are starting to echo the same concern. Beyond our borders the situation is far worse.

One way to respond is to throw up our hands and laugh off the possibility of a positive future. Another is to acknowledge the facts, accept the shortcomings of current executive development processes, and find a better way to grow the leaders of tomorrow.

Doing the first is easy; and this society isn't short of nay-sayers who know why "things will never work in Africa." The second option is a no-brainer; SA is not producing enough

competent executives, and whatever is being tried is falling short.

The chairman of a major firm recently said to me, "When you address our group, keep it very simple. Whatever you say will go over the heads of most of our people." The people he was talking about were not truck drivers or messengers. They were his top team! Conclusion: his organization has a perilously low "strategic IQ." And believe me, it's not the only one.

Surprisingly, it might be might be less difficult than we imagine to create a management revolution. The starting point is to overturn much of what we think we know about people development, and try something new.

Here's why it might work:

1. Running almost any organization is complicated, but it is made more complicated by managers and those who provide their tools. There's no shortage of "breakthrough" concepts. Nor is there a shortage of managers eager to use them in organizations already overloaded with projects, initiatives, task forces, and the like.
2. Most organizations would fare much better if they a) forgot about the hottest new management fads, b) were clear about their business purpose – i.e., "Why we exist", c) identified the handful of "basics" that drove their performance, and c) worked at them aggressively and single-mindedly for long enough to make a difference.
3. Although there's a huge body of theory about management, no one needs the whole "toolkit" to be effective. In fact, most managers would do better by using fewer tools – and using them well.

Management is not easy. Everyone cannot be a competent manager. But SA is now up a creek with too much to do and too few people to make it happen. For all the magnificent efforts by business schools and other centres of management education, supply will never catch up with demand. "More of the same" cannot be the best option.

There is no doubt that extensive education is a great idea. SA's 22 business schools do sterling work. More firms should send more people on their programmes. The long-term benefits will be immense. *But the long-term begins today*. Most companies need better decisions and more effective action right now.

The basic tools that executives need are described in my books, *Making Sense of Strategy* and *Discovering The Essence of Leadership*. By applying them immediately, many firms would see a rapid improvement in their performance.

Of course, experience and judgement cannot be learned from books. They must be developed over time. It will take years to develop truly world class leaders. But almost every day, I watch smart people struggle to use the concepts they have learned at business schools. They have learned so much, they're not sure which tool to grab first. To make matters worse, many of the tools are too complicated, and they're unsure how to use them.

There is only one way to raise an organization's "strategic IQ" fast. It has two steps:

1. Agree on the management toolkit you'll use, and ensure that everyone knows what's in it and how to use the tools.
2. Involve as many people as possible, as fast as possible, in your "strategic conversation." This will get them "in the information loop," inspire them, and ensure that performance becomes everybody's business.

In the past decade, South African firms have fared astonishingly well against global competition. A lot are well prepared for an even tougher fight in the future. But too many are vulnerable, so the future growth of this economy is at risk.

We are not short of clever people. All we're missing is the common sense that will make them effective.

Good manners as strategy

Leaders in organizations can only be as great as others let them. That's a fact worth thinking about. For too many people in high office seem to think that their titles or roles make them special. They think that because they are "in charge" they have infinite ability to make others do as they wish. They imagine that the trappings of power make them powerful, that everything they say carries clout, and that all their decisions make sense to everyone around them.

Confidence is a critical factor in an executive. But it needs to be rooted in an ability to get results by bringing out the best in others, not by lording it over them. And it should never be confused with arrogance, which is a disgusting trait.

South Africa has a tragic history of diminishing people. And not just black people, or women, or those with disabilities. Across the board, individuals with ambition, enterprise, ideas, enthusiasm, and energy have been held back, frustrated, insulted, under-estimated, and short-changed. They have been told what to do, rather than listened to. They have been controlled rather than inspired. They have been treated as incompetent half-wits, rather than as capable and intelligent. And they have been pushed into confrontational relationships by the very people who should have been winning their hearts and minds.

This is not a uniquely South African record. For half a century, the "human resources school of management" has evangelized the importance of people. Twenty years ago, American and European companies started copying Japanese management practices, which emphasised the importance of what is now called "human capital." Yet today there is a new recognition of the value of people.

In the last decade, technology clearly played a huge role in boosting productivity. But around the world, smart executives are unleashing the imagination and spirit of people to push the boundaries of corporate performance. Organizations are discovering that however well they have performed in the past, extraordinary changes and improvements are still possible when they tap into the human potential within their walls.

Everywhere, people are working smarter. Ideas are bubbling up from the most unexpected quarters. Innovation has become everybody's business. Front line service has become vastly better than it ever was – even though many of the same people still deliver it.

If the 1990s were a time of astonishing technological advances, this new decade will see human beings back on top of the performance agenda. The first wave of productivity gains – through reengineering, downsizing, outsourcing, and so on – is past. Now, firms must find new ways to do better in business conditions that are much worse.

In the 21st Century, leadership will hinge, as never before, on good manners and genuine respect for others. These soft factors deliver hard results. They apply both within organizations and outside, with all stakeholders. After all, suppliers, customers, government and the rest are not just legal bodies, nameplates, or amorphous masses; they are made up of human beings with needs and feelings, hopes and fears. Treat those people well, and you immediately stand out as being different and nicer to work with; treat them badly, and they'll get you.

No company is a social club. Not every business conversation is pleasant. Leaders have to say, "No," have to take hard decisions, and have to pressure people to perform. But the way they do these things will turn people on or off – possibly forever.

Good manners are a personal choice. But no company can allow its employees to get away with being bad mannered. Their behaviour impacts widely. It sends strong messages about an organization and its values. It is an integral part of a firm's identity, its reputation, and its brands – all of which are increasingly important. So good manners should be seen as a strategy, rather than a happy accident.

Great through others

Some people make a difference by excelling as solo performers – musicians, consultants, scientists, sportsmen and women, actors, and artists come to mind. They're a fine example to others, and have great influence. You can't over-estimate their value to society. But while it's one thing to seek *personal* satisfaction or success and glory, it's something else entirely *to be all you can be through others*.

My definition of leadership is simple. It is:

The achievement of a specific purpose through others.

The key words there are *achievement* (results) ... *purpose* (for a reason) ... *through others* (by empowering and inspiring them).

This view makes three things clear:

1. It's not enough to merely have the title of chairman, CEO, vice-president, general manager, or whatever. You're accountable and you're measured by what you *do*, not what you *say*.
2. You need to be able to explain your intentions, and they must make enough sense for others to want to support them.
3. This is not a solo performance. What matters is your ability to unleash the potential in others, align their efforts, and keep them enthused over time.

There's a germ of leadership within almost every human being. There are leaders in many places in every organization. There's potential for even more of them. We lead people above us, below us, and beside us (Figure 3), and there's room to do it better.

If I can magnify your contribution by just one per cent, and if you, in turn, can magnify the next person's contribution by one per cent, the multiplier effect will be immense. Obstacles will melt away. Distant goals will be within reach. Unimaginable achievements will be possible.

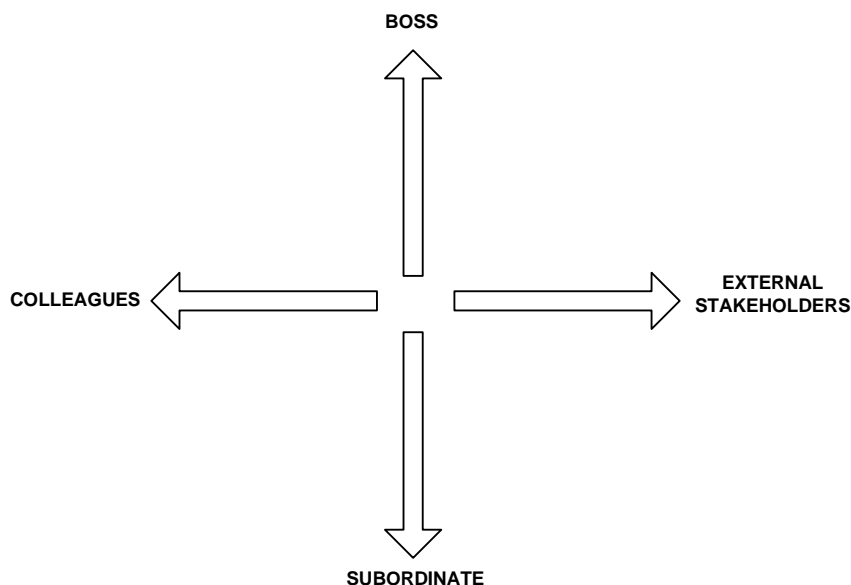


Figure 3

(Reprinted from *Discovering The Essence of Leadership*, Zebra Books, 2002)

The gift of winning

Discovering The Essence of Leadership is based on this fact:

**Only by being truly yourself – and true to yourself –
will you enable others to be what they can be.**

Leadership is a journey of discovery. It's both a journey in search of yourself and a journey in which you help others search for their essence and possibilities. Neither journey is ever complete. There are no limits to personal growth.

You discover your self partly through introspection and reflection, and mostly through experience. No matter how deep you dig into your mind, you only discover what you can do when you do it. Quiet contemplation has great value. But action provides the real test and the best learning.

In the same way, the performance and growth of the people you lead depends on their own thoughtfulness and action. As their leader, you can provoke both or inhibit them. Your choice will make or break and break them. And you too.

Leadership is a gift. It's a role you get partly because you have what it seems to take, and largely because others deem you worthy and give you the job. Consider this cycle of reciprocity:

1. You may decide that you want to be a leader, and you may prepare yourself carefully for such a role, but you need certain gifts in order to have a chance.
2. Usually, you must be chosen to lead. Someone else decides to give you the job. It's their gift to you.
3. You, in turn, have a gift for those you lead: the gift of discovering their potential.
4. They then have a gift for you: the gift of success as a leader.

This extraordinary relationship begins and ends with integrity. You have to face up to who you are. You have to reveal yourself as you are. And you have to live your own life. At the same time, you have to accept others as they are, and empower them to be whatever only they can be.

That is the essence of leadership.

(Reprinted from *Discovering The Essence of Leadership*, Zebra Books, 2002)

Do it ... now

South Africa has made astonishing strides in a short time. There are awesome problems ahead, but much is in place – laws, organizations, systems – to give us real hope for the future. *The fact is: this nation is working.* No one should be thrown by the natural noise of political jostling or social activity. It's normal, and it won't go away. The challenge now is to forge ahead and build on the gains of the past.

We constantly hear that our people are our secret weapon. Now, we must prove it. We must do whatever it takes to make them leaders, to unleash their potential, and to let them shape the future.

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