Tony Manning's

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AN OCCASIONAL REPORT ON GLOBAL TRENDS AND NEW MANAGEMENT THINKING

In this issue:

When the future is as clear as mud

Business is always a gamble. Managers always have to lay bets on a future they can't clearly see. No amount of environmental analysis or scenario planning gives them certainty or eliminates all risks. But today, their task is more difficult than ever. This is a time of extraordinary uncertainty, unusual complexity, and unprecedented danger.

No one knows what's coming next. The talking heads on CNN or CNBC interpret the same facts quite differently. To one observer, a new era of possibilities is in prospect; another sees things going to hell in a hand-basket.

The global economy is perilously unbalanced. America is hauling the rest of the world along. Japan is showing signs of life, but few experts are optimistic that it will hold up. Singapore, Germany, Italy, the Netherlands, and Switzerland are all in recession. Argentina has just defaulted on a $2.7 billion IMF loan. Currencies are gyrating. While finance ministers at the recent World Bank meeting in Dubai tried to talk things up, the weight of evidence suggests that robust growth is a long way off, and that serious financial shocks are very likely.

Then there's the "war on terror." Reconstruction in Iraq and Afghanistan. North Korea's nuclear brinkmanship. The tattered Middle East "road map." A new case of SARS (severe acute respiratory syndrome) in Singapore. The Blaster worm and the Sobig virus. The collapse of trade talks at Cancun. Opec's surprise oil production cut. And much else, besides.

Unfortunately, though, companies can't ride out uncertainty by doing nothing. Managers can't put things on hold while they wait for clarity. They have to keep laying bets, some of which won't pay off for years, and many of which will be hard – or even impossible – to reverse.

My latest book, *Competing Through Value Management*, provides a down-to-earth approach to delivering meaningful results in these testing times. Based on a great deal of research, it dispels lots of myths and gives you the guidance you need to outperform your competition. This *StrategyLetter* covers some of its key ideas.

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The real purpose of business

Executives everywhere face two major challenges: 1) the need to deliver results – specifically, sales and profits – in the face of serious adversity, and 2) the need to co-exist with many stakeholders. This is not an either-or choice; performance in both areas is vital.

But make no mistake: *profit must be the priority.*

As Peter Drucker has noted, companies are the most influential units in society. But no company can be all things to all people. Any organization that attempts to satisfy everyone is likely to wind up satisfying no one. To attempt things that are *not* its business is to court trouble in things that *are* its business.

If a company is to meet its many responsibilities, it must make more money than it uses. This isn't what many people want to hear in this age of "triple bottom-line" accounting. But research shows that *when firms focus on creating shareholder wealth they're likely to please other stakeholders too*. When they begin with too broad an agenda, they short-change everyone.

Ask these questions to test your company's "profit awareness":

1. Are all your people aware of your profit goals?
2. Do they understand why profit is important?
3. Do they know what they must do to impact on it?
4. Do they get regular feedback on the impact they're making to your bottom line?
5. Are they constantly involved in finding new ways to improve your numbers?

Make your company a robust "results machine"

Managers always need to be alert to what's happening outside of their organizations. Today, however, competitiveness increasingly hinges on what happens *inside*. Only by building a robust "results machine" can you hope to win customers and profits – and weather environmental storms. Only by taking a systematic inside-out view can you create a competitive edge that is anywhere near being sustainable.

Because the future is unknowable, and because surprises are certain, your chances of developing the "right" strategy are not good. Today's best answers all too easily become the basis for tomorrow's disasters.

Survival and growth in these turbulent times depend partly on *what* you do (strategy) and largely on *how* you do it (implementation). The ability to change direction fast, realign resources, and move forward aggressively is vital.

Now, as never, you have to invest time and attention in the much maligned practice of "navel gazing." Deep introspection, hard trade-offs, and creative thinking are keys to creating an organization that is at once disciplined and flexible, single-minded and open-minded, patient and aggressive, cautious and bold. Major investments in recruitment, training and development, technology, and systems may be essential.

The issues that demand most attention, though, are leadership and people. For this is where you'll get most bang for your bucks.

Sales, margins, asset turnover, and costs are all driven from deep inside your firm. Most employees could do more about them if 1) they knew how important it was, and b) they were simply asked for their ideas on what do. This sounds awfully simplistic, but there's overwhelming evidence that most firms are sitting on "hidden value" which can easily be unleashed.

Strategy, leadership & change

It's normal for executives to talk about strategy, leadership, and change management as if they were three separate issues. This is encouraged by authors, consultants, and academics, each with their own interests – and all part of a vast industry that thrives on the sale of specialised, complex, and often very costly "solutions."

No one would argue that the three topics are different. There is a lot to be said about each of them. But what nobody seems to have noticed is their common ground.

Strategy, leadership, and change management all embrace the same cycle of activities (Figure 1):

- Strategy is about change – and making change happen requires leadership;
- Leadership is about creating strategy – but also about implementing change;
- Change management is an outcome of strategy – and the basic leadership challenge.

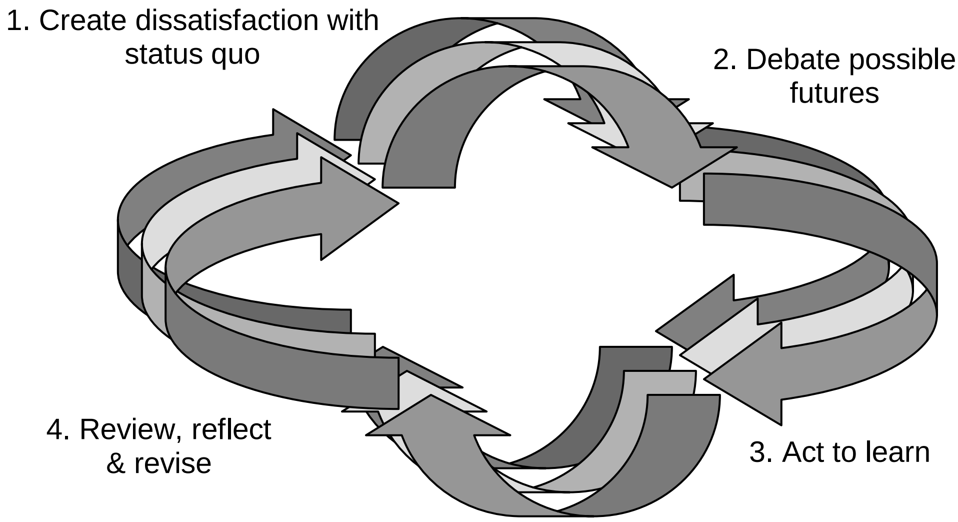

Figure 1

What does this mean to you?

Quite simply, that life need not be as complicated as you make it. That to drive new growth, you don't need a flurry of interventions. That whereas you thought you needed a whole array of management tools to make a difference, you'll probably do best by focusing on just one: *strategic conversation*.

Try this soon:

1. Involve as many of your people as possible (from all levels, all functions) in gathering and debating information about your environment, and in reviewing your organization's recent progress, current situation, and future prospects.
2. Agree on your business purpose. Talk about possible future moves.
3. Break tasks into 30-day actions – and start tackling them. (After all, it's only when you act that you learn what's actually possible!)
4. Review progress regularly. Reflect on where you've been, how you've done, and

what you've learned.

Notice that every step requires a disciplined conversation. As you advance, people discover that they know far more than they imagined (and that their colleagues are quite smart, too). Your team learns to work together. They accept the need for change – and they start doing new things. And on reflection, they realize that they could have done even better, that there's more to do tomorrow, and that much has changed while they were moving ahead.

What gets measured…

Companies operate in a complex world and get banged about by many forces. To say you have to watch your back is no joke. The trouble is, you also have look ahead and to the sides, and up and down. You can never be sure where the next missile will come from. Nor can you know for sure where tomorrow's opportunities will emerge.

When you look into the future, there are more uncertainties than certainties. The further out you gaze, the fuzzier the view. Laying a bet on a particular outcome is a very dicey business.

Managers like to think they're always objective about this. They pretend to base their decisions on facts and they talk of "managing by the numbers." With the encouragement of investors, journalists, consultants, and academics, they fool themselves that they can sum up the past, present, and future in numbers alone. (Some think that's possible with just one number!)

Almost every popular business magazine and newspaper runs regular scorecards of corporate performance. Mostly, these list easily available data like sales, profits, assets, and market value. Fortune also ranks "wealth creators and destroyers" on the basis of EVA and MVA* performance.

Then there's any number of contests and honours for just about everything from "most admired company" to "best company to work for," from export achievement to the famous Balridge Quality Award. They're all coveted, and companies go to great lengths to win them.

All this hype is exciting for insiders and interesting for outsiders, but not very useful to anyone. The best it can do is reflect what happened in the past. But doing well in one year is no indicator of what's to follow. Even a historical trend is of limited value. What's more, firms that rank at the top of these lists in one year often take a dive in the next.

The search for ideal management metrics will never end. There are big incentives for anyone who can come up with something meaningful. But the effort is futile for several reasons:

Many factors impact on share prices. The "mind of the market" works in mysterious ways. We think great customer service leads to sales and profits – which pleases investors. We think they'll be impressed by our quality, brands, or "human capital." We think that growth in ROI or EVA will do the trick. Common sense says this must all be true, but experience and many research studies say it might not be.[1] In any event, even if you get these things right, other factors might get in the way.

The causes of performance in one firm won't produce equal results elsewhere. There's no question that the lessons from *In Search of Excellence* were sound. Or that business schools teach valuable stuff. Or that a lot of management journals are worth reading. But companies are all different, and they each have their own challenges. What works for one may not be the answer for another. What one can do may prove impossible for another.

Companies are "prisoners of their context." Every industry has its own "rules of the game." You might be able to change some of them to your advantage, but there are limits. A fast food business needs one kind of success recipe; a steel maker needs another. The macro

[*] Market value-added.

[1] Christopher D. Ittner and David F. Larcker, 1998

environment also dictates to a great extent what you can and cannot do. And the strategies and capabilities that make your firm a winner in one period can cause its failure later, when circumstances change.

Every metric has its weaknesses, and can lead to bad decisions. There are good arguments for all of them – and good arguments for being damned careful about them.2 You can't do without them, but it's what you do with them that counts.

There are many ways to gauge executive and corporate performance. None is perfect. No single piece of information explains everything. Every measure has its own purpose. All are open to interpretation, manipulation, and misuse. Taken out of context or used in isolation, all of them will tell you useless things and possibly lead you astray.

There are also many ways for executives to explain their performance. You need to make the most of them to win the votes of your stakeholders. You should leave no stone unturned in explaining your logic, and doing so in as clear and simple a way as you can.

Failure to tell your story so it makes sense will cost you dearly. It'll impact your company's share price, its reputation, and its worth. It will also affect your own standing, your ability to manage, and your career.

Taken alone, any business measure gives you only a partial – and probably quite inaccurate – picture of things. So it's essential that you take an all-round view and try to monitor all the factors that might impact on your performance.

Some of these may be captured in numbers. Some cannot. To pretend otherwise – and to manage only on the basis of limited "hard data" – is unwise. Just as a doctor uses a range of tests to check your health, so do you need a range of "probes" to understand a business.

Because shareholder value is the ultimate issue for business, financial metrics are the ultimate measures of management performance. Financial goals may be needed in many places in your organization. But financial performance is a result of many activities. Some of those – not all – need goals, appropriate metrics, and a tracking process.

Control freaks try to measure everything. This is a sure way to take attention from the most important things. So where should you start … and where should you draw the line?

Like it or not, you have to make assumptions about cause and effect linkages. Which actions will lead to what results? You might be guided by past experience or the findings of researchers. But sometimes you have to just experiment. Only by trial and error can you really narrow down the possibilities and find what works for you.

This is excerpt from my latest book, *Competing Through Value Management,* Zebra Books, 2003

Create a ValuePlan for new growth

For the past nine years, Bain & Co., a management consultancy, has tracked the tools that managers use. According to the latest survey, companies are now using more of them than ever – 16 on average, up from just 10 in 2000.

Old favourites such as strategic planning, benchmarking, and vision and mission statements are still in the lead. Growth is still high on the business agenda, even though conditions are tough and unpredictable.

But where will growth come from? Consumer confidence is fragile. Business spending is

[2] Eleanor Bloxham, *Economic Value Management,* New York: John Wiley & Sons, 2003; Christopher D. Ittner and David F. Larcker, 1998; John Dearden, "The case against ROI control," *Harvard Business Review*, May-June, 1969; John D. Martin and J. William Petty, 2000

slow.

About three years ago, CEOs of a number of technology firms warned that there was "no visibility." Today, things are far murkier. The bullish crowd sees better times just ahead. The bears worry about an economic train wreck just around the corner.

So what does all this mean to your company? What business tools will serve you best? What actions should you concentrate on right today? What matters for the medium term? What will make the difference in three or five years from now?

This debate will not yield easy answers. Managers will continue to seek the "one best way" to pump up their profits. They'll keep searching for the "silver bullet" that will solve all their problems. And they will continue to be frustrated by new initiatives that chew up time, energy, and money, but don't deliver on their promise.

When you get down to the basics, though, there are two things that you have to do – and you have to do them in parallel:

1. Get your organization fit for the future, and keep it that way;
2. Produce new value in order to drive new growth.

Given the sluggish state of the South African economy, cost-cutting is imperative for most firms. Too many of them are in poor shape. By getting smart and sweating "the small stuff," they could easily wring more profits from their operations.

As one executive told me, "Our sales are flat. But we're making money because we're watching every cent we spend. We turn off the lights and the air conditioners at night. We try to drink our customers' beer rather than have them drink ours. We check petrol accounts to see that our reps aren't signing for a few cold drinks and some chips when they fill up." All this adds up to a few thousand rands a month.

Common sense in the short term readies a firm to deal with the long term. But there's a clear limit to what it will achieve in the face of no sales growth. Sooner or later – and best it be sooner – you have to win new customers and new sales from old customers, and get the prices you need to advance.

The tool that many firms will use to make this happen in the years ahead is value-based management – or as I prefer to call it, value management. Remarkably, it doesn't appear in Bain's list of the top 25 tools, although aspects of it such as the balanced scorecard, economic value-added analysis, and pay for performance do.

Value management recognizes that you have many stakeholders, and you have to deliver value to all of them to keep them "voting for you." It's based firmly on the logic of the "triple bottom line" – profit, society, and the environment – which is the new corporate governance mantra. But the focus clearly is on profit.

Research shows that when firms try to be all things to everyone, they wind up doing little good for anyone. Putting shareholders first gives you the best chance of serving all your stakeholders. Anything else ensures sub-optimal performance.

Value management has become an industry with a life of its own. There are many approaches to it, and plenty of ways to waste time and effort. Yet what you need to do is in essence quite simple. A new tool called ValuePlanning gets you started. The process is described in detail in my new book, *Competing Through Value Management*, but here is the guts of it:

1. Define your business purpose – why you exist, what you aim to achieve, your key financial goals.
2. Decide on three actions – your "value drivers" – that are absolutely vital to achieving the results you want.
3. For each value driver, decide on three goals, and for each goal, three actions.

This framework (Figure 2) forces you to focus on the few things that will make the big difference. It captures your entire strategy in a picture, making it easy to communicate throughout your organization. By discussing it continually, and by reviewing progress every 30 days, you keep things moving and on track.

Delivering growth comes from delivering value. And that's a process that must be guided and managed. You have to make it happen, one step at a time, day after day. Start with a ValuePlan and you have a good chance of pulling it off.

The best managers know the importance of keeping things simple. They know that they have to get results through others, and that deciding what not to do is as important as deciding what they should do. They understand the value of a "strategic conversation" that is crisp, clear, and uncomplicated.

The search for ideal business tools will continue. Many firms will spend fortunes on fads. The winners will keep their feet on the ground and do the few things that'll make the biggest difference.

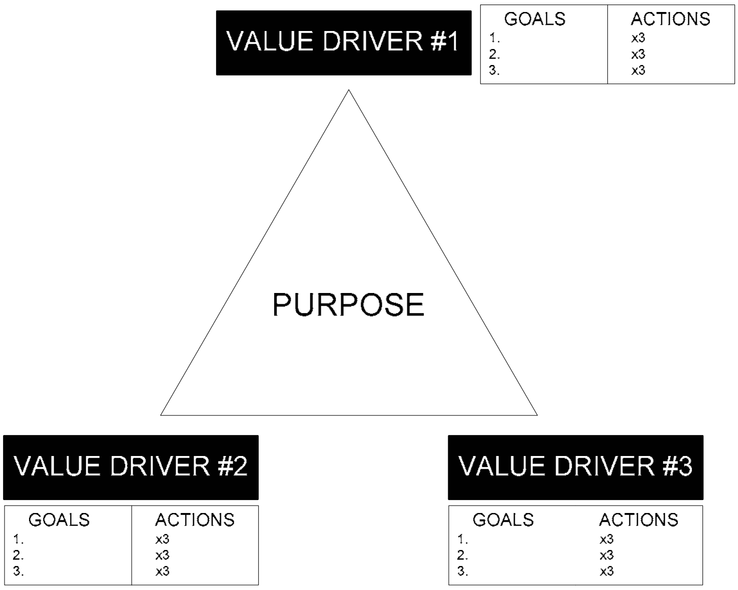

Figure 2

This article first appeared in *BA Upfront*, in March 2003

Articles of note

Three articles of special interest:

- "New ways of setting rewards: the beyond budgeting model," Jeremy Hope and Robin Fraser, *California Management Review*, Summer 2003, Vol 45, No 4.
- "The quest for resilience," Gary Hamel and Liisa Välikangas, *Harvard Business Review*, September 2003.
- "On misdirecting management," Vincent Barabba, John Pourdehnad, and Russell L. Ackoff, *Strategy & Leadership*, 30/5, 2002.

Recommended reading

Executives often ask me to recommend books on management. This list is by no means exhaustive, but it will give you insights into key areas of a very big subject. Titles are listed in no particular order.

1. *What Really Works*, William Joyce, Nitin Nohria, and Bruce Robertson, New York: Harper Business, 2003
2. *Why Smart Executives Fail*, Sydney Finkelstein, New York: Portfolio, 2003
3. *Revival of the Fittest*, Donald N. Sull, Boston: Harvard Business School Press, 2003
4. *Good To Great*, Jim Collins, New York, HarperBusiness, 2003
5. *Jack*, New York: Warner Books, 2001
6. *Execution*, Larry Bossidy and Ram Charan, New York: Crown Business, 2002
7. *Who Says Elephants Can't Dance?*, Louis V. Gerstner, New York,HarperBusiness, 2002
8. *Strategy Safari*, Henry Mintzberg, Bruce Ahlstand, and Joseph Lampel, New York: The Free Press, 1998
9. *When Lean Enterprises Collide*, Robin Cooper, Boston: Harvard Business School Press, 1995
10. *Co-opetition*, Barry J. Nalebuff and Adam M. Brandenburger, New York: HarperCollins Business, 1996
11. *On Competition*, Michael E. Porter, Boston: Harvard Business School Press, 1998
12. *Competing for the Future*, Gary Hamel and C.K. Prahalad, Boston: Harvard Business School Press, 1994
13. *The Essential Drucker*, Peter F. Drucker, New York: HarperBusiness, 2001
14. *The Individualized Corporation*, Sumantra Ghoshal and Christopher A. Bartlett, HarperBusiness, 2001
15. *Competing On The Edge*, Shona L. Brown and Kathleen M. Eisenhardt, Boston: Harvard Business School Press, 1998
16. *Hidden Value*, Charles A. O'Reilly III and Jeffrey Pfeffer, Boston: Harvard Business School Press, 2000
17. *Surfing The Edge of Chaos*, Richard T. Pascale, Mark Milleman, and Linda Gioja, New York: Crown Business, 2000
18. *What Management Is*, Joan Magretta with Nan Stone, New York: The Free Press, 2002
19. *Reinventing Strategy*, Willie Pietersen, New York: John Wiley & Sons, 2002
20. *The Innovator's Dilemma*, Clayton M. Christensen, Boston: Harvard Business School Press, 1997
21. *Beyond The Hype*, Robert G. Eccles and Nitin Nohria, Boston: Harvard Business School Press, 1992