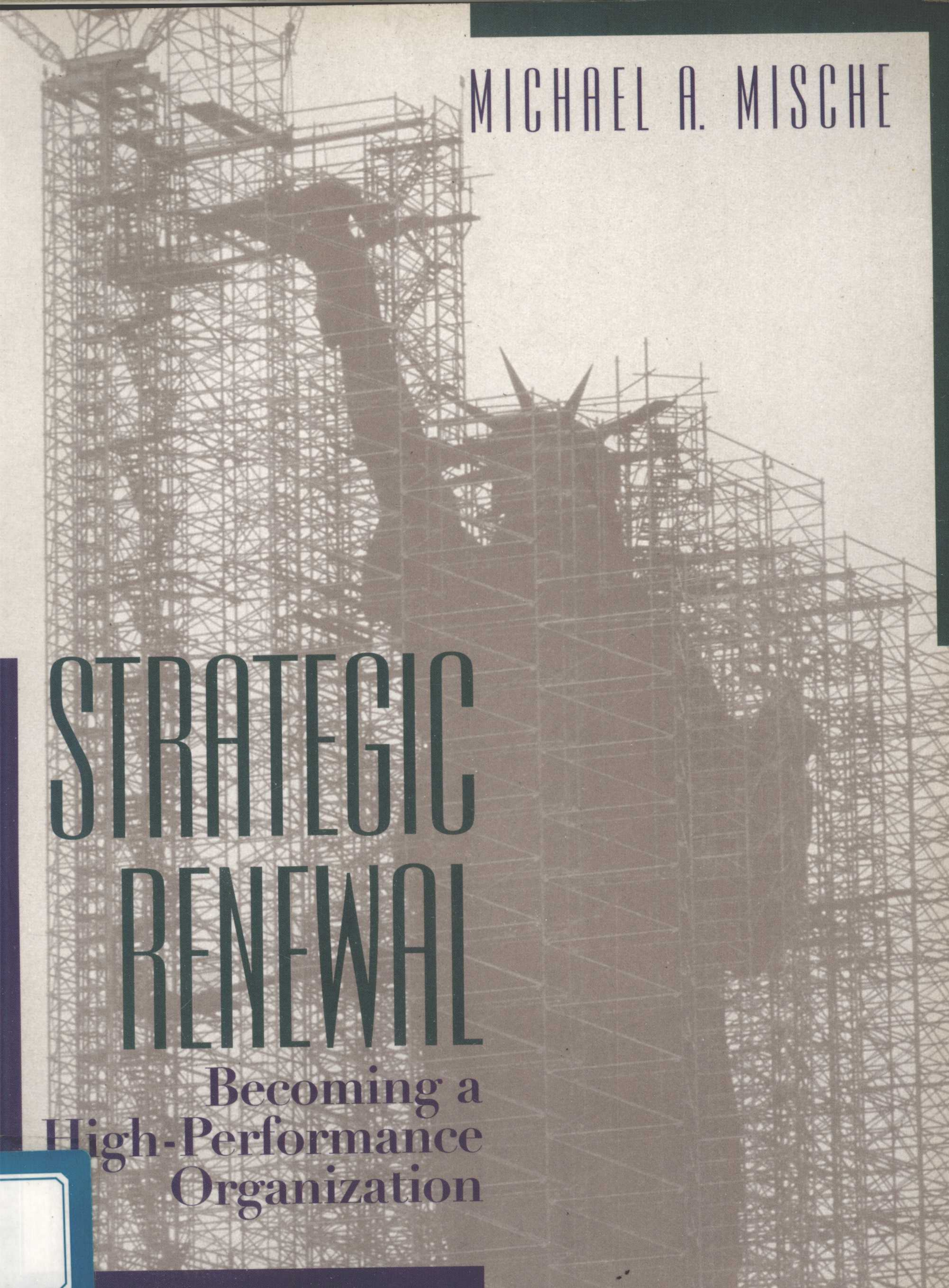
MICHAEL A. MISCHE



STRATEGIC RENEWAL

Becoming a High-Performance Organization

STRATEGIC RENEWAL:

Becoming a High-Performance Organization

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To my son Michael:
Think differently and you will see the possibilities.
Act boldly and you will gain the advantage.

Preface

INTRODUCTION TO *STRATEGIC RENEWAL*

What makes a company great? Is there a formula or a standard model for creating a high-performance organization? What separates the high-performance companies from the also-rans? Can high-performance be acquired, or is it developed, and if acquired or developed, what are the best ways of doing so? These are some of the ageless questions that managers and leaders must always try to answer.

There is something both substantive and elusive about extraordinary business performance that transcends ordinary measurements such as financial results. Great companies such as Merck, DaimlerChrysler, Disney, Federal Express, Southwest Airlines, General Electric, Intel, Microsoft, and NEC did not become the dominant forces in business by just having good products and using slick marketing campaigns. Obviously, products and marketing are essential to success; one cannot be in business without a product or the ability to sell it. But products can be and are easily imitated by competitors. Similarly, there is nothing strategic about pricing or quality that cannot be matched and bettered by a competitor. No, the great performing companies have something more in common; they have qualities and behaviors that distinguish them from the others.

Visit any Disney theme park and you will find it to be an immaculately clean and safe place: it's the Magic Kingdom. Buy a GE product and you will find it impeccably built. Call GE for service and be prepared for a rapid response and high-quality work, the first time. The next time you are flying at 0.7 times the speed of sound at 35,000 feet on a Boeing aircraft, chances are GE made the engines or a large percentage of the componentry. Ask Federal Express where your parcel is, and they will tell you where it is, who has it, when it was delivered, and who received the package. Finally, how is it that Mercedes-Benz and BMW were able to come roaring back and put the Japanese on their heels in the luxury car market, and what did Chrysler and Harley-Davidson do that enabled them to beat the long odds of surviving?

The hunt for the secret to high performance has been on for many years. In *Built to Last,* authors James Collins and Jerry Porras construct a persuasive argument for core values. According to them, core values are pervasive prerequisites for enduring success. It is clear that they are. No high-performance organization, winning sports team, or extraordinary individual can achieve that status without conviction and dedication to a set of values along with the competencies and resources to advance them. Nichols Imparato and Oren Harai in *Jumping the Curve* argue that it is innovation that can make a company great. History proves that innovation is essential to survival. A company must be in a constant state of innovating its process and products and reinventing itself as well as its markets if it is to remain competitive.

In *Value Migration,* Adrian Slywotzky argues that it is the anticipation and recognition of where the "value" of an industry is migrating that can lead to greatness. Dr. Slywotzky is correct, but as the "Great One," NHL Hall of Fame member Wayne Gretzky is fond of saying about hockey, *"It's not where the puck has been, it is where the puck is going to be."* Foreseeing or anticipating where the value is going is fundamental to high performance. Nor does it matter how many products or SKUs a company may have or sell, or whether it has won the Baldrige or Deming Awards and is ISO certified. Those are interesting factors and, under certain conditions, prerequisites for doing certain types of transactions and business, but they are not the decisive elements of high performance and strategic dominance. A small company in a slow- or low-performing industry can be a high performer in the same significant way as, for example, a huge company such as Intel is in the fast and wild high-technology industry.

The focus of this work is on the critical aspects and qualities that great performing companies share *irrespective* of their industries. The following chapters will explore how those common qualities can be used as a basis for strategic renewal, revitalization, and high performance. In developing this work, over 40 different companies in very different industries were studied, and over 24 senior leaders and CEOs were interviewed and surveyed. In a sense, these great companies helped to define the term *high performance* and contributed to five significant conclusions about the relationship between high performance, strategy formulation, and strategic renewal:

1. The high performers share five common strategic traits and qualities, regardless of industry, age, or size. These attributes, or *strategic pillars,* include information technology, innovation, leadership, knowledge, and operational excellence and agility. If a company has integrated strategies for these five pillars, great products, profits, and market position will follow.
2. The great performers understand that enormous leverage comes from the selective integration of the five pillars of strategic renewal and high performance. All five pillars are important and are continuously cultivated by the high performers.
3. The high performers deliberately architect their strategies and organizations for leverage, high performance, and success. They strive for organizational and operational integration and collaboration with selected partners and, at times, competitors.
4. The dynamics of competing is changing at unpredictable and unprecedented rates. The high performers understand that the traditional methods of strategic planning that stress industry structural analysis are no longer as effective as they once were. Today, suppliers are partners, competitors are collaborators, customers are vocal and engaged, and employees have options.
5. The high performers recognize that size and presence are important but that the sources of competitive advantage, which have traditionally included size, industry positioning, leverage with suppliers and customers, and geographical location, have yielded to new sources driven by agility and the convergence of innovation, knowledge, and technology.

In the subsequent chapters of this book, we explore these in greater detail and also examine three major forces that are shaping the competitive arena of the future: globalization, information technology, and workforce diversification and mobility.

OPTIMIZING YOUR USE OF *STRATEGIC RENEWAL*

The objective of *Strategic Renewal* is to explore the dynamics of strategy formulation and organizational change with the goal of creating high performance and revitalizing the organization. Unlike more traditional approaches, the intent of *Strategic Renewal* is not to provide a formula for strategy or prescriptive process for strategy development. The reality is that there is nothing strategic about prescriptive frameworks or the canned strategy models that are offered by management consultants. Rather, *Strategic Renewal* presents a "point of view" and a general blueprint with deep and contemplative insights into the process and thinking of what it means to craft a strategy for high performance and strategic revitalization.

The structure and design of this book has been developed to serve as either primary or supplemental reading material in advanced elective courses on strategy, reengineering, and organizational change. *Strategic Renewal* can be used not only in the academic study of strategy, but it has practical applications in the business world in leading organizations to higher levels of performance. Additionally, it can serve as a reference manual, a general management guide, as well as a primary book on crafting strategy and organizational change for high performance. The resulting product is a book that will help leaders, researchers, and students of strategy in understanding what it takes to be a high-performing company and how to craft strategies for high performance, economic dominance, and a successful strategic change.

Strategic Renewal is written for the student and professional practitioner of strategic planning and organizational performance and change. Let's consider some of the ways that you might optimize your use of this work. Specifically:

- If you are a student or a teacher of management and strategy, you will find this work to be a different type of a textbook. The ideas and observations presented in *Strategic Renewal* are offered as an alternative and in contrast to the traditional academic thinking and approach to strategy. *Strategic Renewal* seeks to establish a broader, more complete treatment of strategy and change based on the experiences of high-performing companies. Ultimately, the emphasis is on the common characteristics of high performance as shared by different companies, irrespective of their industries. The result is a pragmatic and effective contrast designed to stimulate thought and discussion in the classroom. If you are a student of management and strategy, this work will advance and complement your understanding of strategy formulation and change.
- If you are an executive running a business or a manager aspiring to lofty positions of leadership in a business organization, you can use this book to enhance your own thinking, test your own organization, and apply its insights and lessons to elevate your organization's performance. The concepts and principles described in this text present valuable insights for interpreting market forces, assessing opportunities, forming strategic policy, and establishing a

renewal strategy for your organization. If you are responsible for a governmental service or a not-for-profit organization, you will benefit from adapting the key thoughts and concepts in this book for your own uses and constituents.

There are many other applications and uses for *Strategic Renewal.* I invite you to experiment, learn, and adapt it for use in the classroom, for formal training in private and public sectors, and for formulating innovative and effective ways of generating and sustaining high performance and strategic renewal.

Strategic Renewal includes 10 chapters, exhibits, an Acknowledgment, and References. Each chapter provides a comprehensive discussion of the subject matter, numerous quotes from business and thought leaders, case examples, extensive anecdotal matter, critical thinking and discussion questions, and a summary of key points. In this work, you will find over 40 criteria to use in assessing organizational behavior for high performance. The critical thinking and discussion questions are designed to help guide and stimulate your own thoughts and debate on these fascinating and important subjects. The Reference section contains a comprehensive bibliography with citations not only from books and periodicals but also selected URL addresses.

The challenge of understanding what it takes to be a high-performing company and to establish high performance and strategic renewal as strategic doctrines has been addressed. Companies that continually identify and understand such imperatives and how the five pillars of strategy can be used will achieve superior performance and outstanding competitive advantage; those that do not are destined to become footnotes in business cases.

Michael A. Mische
Los Angeles, California
2000

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Very few things in life are singularly the result of individual effort, and so it is with *Strategic Renewal: Becoming a High-Performance Organization.* The participants in this work are wonderfully gifted and unique leaders whom I wish to thank for their contributions. Specifically to David Coulter, former CEO of Bank of America; Thomas Sidlik, EVP of DaimlerChrysler; Judy Rosener, author and educator; Jay Stark, Director of Knowledge Integration of General Motors; Susan Greenbaum, Managing Director of the Mahoney Group; Larry Olson, former CIO of the state of Pennsylvania; Ron Miskie, CEO of KTI; Warren Bennis, Distinguished Professor of Business at the University of Southern California; Gregg Schmidtetter, Director, Deloitte & Touche; Linda Chevez-Thompson, EVP of the AFL-CIO; A. Barry Patmore, retired managing partner of Andersen Consulting; Bob Guns, author and CEO of Probe Consulting; Thomas Cummings, Chair, Department of Management and Organization, University of Southern California; Robert Marshall, former CEO of Marshall-Qualtec Corporation; and Frederick Smith, CEO of Federal Express, please accept my sincere appreciation and gratitude for your time and interest. Special acknowledgment is due to the following reviewers: James L. Hall, Santa Clara University; Andy Klein, Keller Graduate School of Management; Tara Martin-Milius, University of California-Extension; and Richard L. McCline, San Francisco State University. In addition, to my good friends and colleagues, Stephen Todd Rudman, Alec Meyer, Hilliard Eure, Carl Voigt, Jack Dittrick, Samuel Lanza, and Vincent Trapani, thanks for the friendship and support. Your interest made a very challenging project enjoyable and achievable.

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Michael A. Mische
Los Angeles, California

Contents

CHAPTER

1 COMPETING AT THE SPEED OF LIFE

"The questions may be same, but the answers will be different."
—ALBERT EINSTEIN

INTRODUCTION

The genesis for this work dates to the late 1970s. It began with a personal journey to understand the complex relationship between organizational performance, financial results, leadership, and strategy formulation. As time progressed, the basic notions of the effort required that the research go above and beyond the obvious tactics of industry analysis, least-cost-provider themes, the quality movement of the 1980s, customer value and supply chains of the early 1990s, and academic pedagogy. Not to diminish the importance and validity of these vital tools and frameworks, but they are also the obvious ones. The real keys to great performance and competitive advantage are far more subtle and discrete.

Sitting in a reflective moment and thinking about how great companies compete and what makes them so successful, many questions come to mind, but six questions stand out as important:

1. What makes an organization great and what factors are influencing new competitive dynamics?
2. Why and how do certain companies consistently outperform their peers, the business community at large, and Wall Street's "whisper number" expectations?
3. Why is it that having great high-quality products and competitive prices no longer guarantees competitive advantage, breakthrough performance, and extraordinary financial results?
4. How did once-dominant companies such as Apple, Sears, Kellogg's, Sperry, RCA, Quaker Oats, Westinghouse, U.S. Steel (USX), Zenith, and General Motors (GM) fall from their lofty positions of industry dominance and investor infatuation?
5. What do high-performance organizations, irrespective of industry and as different as Dell, Federal Express, Charles Schwab, Southwest Airlines, the U.S. Marine Corps, and DaimlerChrysler, have in common?

6. What are the warning signals of strategic and performance decline, and can these declines be predicted and avoided?

Obviously, there are many more questions and lots of books and cases with ideas and examples, but these six seem to withstand the test of time and rigorous intellectual as well as practical examination. Theoretically, if you had the "answers" to these six questions, then you could probably formulate and execute highly successful business strategies; well, at least in theory. Thus, these are the questions that are addressed in *Strategic Renewal: Becoming a High-Performance Organization.*

Strategic Renewal began with and offers a simple and fundamentally important value proposition:

> The objectives of strategy and strategic change are to create and sustain long-term high-performance and competitive and economic dominance.

This proposition entails several key aspects. First, it concentrates on the long-term time horizon that is defined and measured in years, even decades—not quarters. Second, it requires that the strategy be sustainable over the long term. Sustainability in this sense has dimensions of renewal, adaptability, and change to it. Third, it establishes an ascending trajectory that extends beyond simply doing well and beating industry benchmarks. Realization of this trajectory demands that the focus of the strategy be to create economic and competitive dominance. Competitive and economic dominance implies that, at some point, the strategy is so successful that it forces all other competitors to make adjustments in their strategies and operations or abandon the marketspace; thus, creating ever-changing entry and mobility barriers that present a perplexing challenge to rivals.

In considering the challenges confronting organizations, *Strategic Renewal* presents a direct premise:

> To be a great company takes something more than just products, location, financial performance, quality, prices, and size.

Irrespective of industry dynamics and the level or strength of competition, great products and superior financial performance are the *results* of how a company operates and how well it is led. Sales growth and profitability are manifestations of how a company is managed, formulates its strategies, and utilizes its resources. More importantly, they are the end products of extraordinarily complex interactions among a number of different variables occurring within organizations and between them and their external environments on a continuous basis.

Winning the competitive battles of today is not just about competing better, or having strategies, or using continuous quality- and performance-improvement programs. It is about competing to be the best and, most importantly, competing differently.

WHERE ARE THEY NOW?

"Change is the law of life. And those who look only to the past or the present are certain to miss the future," stated President John F. Kennedy while visiting Frankfurt, Germany, in 1963. Indeed, change is the constant defining force of life, and those organizations that do not understand that change is ever-present are doomed to a secondary role in industry or society, and perhaps even extinction. Two thousand years earlier, the Chinese philosopher-general Sun-tzu noted that change was the inevitable part of the ebb and flow of human progression. For Sun-tzu, the key wasn't necessarily accepting change; such recognition was a fundamental given. Rather, it was the ability to understand and *anticipate* five essential conditions: (1) what is changing, (2) how it is changing, (3) how fast it is changing, (4) what will be the depth and breadth of change, and (5) why it is changing. Armed with this "foreknowledge," Sun-tzu believed that leaders could compete more effectively by influencing the factors driving change and the outcomes by more efficiently managing their resources for optimal performance.

The ability to anticipate change does not necessarily imply that the key to strategic leadership is to consistently predict the future. Such soothsaying is better left to others, and as Peter Drucker noted " . . . it's pointless to try to predict the future." That is because for many organizations, much of the future has already happened and they simply haven't realized it, or it is happening at such speed that it is impossible to predict. In the hunt for competitive advantage and strategic positioning, the challenge is not necessarily the ability to predict the future, but to create it. At the threshold of the new century, there are four certainties of competing:

1. The velocity at which change occurs is at the highest level that it has ever been and continues to accelerate at higher rates every day.
2. The level, scope, and breadth of change are increasingly unpredictable and more systemic, affecting more and more people, organizations and societies, and processes and technologies.
3. The classic boundaries that once demarcated industries, economies, markets, and countries are becoming increasingly blurred, porous, and transparent.
4. The historical sources of competitive advantage and methods of forming strategy that most organizations have used and rely upon have been largely neutralized or significantly mitigated by global political and economic changes, rapidly developing technologies, and changing demographics.

The well-documented statistics supporting the dynamics of the new competitive landscape and the need for strategic change are compelling. For example:

- In 1911, USX was one of the largest companies in the world. Where is it today?
- Approximately 70 percent of the largest firms in 1955 no longer existed in 1996.
- About a third of the Fortune 500 companies in 1970 no longer listed in 1983.
- Forty percent of the companies in the 1980 Fortune 500 disappeared by 1996.
- Only 3 of the top 10 companies in the world in 1972 remain in the top 10 today.
- The average life expectancy of a large industrial company is around 40 years, or the equivalent of the lifespan of Neanderthal man.

Exhibit 1.1 summarizes the movement of some of the top companies of the Fortune 500 for 1972 to 1999 based on the market rate of capitalization.

In the early 1980s, Microsoft, Compaq, Dell, and Gateway, four of the five leading computer technology companies in the world today, either didn't exist or were so small that only a few people and certainly only a handful of the industry stalwarts even noticed them. Rather, the information technology (IT) world revolved around

Company Position and Year			
1972	1982	1992	1999
1. IBM	IBM	Exxon	Microsoft
2. AT&T	AT&T	GE	GE
3. Kodak	Exxon	Wal-Mart	Cisco
4. GM	GE	Shell	Wal-Mart
5. Exxon	GM	Nippon	Exxon Mobil
6. Sears	Shell	Phillip Morris	Intel

Change in Relative Ranking		
	1972	2000
IBM	1	10
AT&T	2	20
Kodak	3	206
GM	4	80
Exxon	5	13
Sears	6	338
Microsoft	–	1

EXHIBIT 1.1 Movement among the Top 6 Companies in the World (Based on Market Capitalization)

Sources: Fortune, Business Week, Hoover's Online.

the product offerings of the Big 4: IBM, Digital Equipment Corporation (DEC), Burroughs, and Data General. These were four of the largest manufacturers in the computer business. In office automation, Wang Computers and Lanier dominated the commercial word-processing and document-management landscape in the 1970s and into the mid-1980s. Today, Intel, Microsoft, Dell, Compaq, and Gateway have all supplanted the industry stalwarts. Although only IBM remains as a significant force from the original Big 4, it is no longer the driving force in the industry. As a "first-mover" who was in that market long before Intel, SAP, Compaq, Gateway, and Dell, IBM is no longer the trendsetter, nor is it the dominator that defines the rules by which other technology companies must compete. It has become a descending power and a commodity provider of services and products competing for precious marketspace with EDS, Andersen Consulting, TSC, and several others. Although Wang and Lanier still exist, they are but skeletons of their former selves, far from being the trendsetters with established brands that they once enjoyed.

For generations, Sears and Roebuck represented the epitome of retailing in the United States. With its stores, comprehensive catalogues, sophisticated distribution systems, and captive financing capabilities (credit cards), Sears became the model for retailing taught in U.S. business schools for over 50 years. With a merchandising mix spanning the spectrum from ready-to-assemble package homes and automobiles to fashion, tools, garden tractors, and insurance, Sears was a benchmark that all other retailers emulated or envied. For a time, one could purchase through the Sears catalog all of the parts and supplies, together with the floor plans, necessary to construct a complete home. Such products were very popular in remote areas where labor was scarce and materials expensive to import. So dominant was Sears' position that its catalog was frequently used as a standard reference in researching products, determining freight and shipping costs, and establishing fair market value or prices for insurance claims and litigation cases.

Basking in its glory as the number one retailer in the world, Sears was secure and confident in its market and customer positions. But lurking in the background and beneath the radar coverage of Sears was a company named Kmart. With the advent of super-sized stores and new off-pricing formats, well-timed with the growth of Visa, American Express, and MasterCard as third-party credit card alternatives to Sears credit and financing, Kmart gradually penetrated Sears' traditional customer base. Soon, Kmart overtook Sears as the top performer in retailing. Its growth was faster, its sales per square foot higher, and its return to shareholders greater. By 1980, Kmart had sales of over $14 billion annually, and by the mid-1980s it effectively displaced Sears as America's retailing leader.

The retailing industry is marked by perpetual turmoil, a constant stream of new concepts, ever-changing formats, and endless merchandising ideas. Quietly evolving and growing in the obscurity of Bentonville, Arkansas, was yet another retailing company with a "new and different" concept. While fixating on Sears, Kmart failed to notice—or refused to acknowledge—that Sam Walton was opening stores at a rate of 7 to 1 compared to Kmart. Wal-Mart's sales per square foot were growing at a rate of 4.25 to 1.0 over Kmart. In a few years, Kmart itself was overtaken by Wal-Mart, which ultimately replaced Sears, Kmart, and J.C. Penney as the king of the retailing marketspace. By the late 1990s, Wal-Mart became the world's most successful and largest retailer. Based on 1999 market values, Wal-Mart is currently the seventh largest company in the world.

The growth of Wal-Mart has been well documented in the business press and in academic research. On its way to making retailing history, Wal-Mart essentially used a three-pronged strategy to create market dominance:

- Technology that linked point-of-sale and item-movement data at the individual item (SKU) level with merchandising and replenishment decision making and supported a hub design for product distribution and logistics.
- A store networking design that concentrated on less developed and saturated markets. Initially Wal-Mart concentrated on locating stores in rural areas and near military installations. It also employed a cooperative profit center concept that created a network of stores and stressed functioning as a unit within an area, as opposed to competing against one another as individual locations.
- Extraordinary leadership in the form and persona of Sam Walton, who expressed a vision with the passion and conviction to make the vision a reality.

In film and photography, Eastman Kodak, the owner of one of the most recognized brand names in the world, once ruled the United States as well as global markets. Today, after years of letting Japanese competitors such as Canon, Fuji, and Minolta consistently outperform them with new products and innovations, the company is fighting for its future. Caught in a heated battle with Fuji, Eastman Kodak has been forced to cut almost 17,000 employees and expects 10,000 more as it attempts to defend itself from a series of internal blunders, missed opportunities, and strategic miscalculations. Apparently, Kodak had all but forgotten about Fuji as a competitor. Relying on its reputation and perceived brand exclusivity, Kodak's leadership evidently elected not to compete with Fuji