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THE CONTEXT FOR GROWTH

PREPARED FOR THE GLOBAL ENTREPRENEURIAL LEADERSHIP PROGRAM AND PROFESSOR NOEL TICHY

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INDEPENDENT STUDY PROFESSORS COMMENTS

STUDENT NAME: Kurt Cummings

This paper more than fulfills the requirements for the independenty study. It represents some very solid conceptual work that integrates new thinking about growth and provides a frame for empirical research.

Mr. Cummings lays out a framework that organizes variables in this domain in Three key areas:

> **Vision and value proposition**
> **Context**
> **Execution**

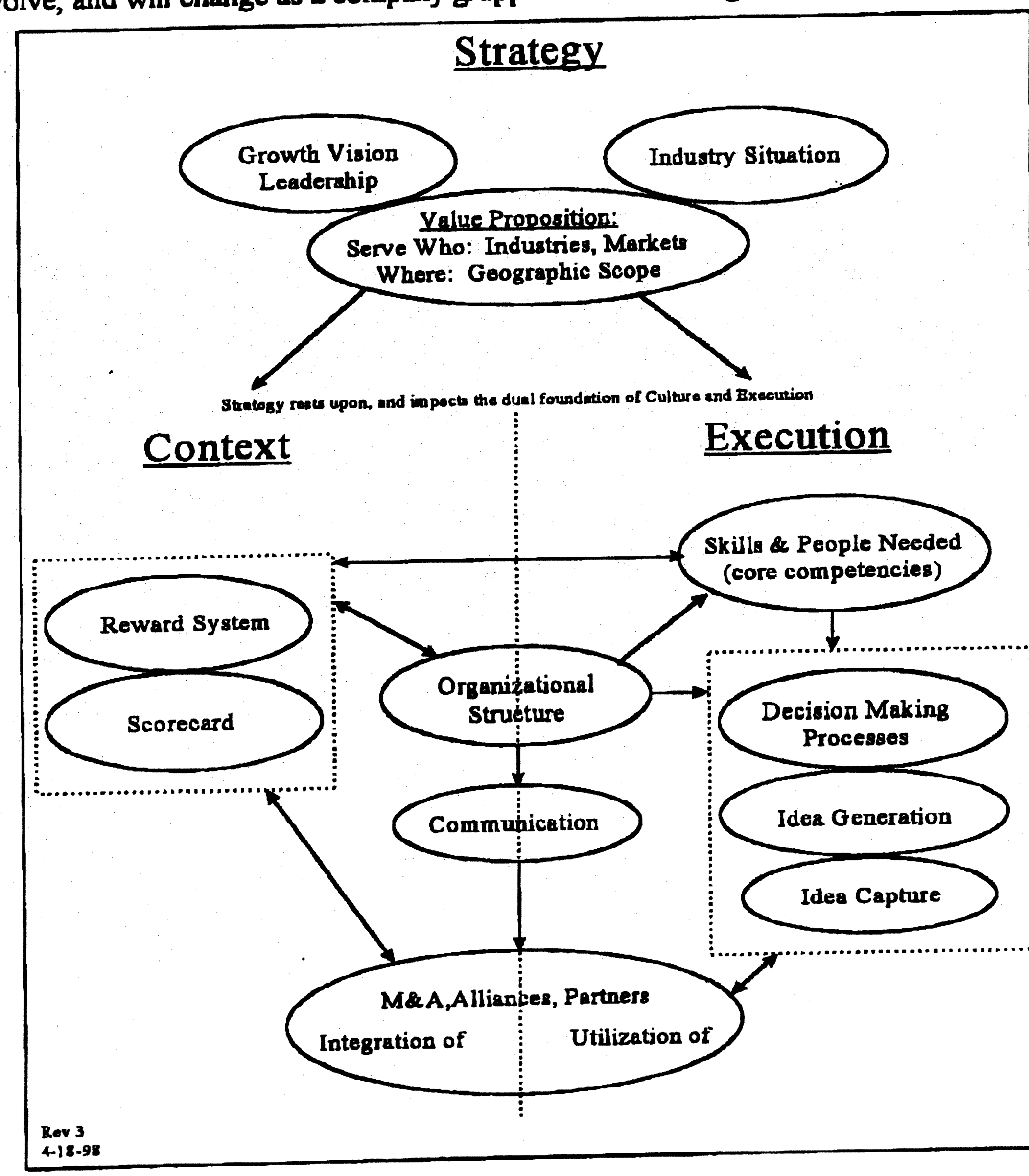
For each of these broad area there are key variable which have been operationalized and supported from the literature as will as exploratory field research that he was part of this semester.

Finally, Mr. Cumming was part of a team project that resulted in a first rate report and video presentation.

I. Background

There is no question that the challenge ahead for many companies is growth. Years of cost compression have squeezed out most of the available efficiencies, and there is a emerging awareness that it is impossible to shrink oneself to greatness.

In order to achieve growth companies often have to undergo a restructuring, in some ways radical and in some ways incremental. The three main elements of the organization, Strategy, Context, and Execution must all be aligned for this to be possible. The model below shows these organizational interactions, and can be thought of as a snapshot of an organization at any given point in time. Over time the areas that make up Strategy, Context, and Execution will develop and evolve, and will change as a company grapples with achieving sustainable growth.



Balanced growth begins with a solid strategy that we categorize into three areas; Growth Vision & Leadership, Industry Situation, and Value Proposition. Growth Vision & Leadership speaks of the point when management commits to grow, and establishes the sense of urgency within the firm. Their definition of the position they want to occupy in the marketplace is the Value Proposition. We see the Value Proposition as Leadership's Teachable Point of View on the direction of balanced growth. Both of these are deeply affected by the Industry Situation. This involves taking a hard look the industry - much in the fashion of a Porter's 5 Forces analysis. What is the state of competitors, the availability of the factors of production, the technological state of the art, the customer base - in which the firm operates? How can my Value Proposition take advantage of, or mitigate the risks found in the industry analysis.

Strategy directs, and in turn is affected by the Context and Execution Processes of the company. Context centers on the attitudes and motivations of management in regards to how people are rewarded and what type of scorecard is used. Execution addresses the people and the processes. While ushering in a growth vision, special attention should be given to skills and people needed, decision making processes, idea generation and most importantly, idea capture. Organizational Context and Execution affect decisions to reach outside the internal establishment to growth through M&A, Alliances and Partners. Likewise, the organizational structure is impacted by both Context and Execution.

As the growth process evolves, several things are clear. First, Strategy, and especially Growth Vision & Leadership, precedes Context and Execution. Leaders must "establish the mantra" before structures will support the desired behaviors and goals. Second, Context (of which culture is a large part) is a result of the actions and structures found in Execution and Strategy. Too often companies try to change their culture without taking the structural actions to "walk the walk." Steven Covey describes the success of firms that attempt to artificially build a Context through mere words this way: "You can't talk your way out of problems you have behaved yourself into." The social environment at a company, which one can sense from the moment one enters its doors, is descriptive. It is the revelation of the structures, processes, and leadership of the organization.

II. Primacy of Context

Context is so vital because the elements which comprise its structure drive decisions that, in turn, drive behaviors that reinforce or paralyze the growth mindset. If these mechanisms are left unchanged, people will operate as they always have. Alignment of firm strategy, structure, and rewards processes is the ultimate goal for the executive. The organization must be tailored to fit the task and the people available. This structure will not be permanent either, as people and tasks change. While this ambiguity and possible discontinuity might make some leaders uneasy, it is the only way to achieve lasting success.

There are many popular theories in the current business press talking about the best way to create the proper context to motivate and incentivize employees for growth. Topics included under this broad umbrella include the most efficient organizational structure, the best way to develop monetary incentive plans, the benefits of non-monetary rewards over money, etc. One thing is certain; growth cannot be overlaid upon the existing organization as another initiative. It requires a fundamental mindset shift that is reinforced in daily discussions and decisions. While the formal organizational structure may not require change, the company's operating mechanisms, from formal planning cycles to staff meetings, should be reviewed for their growth contributions. New mechanisms may also need to be created at the corporate and SBU level. In addition, incentive and recognition plans should be modified and implemented in support of the firm's desire for growth.

Throughout all of this however, remains the fact that there is no one "best" way, across every firm, of managing and incenting employees. For every firm that has succeeded with a loose participatory structure one can find one that has excelled within a more rigid authoritarian structure. In some firms a company wide bonus plan is called for, in others a flexible plan customized to each individual is the most effective. In short, every company is unique, and its incentive and motivational program must be carefully structured around its value proposition.

III. Organizational Structure

Organizational structure is a key determinant of whether or not a company is successful pursuing growth. Companies in which rigid hierarchies and protocols must always be observed can often lack the flexibility to aggressively pursue quickly passing growth opportunities. On the other hand, firms with weak chain-of command "backbones" can have problems mustering sufficient resources to meet growth challenges with a coordinated, focused force. In a discussion regarding methods of speeding up a certain process, Gary Wendt, CEO of GE Capital described the problem this way. "We can speed up the cycle by not having an approval process - just let each person approve his or her own deals. But that would give us an unacceptable level of risk. What we need to do is find the right balance so that we can approve deals quickly, but still feel confident that we've looked at all the different angles."

One valuable organizational diagnostic is an analysis of participants in key meetings, and the location of decision-making power. The people involved in discussion forums will drive the nature of the discussion. If meeting attendants are cross-functional, they may take a broader view of the company and its opportunities. By contrast, if the group is dominated by traditional finance controllers, there may be a tendency to lapse into numerical, cost-control discussions. The quality of the dialogue is also largely pre-determined by the participants. If growth discussions take place in the presence of a bureaucratic, hierarchical manager, there is little chance that the meeting will possess the candor and creativity needed to drive growth. If salespeople are not present, it will be difficult to maintain an "outside-in", market-oriented perspective.

Organizational permeability is another lesson to be learned from this diagnostic. In healthy organizations information flows freely throughout the organization, and people are rewarded for passing on knowledge. The free flow of information, good news and bad, builds commitment and trust within the organization. This is especially true of companies which have recently undergone restructurings. A natural reaction to the threat of downsizing is to make oneself indispensable, and this can often be easily achieved through hoarding information. Telltale signs of an information problem include territorialism, and personal actions counter to the optimal goals of the firm.

IV. Reward Strategy

Incentives and compensation are very complex issues, and numerous volumes have been written detailing the existing body of knowledge on this area. We will share three rules of thumb from the *Boundaryless Organization* which can help guide the alignment of rewards, as well as several other observations. According to the author, Ron Ashkenas, it is important to base rewards on performance and skill, share rewards up and down the organization, and use non-financial rewards.

In traditional hierarchies rewards and incentives are often scaled to match positions, not performance within the position. The higher up an organization one progresses, the higher the level of pay and perquisites. Promotion, not necessarily excellence, is the goal that many employees are incented to pursue. While acceptable performance on the job is obviously needed for the recognition necessary for promotion, it is not the primary goal. This disconnect between goal and motivation can have several unintended consequences, including attempts to game the system and a subsequent mismatch of employees and positions. The well known "Peter Principle," whereby people are promoted beyond their ability, is a certain danger. For example, if a top notch engineer desires the fruits that accompany a general manager's position he will have to leave engineering for the managerial track. He might be unsuited for this work, and is thus hurting the engineering department by his absence and the headquarters by his presence.

The reward strategy must balance between giving out too many rewards and thus cheapening their impact, and alienating great numbers of people who actively contributed but were not recognized. If leaders or supervisors are always taking credit and receiving the accolades for the work performed by others, it will not be long before attitudes wane. This is not to say that all rewards should be equal either. The target is an attitude of equal opportunity, recognizing achievement not entitlement. The primary emphasis should not be on equalizing pay within the target firm, but rather have your own employees make more than counterparts in competing firms. This can be supported by heavy use of variable compensation plans with much of the pay "at risk." This can provide a catalyst for action and reinforce a sense of urgency. Furthermore, linking pay to revenue growth and profitability can help reinforce a "common fate" philosophy.

The best reward systems encompass far more than monetary incentives. Recognition, praise, and celebration are often as powerful as any monetary incentive. They also can help mitigate the tendency of people to come to view financial incentives as entitlements. Rosabeth Kanter observed that "compensation is a right, recognition is a gift." Paul Cook, CEO of Raychem, said:

> "The most important factor is individual recognition – more important than salaries, bonuses, or promotions. Most people, whether they're engineers, business managers, or machine operators, want to be creative. They want to identify with the success of their profession and their organization... and their greatest reward is receiving acknowledgment that they did contribute to making something meaningful happen."

Often times incentives involve the promise of promotion, or standard compensation incentives tied to total firm performance, such as year end bonuses. While long term rewards can compensate for some of the initial hesitancy to add one more thing to the "to-do" list, this delay from flash-to-bang lessens some of the rewards' impact. At this point it is fair to point out that people are internally driven by many different things. Even without explicit incentives, many hard workers would still work hard, if only for matters of personal pride and principle. Rewards help, but are certainly less important than careful screening during hiring, assignment, and promotions.

Unfortunately, no system is perfect, and there are certain complications. These can include union contract issues which can limit pay and work breakdown structures, the availability of human resources, and repercussions and unintended consequences.

One pervasive consequence of a particular reward system is the behavior that is repressed. For example, through interviews with Ford executives we found that there is a distinct culture of fear. Promotions are gained by "not screwing up," and "not rocking the boat" rather than by achieving audacious success. What this means for them is that people are much less willing to take risks, even though the potential positive payoff is huge. For them, the vast negative downside outweighs the benefits. This sentiment was echoed in interviews at Tenneco as well, though not quite so strongly.

> "Breakthrough innovation is hard... it requires separation from operational pressures and the *freedom to fail many times* before you hit the home run."

Clearly, when people are promoted for successful project implementation they might be reluctant to pick up the reins for fear of damaging their reputations or careers if they fail. There is no panacea for creating the proper culture. It takes tough, analytical work to design the right strategy. The model will help guide through that process.

All of these factors combine to create the culture of the reward system. Regardless of the mechanics involved, the traits that should be engendered:

- Spirit of innovation
- High participation
- Shared vision - communicated clearly throughout; only in part due to the reward structure.
- Win-win philosophy from management and employees
- High accountability
- High support
- Diversity

In short, reward mechanisms should inculcate a common mindset, speed decision-making, and support the organizational strategy.

Case Studies

The following examples highlight successful incentives and award programs.

- **IBM** has a suggestion program that awards $50 to $150,000 for ideas that save money or provide other benefits such as improved customer service or health and safety. In addition they have plans whereby employees earn $1500 for their first patent application, with successive awards for qualifying inventions and publications.

- **Ingersoll-Rand** used frequent team barbecues as a way to motivate employees and build esprit de corps during their revolutionary, one year program to redesign the product development cycle. Though simple and inexpensive, these functions were later credited with providing the proper forum to build the team trust so critical for innovation and growth teams.

- **Marion Laboratories** is one of the few companies to offer stock incentives to every employee. After employment for one year, the employee can purchase up to 100 shares per year at the price on their 1-year anniversary date. They further increase the awareness of this by prominently displaying the stock price throughout the company.

- **Roll Forming Corporation** of Shelbyville, Kentucky pay out an average of 5% of gross wages in incentive pay. The program, known as Successful Team Effort Provides for Satisfied Customers (STEPS), focuses on growth and quality improvement ideas.

- **Lucent Technologies** uses a program whereby employees are able to earn points for various actions, such as suggesting ideas for revenue enhancement as well as cost compression. The firm experienced $20 million in bottom line impact in the first year of the program, with participation by 54% of the workforce. Employees submitted over 6,000 ideas, and 2,100 were accepted for implementation. In addition to the points redeemable for gifts and travel, the award winning employees are featured in the company newsletter.

- **Nucor Corp**. backs up its impressive incentive benefit and compensation system with something many workers look for - stability. Nucor has not laid off workers or closed plants in 28 years, despite massive restructurings in the steel industry. The same benefits are allotted to every employee, regardless of rank, and include insurance plans, vacation plans, 401K plans, and college funding for children and spouses.

The variety of employee incentive and benefit plans is limited only by the imagination. It is not easy to achieve great things, but if an organization is firmly committed to its goal of growth anything is possible.

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