

THE WILL

The author analyzes the importance of the operating dynamic and sets forth the organizational forces underlying it.

TO COMPETE

TOM FITZGERALD

When looking at the *root causes* of corporate performance, the eye is drawn first to strategies, processes, procedures, machinery, and suchlike. However, a moment's thought shows that the effectiveness of all of these is driven by something else: the management systems the company uses. If we look even deeper, we see that the effectiveness of these is caused, in turn, by something else again, something that might be termed the *operating dynamic* of the organization. Or, its *will to compete*. In this article we shall use these terms interchangeably. This is the "people" end of the business, the soft stuff, the stuff that is not supposed to be measurable; the stuff that only inspired leaders can deal with.

Napoleon's first strategy of war was to have an army mobilized and motivated to confront the enemy. He called this *esprit*, the will to combat. Creating it, shaping it, and renewing it was the fundamental work of all his commanders. If a general could not lead, the enemy would win.

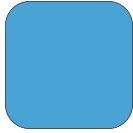
Though business is not exactly war, it does have an equivalent to the will to combat: It is the will to compete. It is almost never clearly articulated, but in the final analysis managing it, strengthening it, and restoring it is the work the CEO was really hired to do; everything else is secondary. (The terms "culture" or "morale" are entirely inadequate to describe this; they are as close to operating dynamic as accent is to the human soul.)

This will to compete is the ground and root cause of all corporate performance. Its effect can be great or small, positive or negative. It drives success; or stagnation and failure.

In well-functioning businesses it is, of course, positive. But almost always it is much less, much weaker, than its potential.

In some instances it can be great, vastly more powerful than the sum of its managers, and a powerful synergy arises. When that happens, you have a world-class company, one that succeeds in hard times and flourishes in good. In such a company managers perform beyond any-

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thing they could be expected to do elsewhere.

But when the will to compete turns negative and stays that way, it destroys a company.

Almost all companies have been shaken by the recession. A great many will have received injuries to their intrinsic ability to compete. Some will not know this has happened, and few will know how badly. Not knowing is the major cause in the 70% merger-and-acquisition failure rate.

The operating dynamic

The *operating dynamic* can be defined as the *resultant* leadership available to guide and drive a company when all internal, organizational forces, both positive and negative, are accounted for.

It is the invisible elephant in the boardroom. It has its own persona, motivations, and energies, distinct and different from those of the individual managers, even the CEO's. If it *remains* invisible, it is more powerful than even the CEO.

Everyone has seen instances in which excellent managers on an individual level collectively flounder; and also instances in which average managers on an individual level perform excellently as a team. Unless the elephant is brought into the open and understood, it dominates the ambitions, actions, and, finally, the results of the company.

Let's take an example: Imagine for a moment that an executive has just taken over an organization.

He has the financials and key performance indicators at his fingertips. These, of course, are the rearview mirror of the company. However, this executive has no information about the *cause of performance*, that which is generating performance and value; that which is, in the present, laying down the future.

He has to *guess* at this, the driver of all performance.

He has limited—perhaps very limited—time to grasp it, own it, and transform it. If he cannot, he fails and the company loses. This, rather than incompetence, is the major reason why *50% of all new executives are gone within eigh-*

teen months and why another 20% are deemed “disappointing.” In large companies the loss of a senior executive is estimated to cost \$1,000,000. Some would put the imputed cost much higher.

Without explicit and detailed information, taking control of the operating dynamic is difficult and time consuming. And the time available to do so during economic downturns is very short indeed.

This operating dynamic, this will to compete, functions at the unit and enterprise level—not at the individual level. Because of this, it needs to be measured and analyzed at the unit and enterprise level, in much the same fashion as the financials depict the results of performance, and with the same level of detail. (It is in the details that the devil—and the power of corporate transformation—resides.)

Organizational forces

First, let us identify the organizational forces that make up the operating dynamic.

In all, there are more than a hundred, each of which can have a positive or negative impact, like line items on the financials. However, in practice, they break into fifteen key forces. In turn, these are grouped into two major categories: the critical functions and the generators/blockers. When measured, these can be expressed in terms of a balance sheet and profit-and-loss statement (P&L). But while the financial statements deal with the past, these statements deal with the causes, and show which way the company is headed.

When known in detail, they can be easily altered and improved. As they are entirely within the control of management, it costs virtually nothing to change them. This can happen quickly. Changing the operating dynamic even a little profoundly changes the performance of the company.

Longitudinal studies by McKinsey and the London School of Economics have shown that changing just three of the critical functions by 20% improves the bottom line by 40%.¹ And this happens

for high-performing as well as troubled companies. This level of profit improvement is something no strategic change, nor the most draconian of retrenchments, can provide.

The following are the critical functions in alphabetical order:

- Customer orientation
- Innovation
- Lean operations
- Performance management
- Profitable growth orientation
- Talent management

Some of these are more important than others and each is composed of subelements. When measured and weighted, they provide the balance sheet for the effectiveness and impact of the operating dynamic. Each subelement can have a positive or negative value. If positive, that organizational force is driving the company towards success; if negative, it is weakening it. The bottom line shows whether the entire operating dynamic is driving the company up or down.

This balance sheet shows the innate trajectory of the company. It is forward looking. Its predictive horizon is far greater than anything that can be provided by financial models.

Though the six critical functions are the proximate drivers of corporate performance, how well they work is driven in turn by nine generators/blockers. It is worth mentioning again that these are entirely within the control of management; changing them is easy and costs virtually nothing.

These are the major avenues to changing the critical functions, and through them the bottom-line performance of the company.

The following are the generators/blockers in alphabetical order:

- Accountability
- Acknowledgement of work
- Adaptability
- Commitment of management
- Corporate assertiveness
- Corporate decisiveness
- Effectiveness
- Internal competition / cooperation
- Openness of management

Each of these is composed of numerous elements. When measured and

weighted, they provide a growth-and-loss (G&L) statement for the operating dynamic. This is the full analogue of the financial P&L.

Hard numbers for soft issues

The operating dynamic, being a function of the organization, must be measured from that perspective, just as the financial statements must measure performance for the company as a whole and, if the company is large enough, for each of its units. Equity investors by motivation, training, and practice, instinctively look at organizational performance and the results of performance in this way. By extension, they intuitively look at the *causes* of performance in the same way.

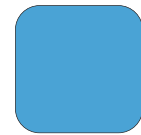
But how does one put hard numbers on the causes of performance or, as they are often mislabeled, “soft issues”? One way, of course, is to interview executives extensively concerning the fifteen drivers. This was our initial process in 1980. But it is cumbersome and fraught with error and spin.

When perception is reality

Since 1985 we have used a survey called The Corporate 360°.² It asks managers and supervisors (it is not designed for workers) in sixty different ways for their perceptions of the organizational forces that are at work within the company. It takes about five or ten minutes.

Because perception is reality when it comes to organizational forces and human behaviors, managers will act and react as they perceive these forces to be. They respond to the survey in the same way. Their opinions are *de facto* accurate. And it is our experience that they seldom lie. Certainly, front line supervisors—caught between the rock of senior management and the hard place of reality—want their perceptions known and their opinions heard. They answer truthfully.

The individual responses are passed through a model that generates a report of about thirty pages that surrounds a balance sheet and a G&L statement. Each line



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item is scored in numeric and, for simplicity, alphabetical terms. Each line item is then expanded with definitions and expressed in ways that elicit statements of corrective action where needed.

Changing the operating dynamic

Once detailed measures are available, the elephant becomes visible in all its parts. An investor can really see what he is buying, and what he should pay.

But it is also simple to change those parts, to transform the company's will to compete. As the component forces are entirely within the control of management, changing them costs virtually nothing. When you think of the bottom-line improvements that are possible, the returns on investment can be extraordinary.

All that is needed is for the investor to call on the management team to confront the data. And for each line item deemed negative or inadequate, the investor should get a commitment to specific action steps to correct or improve them. In our work, we enter these commitments directly into the report, with

names and due dates. In the course of a few hours, the report becomes the plan of transformation.

Though we are speaking here about a single intervention, the process described above can and should be done periodically. The McKinsey/LSE study indicates that a 20% improvement generates a 40% improvement in financial returns. And that this is available to high-performing as well as troubled companies. HR could manage the survey, the CFO or the model could generate the report, and the CEO could lead the planning session.

An interesting exercise for senior managers is to ask what (even) a 10% improvement in profits would do for their company. And what they would have to do to get it. ■

¹ Information about this report is available at <http://www.managementconsultants.com/content.cfm?Contentalias=mckinseyref&rc=1>.

² Information on this survey can be viewed at <http://www.managementconsultants.com/content.cfm/corp360surveys>.