

Not All Managers Are Equal



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Before We Start...

What is the fastest way to make \$1 million?



Wealth, Value & Organizations

- ⌘ Wealth creation, for countries/companies, has been based on
 - ☑ Making a product or providing a service that is valued more than the cost of doing so
 - ☑ The better one is at doing so vis-à-vis one's competitors, and especially over an extended period of time, the greater one's competitive advantage
- ⌘ To achieve the above, strategies are developed and executed



Execution & Growth

- ⌘ Companies can choose to execute in following ways
 - ☒ Discontinuous Innovation - providing a completely new offering
 - ☒ Product Leadership - being the first to provide an offering
 - ☒ Operating Excellence - doing more with less
 - ☒ Customer Intimacy - enhancing the end-user experience
- ⌘ Organizations, if successful in execution, typically undergo 4 stages of growth
 - ☒ Stage 1: Creativity - Founder dominated, product driven
 - ☒ Stage 2: Direction - Structure, systems, roles become more formal
 - ☒ Stage 3: Delegation - Decentralization of profit centers
 - ☒ Stage 4: Co-ordination/Collaboration - Formal matrix and cross functional structures

In the Context of the Industry

⌘ Industries/Markets undergo the following phases

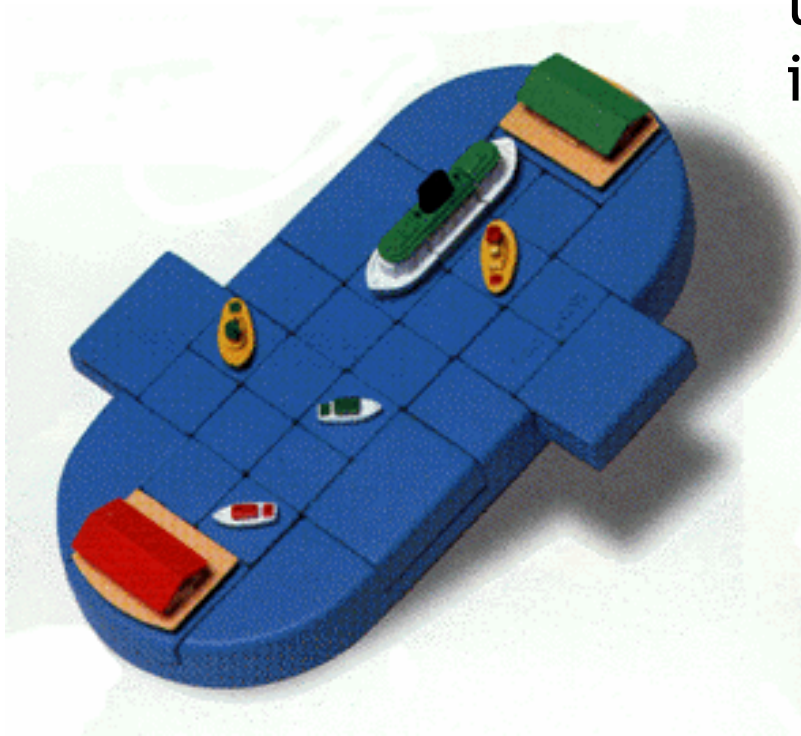
- ⊞ Early: Dominated by customers willing to adopt new innovations
- ⊞ Scale: Rapid growth as mass market adopts innovations
- ⊞ Consolidation: Strong growth continues but rate begins to slow
- ⊞ Maturity: Growth levels off, increasingly hard to sell in same market, and new markets/opportunities are sought

⌘ Organizations must be matched to the industry/market

- ⊞ This implies that there is no one best way to organize - strategies will change and be changed as markets appear/grow/disappear, and hence how people are organized and managed must change



In the Context of the Industry



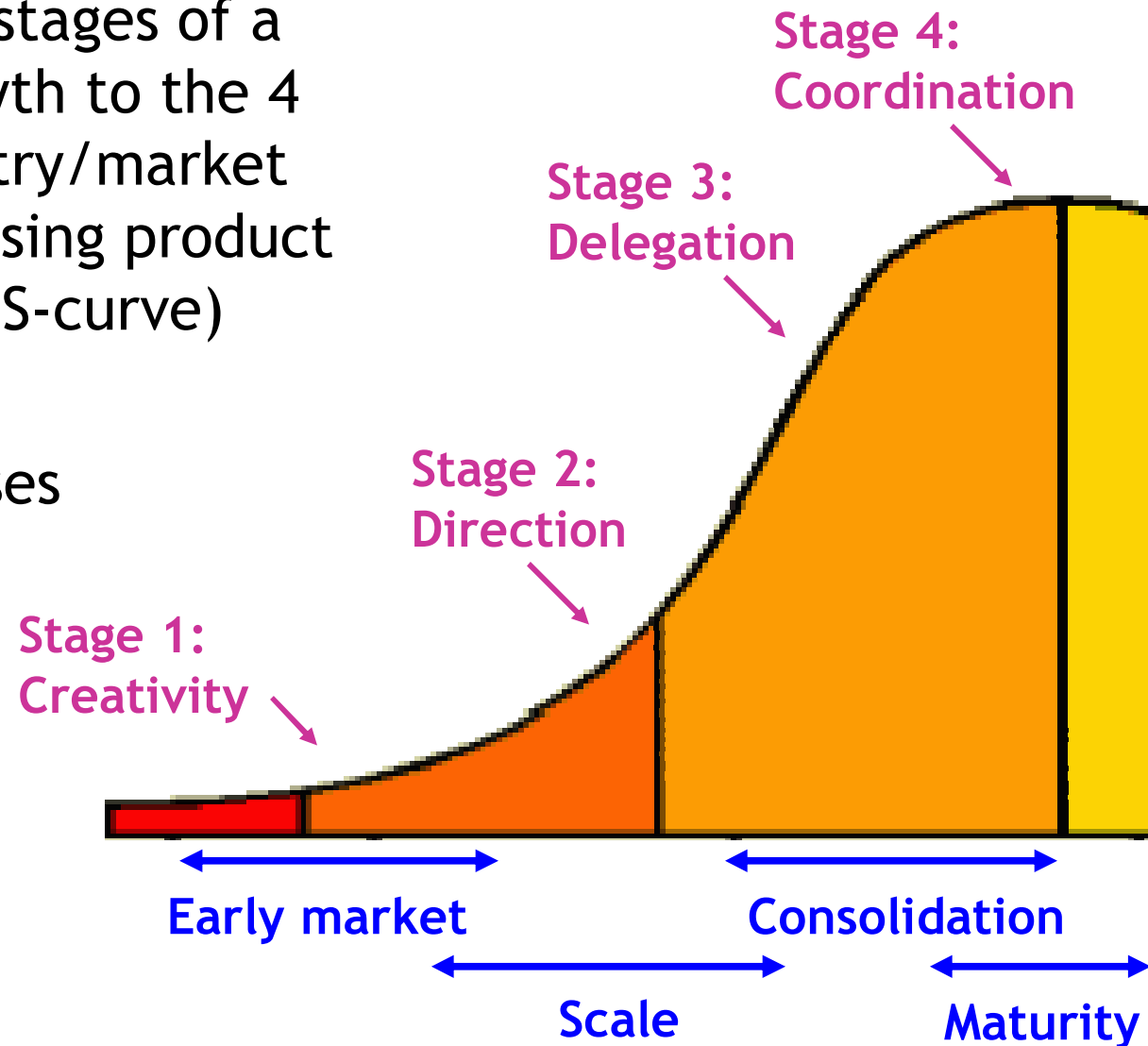
⌘ Well run companies will typically outperform their industries

- ⌘ Outstanding companies combine organizational excellence with “superior insights into the industry’s rules of the game”
- ⌘ Average performers find it harder to “escape the industry cage”
- ⌘ Poor ones are dragged down by organizational ineffectiveness
- ⌘ “When the strong winds blow, even turkeys can fly.”

Matching to Industry/Market

⌘ Matching the 4 stages of a company's growth to the 4 phases of industry/market development (using product adoption cycle/S-curve)

⌘ Stages and Phases overlap but cleanly categorizing them helps provide insights



Managing Execution & Growth

Stage 4: Coordination (Maturity)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Stage 3: Delegation (Consolidation)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Stage 2: Direction (Scale)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Stage 1: Creativity (Early)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Discontinuous Innovation	Product Leadership	Operating Excellence	Customer Intimacy

= *emphasize*

= *de-emphasize*

Managing Execution & Growth

⌘ Stage 1: Creativity (Early)

- ☒ Characteristics: Founder dominated; product driven; informal communication; little structure
- ☒ Functions emphasized: R&D, Marketing/Sales
- ☒ Focus: Turn technology into product; protect proprietary ideas/technology to establish entry barriers; build customers and revenues
- ☒ Pitfalls: Inability of founders to let go; cult like egos among the star employees; overemphasis on technology i.e. lack of market focus

⌘ Examples:

- ☒ Case studies for this are voluminous - won't dwell on them
- ☒ Suffice to say that in some cases, the founders' mark is left on the companies for many years e.g. Hon Sui Sen & EDB; HP (up to the mid 90s, and still lingering)

Managing Execution & Growth

⌘ Stage 2: Direction (Scale)

- ⊞ Characteristics: Structure, systems and communications become more formal; critical mass of customers begins to develop
- ⊞ Functions emphasized: R&D, Marketing/Sales
- ⊞ Focus: Meeting customers' needs; fending off emerging competitors (startups and incumbents); identify potential acquisition/merger/joint venture candidates; ensure systems (e.g. IT) rapidly scaleable
- ⊞ Pitfalls: More formal systems might be seen as cumbersome; managerial skills might be wanting; ability to integrate with merger/acquisition entities

⌘ Examples:

- ⊞ Positive: Low cost airlines in Europe (e.g. Ryanair, Go/EasyJet); Google; Starhub's SCV acquisition
- ⊞ Negative: Netscape; GO (handheld computing); Apple

Managing Execution & Growth

⌘ Stage 3: Delegation (Consolidation)

- ⊞ Characteristics: Decentralization of profit centers; management turns to more strategic focus; products begin to be commoditised
- ⊞ Functions emphasized: R&D, Manufacturing/Logistics, Finance
- ⊞ Focus: Standardizing processes; profitability; continue relevant acquisitions/mergers/joint ventures esp. large ones; divest weak/non-core areas
- ⊞ Pitfalls: Profit centers not marching as one; communication gaps; duplication of resources; increasing politics

⌘ Examples:

- ⊞ Positive: Chartered (CIS) under Philip Yeo (ST was spun off); Seagate (from late 1990s); Dell (under Tom Meredith as CFO)
- ⊞ Negative: HP (pre-Carly Fiorina); Bank One (pre-Jamie Dimon); SPH (pre-Lim Kim San)

Managing Execution & Growth

⌘ Stage 4: Co-ordination/Collaboration (Maturity)

- ☒ Characteristics: Certain functions centralized again; formal matrix/cross function structures; broad-based IT systems; more planning and reporting processes; customers demand mass customization
- ☒ Functions emphasized: Marketing/Sales, Manufacturing/Logistics, Finance
- ☒ Focus: Entrench market position, identify new growth engines
- ☒ Pitfalls: Increasing bureaucracy, red tape, and politics; reporting systems become cumbersome; corporate HQ staff expands (enough people on the “frontlines” doing work?); complacency and blindsided by next “disruptive” innovation

⌘ Examples:

- ☒ Positive: GE; Intel-AMD; ST; Coke-Pepsi; Pharma companies (trying to buy biotech firms)
- ☒ Negative: IBM (pre-Lou Gerstner)? Kmart?

Some Questions...

- ⌘ Can the entrepreneur in Stage 1 adjust his leadership and management for Stage 2, 3, and 4?
- ⌘ Can the manager who has been successful in Stage 4-type companies run a startup in Stage 1?
- ⌘ How does one ensure that the changes associated with the transition from Stage 1 through to Stage 4 does not end up destabilizing the company instead?
- ⌘ What happens after Stage 4?

Case Studies - Growth

⌘ Stage 1: Creativity (Early) - 1980s

- ⊞ Founded by bike store manager - Chris Hornung in 1979
- ⊞ Began importing low end bikes from China - only one size and one color - to 60 markets across U.S.

⌘ Stage 2: Direction (Scale) - 1990s (US\$12.5 mil sales in 1995)

- ⊞ Switched from ten-speeds to mountain bikes
- ⊞ Hooked up to mass merchants e.g. Toys 'R' Us
- ⊞ Sold 55% to Wind Partners to raise equity
- ⊞ Acquired mid-tier Brunswick Bicycles (Roadmaster, Mongoose) in 2000, gaining access to Walmart
- ⊞ Beefed up management, with Byron Smith (who had reorganized Brunswick) joining as President



Case Studies - Growth

- ⌘ Stage 3: Delegation (Consolidation) - (US\$280 mil revenues)
 - ☒ Acquires top-end Schwinn/GT in 2001 for US\$86 mil
 - ☒ Market share boosted to 30% giving Pacific more bargaining power
 - ☒ But there were 2700 dealers, GT part (33%) of Schwinn/GT had separate mgmt and HQ with poor accounts tracking
 - ☒ Pacific proceeded to close HQ buildings, 7 warehouses, retrenched 300 staff, scaled back Schwinn marketing budget, and renegotiated prices with manufacturers - rent cut by US\$4 mil, operating costs trimmed by US\$54 mil
 - ☒ Dealer defection (1700) mitigated by price cuts of 10% and moving to a build-to-order system for the 1000 remaining dealers, and selling Schwinn/GT in mass merchants



Case Studies - Growth

⌘ Stage 1: Creativity (Early) - 1950s-70s

- ☑ Founded by Lien Ying Chow in Raffles Place, which up only Western banks and businesses had offices
- ☑ Run like a family business e.g. recruiting relatives
- ☑ In 1970s, POSB and DBS were set up, changing the playing field for small local banks

⌘ Stage 2: Direction (Scale) - 1970-1980s

- ☑ Lee Hee Seng courted by Mr Lien (for 3 years!) joining as Chief GM
- ☑ Mr Lee laid down professional practices, recruited top staff from international banks and introduced computer technology
- ☑ Took the bank public



Case Studies - Growth

⌘ Stage 3 : Delegation (Consolidation) - 1990s

- ☒ Peter Seah takes over as President and CEO in 1991
- ☒ Mr Seah had previously been an AVP (World Corporation Division) at Citibank, and risen through the OUB ranks “moving from one subsidiary to another, troubleshooting, re-engineering work processes, and launching new products and businesses.”
- ☒ In 1990s, Mr Seah and team made OUB the fastest growing bank in terms of profit among Big Four and was the fourth largest in Asean in 2001.



Managing in a Downturn

⌘ Cost-cutting: Necessary but insufficient measure because it will sap company's capacity for sustained performance (e.g. Al "Chainsaw" Dunlap)

⌘ Must be accompanied by:

- ☒ Coherent strategy i.e. clear direction without undermining growth
- ☒ Continuous investment in training, and management development
- ☒ Constant communication to minimize uncertainty and fear
- ☒ Being human about it all



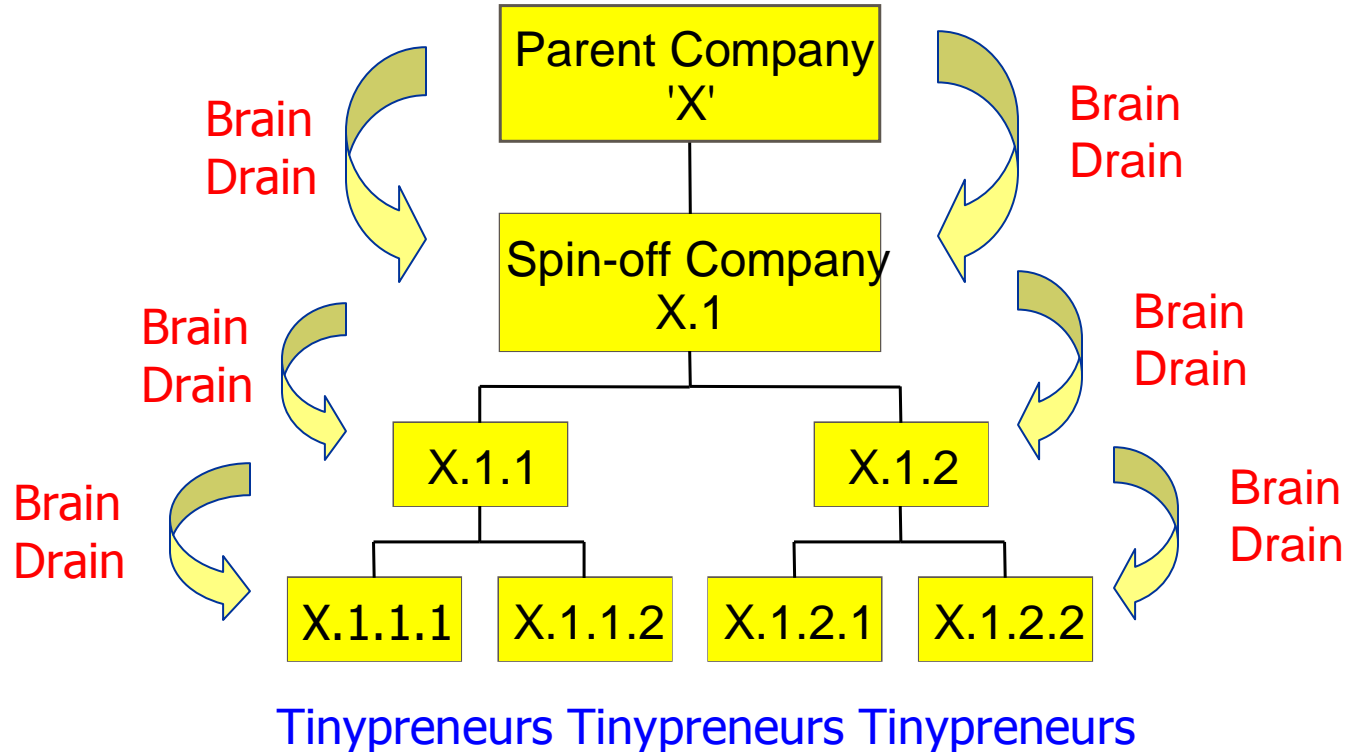
⌘ Above are not any different from managing in good times, but are more pronounced and critical in a downturn

Case Studies - Downturn

- ⌘ GE - Coherent strategy and investment in people
 - ☒ Restructuring earned Jack Welch nickname “Neutron Jack”
 - ☒ Strategy: GE must be #1 or #2 in any business it competed
 - ☒ People: Invested heavily through Crotonville
- ⌘ PSA - Negative example of communication
 - ☒ Why was the initial uncertainty even allowed to happen?
- ⌘ Southwest Airlines - Being human
 - ☒ (After Sep 11) “Our first focus was on gathering and conserving resources - particularly our cash - in a way that would protect our business... [one of them was] We had a US\$180 million profit-sharing payment due on Sep 14...we had a tough time deciding whether to fund it. In the end, we chose to pay it out, because it was the right thing to do for our employees.” - CEO James Parker

What Doesn't Change

- ⌘ Spirit of Enterprise - If everyone in your company wants to be an entrepreneur, it will be a zero sum game.



What Doesn't Change

- ⌘ **Managing Yourself** - “We will have to learn where we belong, what our strengths are, what we have to learn... what we are not good at...what our values are. For the first time in human history, we will have to take responsibility for managing ourselves...this is probably a much bigger change than any technology - a change in the human condition. Nobody teaches it...and it probably will be another 100 years before they teach it.” - Peter Drucker



What Doesn't Change

⌘ **Unit of Impact** - “... the point of impact, where I can really make a difference in the company... If you keep making making the same kinds of decisions as the company gets 10 or 100 times larger, it’s not going to get 10 or 100 times larger...you’ll be one of those guys who gets replaced.” - Michael Dell



What Doesn't Change



⌘ Social Innovation - “...while not all great companies have innovative products or services, they all - without exception - pursue the most profound and powerful form of innovation: social innovation...the greatest of all inventions is human organization and society - the ultimate tool for achieving human objectives.” - Jim Collins

What Doesn't Change



- ⌘ Foreign Talent - It is not the nationality that matters as much as whether we are getting the best who are willing to give their best (examples from Singapore's past?)

How to Make \$1mil? The Answer...

“I made a million dollars...I started with a billion dollars and worked my way down.” - Craig Venter, founder of Celera Genomics



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