

# *Helping You to Develop Your Business with Free Hints and Tips...*

## *... In This Issue*

*Thriving or Surviving-Why  
Organisations Succeed*

# *Thriving or Surviving – Why Organisations Succeed*

⇒ *Understanding the critical factors for business success*

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## *The concept*

**Companies that enjoy enduring success have core values and a purpose that remains fixed, while their business strategies and practices adapt to a changing world. Values are important to corporations and many companies have long recognised the importance of possessing a set of guiding principles. Furthermore, detailed research, such as that published by Jim Collins in his best-selling book 'Good to Great', suggests that enduring organisations with guiding principles have outperformed the general stock market by a factor of 12 since 1925.**

Core values are the organisation's essential and enduring tenets and they drive the way the company operates at a level that transcends strategic objectives. Such values don't change, although strategies and practices have to adapt endlessly to change. Core ideology defines what the company stands for and why it exists. It complements the envisioned future – what the company aspires to become. Any effective vision must embody the core ideology of the organisation.

Success and failure are dynamic. The world around us is subject to constant, considerable change and it is clear that organisations operating successfully one day may fail totally the next. No matter how illustrious an organisation's history, all rely on their *future* business: the next quarter's order book. This means that winning means adapting the way one plays over time. Organisations have to adapt. The challenge is that the way the game is changing remains uncertain until it is played. Without uncertainty, everyone could do the same calculation and act in the same way. To put it in more positively, without uncertainty, there can be no winners. Instead of seeing uncertainty as a problem, we should view it as the basic source of our future success.

It is often the case that as leaders we tend to focus on the immediate priorities of meeting customers' needs, resolving problems, managing and leading others. We are very effective at managing for today but less effective at preparing for tomorrow. A defining role of a leader – and an enduring characteristic of a successful organisation – is an ability to set the right course and then take people along this course, enabling the business to develop, compete and succeed. Successful organisations develop visionary thinking and future orientation and this often means changing – or transforming – the organisation. To be effective, visionary thinking and future orientation needs to be:

- Actively communicated by the organisation's leaders: demonstrated in practice.
- Durable and consistent – a vision should not change radically or frequently.
- Clear and understandable so it can be directly applied and made relevant to the way people, at all levels of the organisation, operate.

# Making it happen

## The importance of corporate values

There are values such as honesty, integrity, fairness and prosperity that we may be able to relate to on an individual personal basis, but often we fail to understand or appreciate values in the context of business and corporations. Although the term

*Developing and following a set of guiding principles is essential for building a great and enduring organisation.*

‘corporate values’ is a relative newcomer to the business lexicon, the concept of values as an important aspect of corporate life is not. Many companies have long recognised the importance of possessing a set of guiding principles.

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Values are timeless guiding principles that drive the way the company operates at a level that transcends strategic objectives. For Hewlett-Packard, for example, values include a strong sense of responsibility to the community. For Disney, they include creativity, dreams, imagination and the promotion of wholesome American values. Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. This is a factor in the success of such companies as Johnson & Johnson, Procter & Gamble and Sony.

## Understanding and sustaining core values

*Core values are unchanging. They are the organisation’s enduring and guiding principles that are never to be compromised for financial gain or short-term expediency.*

There are two components of a vision: *core ideology* and *envisioned future*. **Core ideology** defines what the company stands for and why it exists, it is unchanging and complements the envisioned future. **The envisioned future** is what the company aspires to become, to achieve, to create – something that will require considerable change and progress to attain. Core ideology

provides the glue that holds an organisation together through time.

## Developing visionary thinking and future orientation

An effective vision must embody the core ideology of the organisation. This has two components:

- Core values – a system of guiding principles and tenets.
- Core purpose – the organisation’s most fundamental reason for existence.

**Visionary thinking** means developing a coherent description of your business in the future. This could be a description of the whole business or a specific area. Importantly, this should make clear the connection between your thinking and the changes that are going on in the industry and your local market. An essential element of visionary thinking is **future orientation**: the ability to communicate a clear view of the future of a business area – its aims and what it is achieving. Future

orientation applies to managers at all levels, whereas visionary thinking is most relevant to senior and mid-level managers.

Managers within any organisation need to be able to create, communicate and 'make real' a vision for their organisation or team. It is impossible for the business to grow, prosper and compete unless it moves with the times, and visionary thinking enables this to happen.

A clear and dynamic vision of the future is valuable because it:

- Inspires, mobilises and engages people, unlocking energy and commitment.
- Provides a clear focus for the future, guiding actions and decisions at all levels.
- Promotes confidence, determination and effectiveness.
- Helps to establish the culture of the organisation by emphasising the means as well as the ends.
- Promotes teamworking and ensures consistency, with everyone working towards the same goal.

Think of vision as the destination, not the journey. The means of transport and the route you take can vary with the circumstances, but you know where you are going. In most organisations, beset with an increasing rate of change, setting goals based on short-term activities and prescribed ways of working is unhelpful. No sooner have you defined what you want than the plan changes, leading people to complain, with some justification, that the target has moved. By keeping focused on the goal we are more likely to stay on course and accept change, even when shifting circumstances require us to take a different approach.

## Using your business vision

There is no single way to develop visionary thinking and future orientation. However, successful leaders emphasise the following actions:

- **Decide what you want** - don't just accept what other people believe; decide for yourself what will be important in the future.
- **Trust your intuition** - if you feel that a situation is changing and different, or if you have an idea that makes sense to you, explore it further.
- **Test your assumptions** - new insights do not normally come from old information.
- **Tap into the future** - look for trends and try to understand why things are changing, not just how.

You can get people to understand and support the vision by communicating in an exciting and practical way, and speaking positively so that people are intrigued, challenged and motivated. It is also important to be honest and open, to bring the vision to life, ideally with examples, to listen and act on what people say and to encourage people to see what the vision means for customers.

Finally, remember the characteristics of progressive views of the future. They are:

- **Powerful** - this has two parts: it must be imaginable and paint a clear picture of what the future will look like; it must also excite and inspire as many people as possible.

- **Communicable** – it must be possible for the vision to be communicated to anyone quickly and easily.
- **Desirable and realistic** – the vision needs to appeal to the long-term interests of customers, employees, shareholders and commercial partners.
- **Focused** – the vision needs to be specific and ‘real-world’ enough to provide guidance for decision-making.
- **Adaptive** – the vision needs to be general enough to accommodate individual initiatives and to be flexible enough to allow for changing conditions.

## **Understanding success by understanding failure**

Understanding that success and failure exist together, in close relation to each other, means that the study of organisational success starts with the study of organisational failure. Given that the quality of performance is relative, we will try to identify what people and organisations do that makes them end up on the losing side. Understanding the weaknesses will help us to turn them into relative strengths. So, why do organisations fail?

This question has been addressed by several notable business research studies, including what has become known as the ‘Sharpbenders’ research. This highlighted the problems for organisations that are inherently unable to detect or respond to change. The researchers concentrated on companies that had been failing, as manifest in a stock value that had been slipping against the market average, but who had been able to turn things around (that is where the word *Sharpbenders* came from – a slipping stock value followed by a recovery). The idea was that these companies, having been able to turn things around, would be able to articulate what had gone wrong and why this had happened. After all, if they managed to turn things around they must have made a successful diagnosis of what went on during the downward part of their history. Having identified such companies from stock market records, the researchers then interviewed many of them and produced what is effectively a list of what can go wrong.

The findings highlight the key causes of relative decline in five categories:

1. Adverse development in market demand or increased competition.
2. High cost structure.
3. Poor financial controls.
4. Failure of big projects.
5. Acquisition problems.

The five causes of failure identified by the Sharpbenders research can be divided into two categories: *hygiene factors* and *business idea factors*.

## **Hygiene factors and business ideas**

Organisations have always been trying to discover ways of outsmarting the competition. Not all ideas that are developed are equally effective, but some stand out as clearly successful. Initially, some organisations develop their competitive advantage by exploiting these ideas, but, over time, others see the beneficial effects and will start to copy the same ideas in their own organisations. Eventually some ideas end up as approaches in good currency. They can be learned from studying

organisations deemed as 'best in class'. They will be codified in textbooks and taught to managers. Once an idea reaches this point it has become a **hygiene factor**, something that is generally recognised as fundamental in running any healthy organisation. Without hygiene factors, professional management knows in advance that the organisation will not have a chance to play in the competitive game.

Most hygiene factors are about the need to ensure sound and efficient business processes, critical to ensure that the organisation remains a going concern. These business processes are the generally accepted basics for running any organisation; they are qualifiers, allowing you to play. However, winning the game requires much more: additional, distinctive factors and capabilities that will distinguish the winner from the loser. These additional, distinctive factors and capabilities that are not yet generally codified and available only to one organisation, are summarised in what is called its **business idea**.

An organisation's business idea can be described as its success formula, and there are three fundamental factors we are looking for to judge the strength of a business idea:

- **The idea must be capable of explaining how value will be created** for stakeholders of the organisation. Without value creation, no organisation will be able to survive. We know that value is being created if the idea addresses a scarcity somewhere in society, by filling it or by alleviating its effect. This is what moves customers to come to the store to buy its products.
- **An organisation that wants to be able to meet a scarcity in society must have something unique to offer.** If nothing is unique in what the organisation does it cannot engage in unique activities and therefore, by definition, not address any scarcity. A business idea has to clarify the system of uniqueness that the organisation brings to bear on its activities.
- **Once an organisation makes a unique contribution and creates value it can charge a price for its efforts and in that way generate resources to invest in its survival.** A success formula cannot be effective forever. Anything that is unique will eventually be copied, or its value may disappear because people's interests move elsewhere. Therefore, an organisation must be able to show how it invests on an ongoing basis in its distinctiveness.

These three factors together operate in a self-sustaining loop.

The first striking observation of the Sharpbenders research is that most failures are due to hygiene factors. The following causes are highlighted:

- **Poor controls** in areas such as credit, working capital, budgets, costs, cash flow or quality. This is often due to inadequate management accounts, leading to infrequent and incomplete reports that are late, too complex, too voluminous, irrelevant or in error.
- **Immature management style.** Typical examples include an inflexible CEO, excessive caution, authoritarianism, ineffective delegation and coordination and over-centralisation.
- **Failure to create and communicate purpose and the business idea,** both between the top and middle management and with the work force

Another hygiene factor and one crucial business process that frequently gets pushed into the background is a systemic approach to sensing or responding to external change, based on maintaining sound and efficient relationships with all stakeholders.

Maintaining relationships with stakeholders – such as shareholders, suppliers and customers – is vital for all organisations, as any of these groups have the power to threaten its very existence. Shareholders can decide to invest elsewhere; customers may ‘vote with their feet’; the government can pass unfavourable legislation, and so on. These vital groups have to be kept on board. Their conflicting expectations need to be identified and reconciled.

Hygiene factors are important as qualifiers in the competitive business race. Indeed, often they are not looked after sufficiently and unfortunately, in real life, things often slip due to lack of time or attention. There are very many examples where hygiene factors have to be considered and addressed with the application of codified knowledge so as to ensure success. This knowledge is available, for example in business schools and in textbooks, and help is at hand from consultants who offer their services in these areas.

Looking after hygiene factors should be seen as a minimum requirement to play – a qualifier for being in the game. However, the ultimate aim is to try to win. For this, the organisation needs a unique business idea. The Sharpbenders research shows interesting failures in this area as well. Strategic reasons for failure include:

- **A lack of recognisable strategies** in such areas as functional policies, corporate strategy or environmental monitoring.
- **Poor execution or timing** of responses to developments such as declining market demand or increasing competition.
- **Inappropriate risk taking**, in terms of projects that are too large in relation to the size of the organisation taking them on or of acquisitions that are assessed too optimistically.

In considering these causes of decline, we see clear evidence of organisational inability to understand and adapt to change in the environment. In retrospect, people identify changes in the market place that passed unnoticed at the time. Typical examples include new products and new substitutes coming on the market, changes in product technology, demographic changes, changes in income distribution, changes in fashion and a cyclical fall in demand that wasn’t taken seriously.

Similarly, increased competition often went unnoticed, while in retrospect the signals were there to see such as:

- Technological change lowering rivals’ costs.
- Threats from substitutes keeping prices low.
- Political changes related to loosening of regulation.
- Trade barriers and purchasing policy.
- Removal of protection and other barriers to entry.
- A significant new market entrant, possibly with high exit costs keeping competition intense in the face of falling sales.
- A lack of strong product differentiation or strong cost advantage.
- Low or falling switching costs for customers.

## Turning things around

Managerial actions can be extremely successful in turning around a decline in organisational performance. The idea-related strategic factors that were identified in the research included:

- An emphasis on customers and their dynamic value systems.
- A strong marketing focus.
- A clear product focus with a deliberate concentration on what the organisation can do best.
- Regular reviews of strategy (the danger of formality of this process tends to increase with the size of the business).
- A forward-looking approach, which invests in the future through plant equipment, research and development and training.

Several themes stand out from these issues. First, there is a lack of exploration of the environment and its potential or actual impact is not sufficiently recognised. Second, there is a lack of understanding of how the wider environment is impacting customers, their needs and value systems, and whether the organisation's products or services continue to create value for them.

## *The last word*

Thomas Watson Jnr., CEO of IBM, commented that any great organisation that has lasted owes its resiliency to the power of its beliefs and the appeal these beliefs have for its people. **“Consider any great organisation - one that has lasted over the years - I think you will find it owes its resiliency not to its form of organisation or administrative skills, but to the power of what we call beliefs and the appeal these beliefs have for its people.”** It is also worth remembering the words of US business leader Harold Geneen: **“One of the primary, fundamental faults with American management is that over the years it has lost its zest for adventure, for taking risk, for doing something that no one has done before.”**

***For Further Information or to  
Arrange a Consultation***

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