renewing your WILL to COMPETE

Within every company there is an attribute that is so critical to its success that changing it by just 20% improves the bottom line by 40%. This is comparable to increasing capital investment by 70%.

By Tom FitzGerald

They had survived. Dan, the CFO, was taking Harry, the CEO, through the company's numbers, and they could see the first signs that the recession was passing. They could also see that their own business was beginning to improve. Perhaps it was even time for Dan to agree to the new enterprise he had been cautioning against over the last year. They had the money, they had the people, and, with the competition still running scared, they had the opportunity. Most importantly, they had the will—at least Harry did. But Dan still had some serious misgivings.

He wondered if the recession had undermined the courage of the company. Perhaps the cutbacks, the downsizing, and the survivor guilt resulting from so many farewells had eroded its competitive spirit. Dan knew that this spirit was the real foundation of corporate performance—not strategy, tactics, or financials. If corporate courage had eroded, would they be strong enough to take steps to get beyond the recession? How would they be able to determine if this had occurred? If so, would they be able to renew the company's confidence? How?

Dan decided he needed to talk with Harry about all this, but Harry wanted to go over the financials first. Since Dan was in charge of the numbers, Harry turned to him…

The Will to Compete

When we look at the key factors influencing a company's performance, we're drawn first to strategies, processes, procedures, machinery, and such. But further consideration reveals that the proficiency of all of these features is determined by something else: the corporate management system. If we look even deeper, we see that the effectiveness of this system is affected by something else again, something that might be termed the "Operating Dynamic of the organization" or its "will to compete." I use these terms interchangeably. Both involve assessing the human aspects of a business—the "soft stuff"—elements that aren't easily measured—factors that only inspired leaders can manage well.

The Operating Dynamic needs to be examined in much the same fashion and with the same level of detail as the financials that depict performance results.

As seen in the career of Napoleon, a primary role of military leadership is to motivate the army—to heighten its *esprit de corps*. Military historians have translated esprit de corps as "military morale." We refer to it as "will to combat." Creating, shaping, and renewing it is the fundamental responsibility of all commanders. Without it, an army can become weak and wayward—vulnerable to its enemies.

While business isn't war, management strategies do include an equivalent to the "will to combat": It's the "will to compete." The will to compete is the main determining factor of all corporate performance. Whether an organization succeeds, stagnates, or fails depends largely on its spirit of competition. Though this is rarely articulated clearly in management theories, in the final analysis, inspiring and channeling the will to compete is the main responsibility of all CEOs. Everything else is secondary.

In well-functioning businesses, the will to compete is palpable, and its effects are positive. In some instances, a competitive synergy can develop and become more powerful than any managerial initiatives might produce. When that happens, a world-class company can result: one that succeeds in hard times and flourishes in good ones, with managers performing better than could be expected anywhere else. Results come from anywhere and everywhere, from systemic efficiencies, from process improvements, from new products, new tactics, new strategies.

But in many businesses the will to compete is weaker than it could be, and great potential is wasted. Even worse, when the spirit of competition fades—or trends toward a lack of confidence—companies can fail. The recent recession has shaken almost all companies. A great many have received injuries to their corporate souls, reducing their intrinsic will to compete. Some don't even know this has happened, and few know how badly it has impacted them.

The Operating Dynamic

The Operating Dynamic of an organization can be defined as the spirit of leadership available to guide and drive a company when all other organizational forces, positive and negative, have been taken into account. It has its own energy, distinct and different from that of individual managers—even that of the CEO. Everyone has seen cases where excellent individual managers flounder and, alternatively, instances where average managers perform excellently as a team. Although rarely perceived and understood, the Operating Dynamic dominates the ambitions, thinking, actions, and results of any company.

Imagine for a moment that a new executive has just taken over an organization, becoming responsible for its success or failure. He has the financials and key performance indicators (KPIs) at his fingertips. These, of course, are retrospective records of past results—the rearview mirror of the company. Yet the executive has little (perhaps no) information about the motivational drive of the organization, that which is really generating value and laying down the future of the company. Without explicit and detailed information, taking control of the Operating Dynamic is difficult and time-consuming. The executive has limited time to identify, measure, and begin to guide this force. If he can't, he will fail, and the company will lose out. Lack of consciousness about this crucial factor in corporate leadership, not incompetence, is the major reason why 50% of all new executives are gone within 18 months and why another 20% are deemed "disappointing." How can such scenarios be avoided?

Organizational Forces

The Operating Dynamic functions at the unit and enterprise level, not at the individual level. Because of this, it needs to be examined in much the same fashion and with the same level of detail as the financials that depict performance results. It's in the details that the devil—and the power of transformation—reside. When identified, these factors can be altered and improved; they are entirely within management's control. Moreover, it costs virtually nothing to change them, and this can happen quickly. Changing the Operating Dynamic even a little can profoundly change the performance of a company. Longitudinal studies by McKinsey & Co. and the London School of Economics of more than 4,000 companies have shown that changing just three of a company's Critical Functions by 20% improves the bottom line by 40%—for high-performing companies as well as those experiencing troubles. This level of profit improvement is something that no major strategic change—or even the most draconian of retrenchments—can provide.

In all, there are more than 100 organizational forces comprising the Operating Dynamic, each of which can have positive or negative impact—like line items on financials. In practice, however, they break into 15 key forces that can be grouped into two major categories: Critical Functions and Generators/Blockers. When measured, they can be expressed in the form of a balance sheet or profit and loss (P&L) statement. But while financial records deal with the past, these statements address the underlying causes of performance, indicating the way the company is heading.

In alphabetical order, the Critical Functions are:

- Customer Orientation,
- Innovation,
- Lean Operations,
- Performance Management,
- Profitable Growth Orientation, and
- Talent Management.

Some of these are more important than others, depending on the industry. Moreover, each is composed of subelements that have either a positive or negative value. If positive, that organizational force is driving the company toward success; if negative, it is weakening it. When measured and weighted, these can be placed on a balance sheet indicating the effectiveness and impact of the Operating Dynamic. This dynamic balance sheet shows the trajectory of the company. Its forward-looking, predictive horizon is far greater than anything even the most sophisticated financial models can provide. Table 1 shows one sample section of the balance sheet for a company that contains the results for the Performance Management Critical Function. In the Level column, anything below a B needs serious fixing.

While the six Critical Functions are the proximate drivers of corporate performance, nine Generators/Blockers determine how well they work. These are the major levers for changing the Critical Functions and, through them, the bottom-line performance of the company. It's worth mentioning again that these are entirely within management's control; changing them is easy and costs virtually nothing.

The Generators/Blockers are, in alphabetical order:

- Accountability,
- Acknowledgment of Work,
- Adaptability,
- Commitment of Management,
- Corporate Assertiveness,
- Corporate Decisiveness,
- Effectiveness,
- Internal Competition/Cooperation, and
- Openness of Management.

Each of these is composed of numerous elements. When measured and weighted, they can be formulated into a Growth and Loss (G&L) statement for the Operating Dynamic—fully analogous to the financial P&L.

To summarize: The Critical Functions are the proximate drivers of performance; they are shown on the balance sheet. The Generators/Blockers are the drivers of the Critical Functions; they are shown on the G&L. The G&L shows the trajectory of the balance sheet. The balance sheet indicates the trajectory of the company. The way to improve the Critical Functions is to adjust the Generators/Blockers measured on the G&L. Improving the Critical Functions (i.e., the balance sheet) by 20% will improve the bottom line by 40%.

Hard Numbers for Soft Issues

As we look at these forces, it would seem that measuring them should be the job of Human Resources. But for various reasons this is seldom the case, partly because HR departments have increasingly taken on the function of record keeping related to labor law compliance and relin-

Table 1: Sample Section of Consolidated Statements of Operating Dynamic Balance Sheet

PERFORMANCE MANAGEMENT	SCORE % (% OF MAX (MIN))	LEVEL (A–G)
Vision of Future	21.429	D
Goal Definition	42.857	C
Action Plans	7.143	D
Plans Communicated	(14.286)	E
Understanding Personal Contribution	64.286	B
Decisions Implemented	7.143	D
Decisions Followed Up	7.143	D
Planning/Envisioning Capability	85.714	A
Appropriate KPIs Measured	0.000	D
Performance Management Balance	**19.841**	**D**

CODING CONVENTION
All line items can have a + or – value
A, B, C, D are positive (descending)
E, F, G are negative (descending)

quished their strategic role. Also, for decades the entire human capital industry—including HR training—has looked at organization development in terms of improving the performance of individuals, not the bottom-line productivity of organizations as a whole. But the Operating Dynamic, being a function of the organization, must be measured from a broader perspective, just as the financial statements must ultimately measure the performance of the company in general. The CFO is the one executive who, by motivation, training, and practice, looks at organizational performance and results this way. By extension, he/she intuitively looks at the causes of performance, which drive the Operating Dynamic, in similarly broad terms. But how can you accurately measure the causes of performance or, as they are often mislabeled, "soft issues"?

In 1985 we developed a survey called "The Corporate 360°" to achieve these aims. In more than 60 different ways, this survey asks managers and supervisors for their perceptions of the organizational forces that are at work within their company. The individual responses are then passed through a model that generates a report of about 30 pages that includes a balance sheet and a G&L statement for Operating Dynamics as described above. Each line item is scored and then expanded with definitions in ways that result in directives for corrective action when needed.

Changing the Operating Dynamic

Once such detailed measures are available, it's simple to adjust these factors and thereby enhance a company's will to compete. When you compare this with the potential for bottom-line improvements, the return on investment (ROI) is extraordinary. All the CEO needs to do is instruct the management team to confront the information derived from this survey and then take specific steps to correct each line item deemed negative or inadequate. In the course of a day-long assessment, according to these survey results, commitments should be entered with names and dates for completion into a plan of transformation. In this procedure—which should be done periodically, not just as a one-time intervention—HR manages the survey, the CFO generates the report, and the CEO leads the one-day planning session.

Now, let's pick up our initial story under the assumption that the company involved has applied such measures.

… Dan placed the financial statements on the table. He talked Harry through them. They showed that the financial resources sufficed. Then he placed the balance sheet and G&L for the Operating Dynamic next to them. From these, Dan and Harry could immediately see that they were hurting in three specific areas: Performance Management, Accountability, and Corporate Decisiveness. These were problematic enough to guarantee the company's new thrust would founder unless corrective measures were applied. That was the bad news. The good news was that because Dan and Harry had measured the tangible factors in their company and put hard numbers on what used to be intangible, they could see precisely what had to be done and who would do it. Moreover, given this awareness, these steps could be done quickly and would cost little more than Harry's determination to do it.

It was indeed time for the company to move beyond the recession—to move toward a new beginning—to make a new thrust into the marketplace. **SF**

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