MAHLER update

FALL 2008

INSIDE THIS ISSUE

RESEARCH NEWS

Preventing a Stall in Growth Momentum

An abrupt and lasting drop in revenue growth can happen to even the most exemplary organization, as it did to Levi-Strauss in 1996. That year, company sales hit $7 billion for the first time ever, capping a decade of growth in which revenues more than doubled. But then Levi-Strauss went into a free fall. Within three years, sales dropped by 35% and the company's value shrank by even more. Today, with less than half the market share it enjoyed a decade ago, Levi-Strauss is still struggling to regain a growth momentum.

Confirming just how common growth stalls are, a recent study of 500 leading companies found that 87% of them experienced one or more "stall points" in their corporate history. And after analyzing the costs and root causes of these stalls, the study produced two intriguing findings. One is that growth stalls are largely *preventable* – and are not usually caused by big, external forces (like a recession). The other is that once a stall occurs, companies must act *fast* to prevent a long-term decline. "After a stall sets in, the odds against recovery rise dramatically with the passage of time."

Causes of Growth Stalls

This study says that most growth stalls are caused by one or more of the following:

- ***Premium-position captivity.*** When a sudden drop in sales occurs, companies that occupy a solid market position may remain too committed to the business model that helped them get to the top and continue to place their bets on failing products and services. In documenting this phenomenon, the study uncovered a cycle of denial and rationalization among leaders in these companies that typically prevents them from responding effectively to new, low-cost competitors or to changes in market demand.

- ***Innovation management breakdown.*** Many large companies have such complex and sophisticated systems for product innovation that, when something goes wrong, it's hard to identify the source of the problem or to fix systemic dysfunctions. An imbalance in R&D funding may also produce a stall if it over-allocates resources to ever smaller product improvements, at the expense of new product platforms, or fails to allocate funds to creating lower-cost versions of existing products and services.

- ***Premature core abandonment.*** Two common mistakes companies make are believing that their core market is saturated and failing to examine new ways to rejuvenate "mature" businesses. This is the trap that Kmart fell into in the late 1970s, when the company began to rein in expansion of its core business and pursue an outside-the-core growth strategy. In the meantime Wal-Mart took off like a rocket, and by the late 1980s Kmart was 10 years behind Wal-Mart in its logistical and retail capabilities.

- ***Talent bench shortfall.*** One factor that can stop growth dead in its tracks is the absence of those capabilities – particularly at the executive level – that can ensure a timely response to new business challenges. And these skill gaps are usually self-inflicted: "Management development programs all too often focus on replicating the skill sets of the current leadership, rather than on developing the novel skills and perspectives that tomorrow's leaders will need."

Tools to Avoid Growth Stalls

The common link in all these causes, says this study, is the failure on the part of leaders to bring underlying assumptions that drive company strategy into line with changes in the external environment. The lesson learned: To reduce your vulnerability to stalls, you should make your strategic assumptions explicit and test them for ongoing relevance and accuracy. These three tools may help:

- ***A core-belief squad.*** Establish a diverse, cross-functional team to go hunting for your firm's most deeply held assumptions about itself and the industry in which you operate. The best results come from teams that include a significant share of younger and newer employees, who are more likely to raise thorny issues and challenge entrenched beliefs.

- ***A postmortem strategic analysis.*** Charge two teams with developing competing visions of the future success – or failure – of your company as it might be reported in the press five years from now. By seeing which issues the scenarios have in common, teams can identify the core beliefs that should be most closely examined and monitored.

- ***A shadow cabinet.*** Appoint a standing group of high-potential, mid-career managers to deliberate on strategic issues and invite them to attend executive meetings on a rotating basis. This approach allows senior executives (who are usually most attached to the current strategy) to hear fresh perspectives from well-informed, credible sources.

All signs point to an increasing risk of growth stalls, concludes this report, but companies can improve their early-warning capabilities by making their conversation about strategy ongoing and by charging people at all levels with leading it.

For more information, see the Harvard Business Review*, March 2008. For a copy of this article, call 617-783-7500 and order reprint # R0803C.*

M A H L E R
A NEWSLETTER TO MAHLER GRADUATES, STUDENTS, AND FRIENDS

LEADERSHIP FORUM

Rebounding from a Career Setback

F. Scott Fitzgerald's famous remark that there are no second acts in American lives hardly rings true in the business world, where many executives who've failed have rebuilt great careers. Both Home Depot and Staples, for example, were founded by men who were fired as the CEO of their previous companies. And consider Michael Bloomberg. Terminated abruptly in 1981 after a 15-year career at Solomon Brothers, he settled down the next day to work as usual at 7 a.m., and with his $10 million in severance launched a business that became the fastest growing media empire in the world.

But not all failed executives resume great careers, and successful recoveries are never easy, say two experts in *Organizational Dynamics*. Career setbacks often come with high costs – lost career momentum, professional humiliation, and the shattering of personal dreams – that for some become insurmountable obstacles. What distinguishes those who bounce back from those who don't? Based on their research, these experts have outlined this four-step approach to rebuilding careers:

• ***Fight to protect your reputation.*** Preserving your reputation is the foundation to career recovery, and if that means doing battle with those who seek to destroy it, then the battle is well worth fighting. Nevertheless, a prolonged battle can produce collateral damage, regardless of the outcome. Example: Charged in 1985 with 137 counts of grand larceny and fraud, Labor Secretary Roy Donovan insisted the charges were baseless and waged a two-year battle that ended in his total acquittal. But by the time his trial was over, Donovan had received so much adverse publicity that he turned to the prosecuting attorney and asked, "Which office do I go to, to get my reputation back?"

How do you know when it's better to fight than to simply weather the storm? "When the allegations themselves are sufficient to cause – or already have caused – a catastrophic career setback, *and* would block a career comeback, then they certainly need to be fought," say these experts.

• ***Circulate your side of the story.*** Executives are often fired for the bad performance of their organization, even when they're not directly responsible. That's why it's vital, when your reputation is under attack, to set the record straight and tell *your* side of the story, especially to those who may play a gatekeeper role (like search firms) in providing access to future opportunities. Three elements are critical: Clearly deny any culpability, provide a reasonable explanation for your behavior, and offer acceptable motives. Also important: Avoid signing a "non-disparagement" agreement, no matter how lucrative, if it limits your ability to challenge false accusations and restore your reputation.

• ***Re-establish your credibility.*** Though fallen leaders face numerous challenges, not least of which are self-doubts about their ability to "do it again," those who succeed set out to demonstrate that they still have the skills that once made them great. Example: Sent to prison for two years and fined $1 billion, junk bond "king" Michael Milken returned to society with a shattered reputation and a lifetime ban on ever working in the securities business. But Milken didn't wallow in grief. Instead, he branched out in new directions, forming a learning company with Oracle, his own economic institute, and a foundation for prostate cancer research that has raised more than $260 million.

• ***Redirect your passion.*** The emotional repercussions of a career setback can be just as devastating as the professional ones. When Steve Jobs was fired by Apple (the company he co-founded) in 1985, he was so distraught that his best friend feared he'd kill himself. But within a few months Jobs had begun to rechart a new future. He identified exactly what he wanted to do – work with small teams of talented people and create breakthrough products – and, with renewed passion and energy, went on to develop the NeXT computer and later returned to Apple as CEO again, initiating a period of phenomenal growth that produced the iMac, iBook, and iPod.

Rising business leaders can anticipate a wide array of career setbacks, conclude these experts, but it's wrong to consider them a diversion from the path toward greatness. It's through such setbacks, they say, that we often discover what we truly value, whom we truly trust, and new dimensions of our own character. "These occasions of distress are potentially clouds with silver linings."

For more information, see Organizational Dynamics*, vol. 3, no. 1, 2008. To order a reprint of this article, call 212-633-3813 or send an email to reprints@elsevier.com.*

M Λ H L E R

A NEWSLETTER TO MAHLER GRADUATES, STUDENTS, AND FRIENDS

TIPS FOR GLOBAL MANAGERS

Learning Culture on the Fly

When you're doing business with foreign partners, it's been said, it helps to develop a broad-based knowledge of their language and culture. But who has time for all that? And while cultural fluency may be helpful, how practical is it in today's increasingly integrated global environment, where foreign partners can change suddenly and managers often have to deal with several different cultures at once?

One alternative to in-depth study, say two experts, is to learn cultures *on the fly*. Applying theories of experiential learning to intercultural interactions, they've developed a four-step process that they say can promote interdependent learning "as you go" and help all parties to work together more effectively. The key to its success, they say, is getting managers to move beyond the discomfort and confusion they typically feel in these situations and adopt a learning mindset that focuses on observation, reflection, and experimentation. The four steps are:

1: Negotiating identity. Intercultural interactions are likely to stir up strong feelings about personal identity and how we like to be treated. A Spanish manager, for example, may consider arriving 30 minutes late to a meeting as normal and acceptable, but you might take it as a sign of disrespect or even incompetence. By the same token, your behaviors may be interpreted negatively by those in other cultures, challenging your own feelings of confidence and self-worth.

To ensure positive feelings of identity on both sides, say these experts, you have to engage in a process of negotiating identity. What's involved? To preserve your identity, you need to develop greater awareness of yourself as a complex cultural being and the product of your cultural heritage. To preserve your partner's identity, you need to practice empathy and understand that their actions are also the result of cultural factors. "When there is a misunderstanding, successful global managers tend to search for a cultural explanation for the other's behavior, before judging the other party's behavior."

2: Negotiating meaning. When individuals from different cultures meet, they often start out with different understandings and assumptions. Simply signing a contract, for example, can in one country mean the end of negotiations and the time to "get back to work," while in another it's viewed as the first step in a long series of negotiations. But common understandings can be constructed as you go along, say these experts, by constantly exchanging information and by negotiating meaning.

The two keys to negotiating meaning are *advocacy*, stating clearly what you think and want, and *inquiry*, exploring the other person's desires and reasonings. "Inquiry requires suspending judgment, letting go of a previous understanding, and tolerating uncertainty until a new understanding may be created."

3: Negotiating new rules. After negotiating identity and meaning, you've reached enough common ground with your partner to begin negotiating the rules that will guide your future relationship. These may specifically stress punctuality atbusiness meetings, for example, or require individuals to show more respect to others by using their formal titles. Effetively negotiating rules relies strongly on your ability to integrate and transform what you've learned about your foreign partner into new plans of action.

In time, say these experts, the rules that you agree to can evolve into a new, shared culture that may be a combination of your two cultures, or one that's unlike either but acceptable to you both.

4: Negotiating new behaviors. The final loop in the learning process is to adopt new behaviors that will help you adhere to agreed-upon rules. Clearly this requires high levels of behavioral flexibility, which may require you to adopt a more subtle or diplomatic communication style, for example, "Successful managers are able to recognize which behaviors are challenging for them, and compensate with other behaviors."

Though dealing with people from different cultures can be daunting, conclude these experts, it's through these interactions that global enterprises succeed. "In this endeavor, intercultural learning processes play a significant – and often underappreciated – role."

For more information, see Organizational Dynamics*, vol. 3, no. 1, 2008. To order a reprint of this article, call 212-633-3813 or send an email to reprints@elsevier.com.*

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A NEWSLETTER TO MAHLER GRADUATES, STUDENTS, AND FRIENDS

RECOMMENDED READING

Toyota Culture: The Heart and Soul of the Toyota Way

Famous for its lean production system and operational efficiency, Toyota has for two decades topped the list of the most benchmarked companies in the world. So why haven't others achieved the same level of success? The reason, says this book, is that no company has so far been able to duplicate Toyota's *culture* – and the unique ways that it selects, develops, and motivates people – which is the key to its long-term competitiveness.

Written by a former Toyota executive and a management professor, *Toyota Culture* follows their previous bestseller on the company's manufacturing practices, and here they focus on Toyota's human systems. Well-crafted and exhaustive, the book strikes a good balance between explaining how Toyota manages its people and what we can learn from it. But it's not a guide to *copying* Toyota, the authors continually remind us. That's impossible. Toyota's human systems rest on a foundation of certain "non-negotiables" that other companies may not want or be able to apply. Among them:

- ***Putting people first.*** Toyota puts as much effort into developing quality in people as it does in creating zero-defect cars. At every Toyota location, elaborate selection, orientation, and training systems are in place to ensure a stable work force of highly committed people who are constantly learning and improving the organization. No other car company can match Toyota's low turnover rate: under 3% a year!

- ***Thinking long-term.*** Employment at Toyota is not a financial transaction but a long-term partnership marked by job security ("no layoffs") and heavy investments in training and development. This is the best way to improve the problem-solving capabilities of the entire organization over time, Toyota believes. Remarkably, the company has created a $30 billion reserve fund to sustain its no-layoffs policy.

- ***Servant leadership.*** Toyota leaders are teachers who develop people. Their primary job is to serve as coach to their teams and to provide them with training and continuous development. To make sure leaders embody the core values of the company, Toyota prefers to develop them slowly through lengthy rotations (job hopping is unheard of) and almost always from within, giving leaders experience that's both broad and deep.

- ***Teamwork.*** Toyota emphasizes the group and the company over the individual. It doesn't seek to create rapidly rising "stars" who climb the corporate ladder. On the contrary, Toyota is obsessively committed to teamwork and works to minimize social differences. There are no executive dining rooms or parking spaces, for example, and bonuses are modest and almost always tied to team or company performance.

But why read this book if Toyota is so hard to copy? Thankfully, the authors provide a detailed analysis of every practice they describe and examine how it can be adapted to other companies and cultures. Toyota, after all, now operates in 27 countries, so much of its culture has already proved to be transportable. Knowing what *isn't*, however, can help you decide what you can realistically learn from Toyota, and this book serves that purpose admirably.

It also provides an inspirational account of what it really means to manage people as your most important asset. Whether you admire and try to emulate Toyota, or feel it's just too idiosyncratic to learn from, there's no denying that its culture – focused on the constant development of its people – is the driving force behind Toyota's success.

Toyota Culture *can be purchased from online booksellers for $27.95 and is available from the publisher in quantity discounts for use in corporate training programs.*

Program Schedule

AMSP Group 2008-2

Session	*Location*
1 Oct 27-30, 2008	Ashland, MA
2 Feb 2-5, 2009	Ponte Vedra, FL
3 April 27-30, 2009	The Woodlands, TX
4 July 20-23, 2009	To be determined.

AMSP Group 2009-1

Session	*Location*
1 April 20-23, 2009	Ashland, MA
2 July 20-23, 2009	Stevenson, WA
3 Oct 19-22, 2009	Ponte Vedra, FL
4 Feb 1-4, 2010	To be determined.

Tuition: AMSP 2008-2 tuition is $16,000; Tuition for AMSP 2009-1 is $17,500. All tuition is payable in advance. Travel and living expenses are in addition to the tuition and are handled directly with travel organizations and conference centers by each participant.

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