

BUSINESS EXECUTION

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Overview

2007 saw its share of winners and losers. Business execution expert Rick Lepsinger, president of OnPoint Consulting, analyzes what went wrong and what went right with these organizations and the lessons that can be learned from their experience....

Article Body

If you're the typical executive or business owner, this is the time of year when you take stock of the past twelve months. You're probably asking yourself some tough questions: Were our actions and decisions well coordinated across departments? Did we have high levels of teamwork and cooperation among employees? Have we made the right decision about what functions should be centralized and decentralized? If the answers seem elusive, take a tip from Rick Lepsinger: Make an effort to learn from the trials and triumphs of your well-known business brethren.

"There is much to be learned from both the successes and failures of public companies and government agencies," says Rick Lepsinger, president of OnPoint Consulting (onpointconsultingllc.com) and coauthor (along with Dr. Gary Yukl) of *Flexible Leadership: Creating Value by Balancing Multiple Challenges and Choices* (Jossey-Bass/A Wiley Imprint, 2004). "These well-publicized organizations are like a living laboratory for the rest of us. We just need to pay attention."

Lepsinger, whose consulting firm specializes in helping clients close the gap between strategy and execution and create a culture of getting things done, offers the following "year-end round-up" of organizations whose actions range from "brilliant move" to "what were they thinking?"

EXECUTION AREA #1

The Art of Cross-Company Cooperation

The Good: Cisco Systems. Since 2001 Cisco, led by John Chambers, has been on a journey to enhance its ability to execute plans and get things done day-to-day. Its first step? Reorganizing the company around functions. Whenever they wanted to enter a new market or geography, business unit leaders brought together team members from these functional groups. To help ensure cross-organizational cooperation, Chambers changed the compensation system so that people were paid not only for hitting their targets, but also on how effectively they collaborated with their peers.

In addition, technology continues to play an important role in facilitating teamwork. Cisco has installed 120 telepresence centers (a new high-end video conferencing system) across the company and uses social networking to bring employees from around the world together. By all measures the company has been very successful—sales increased 23% to \$35 billion, profits climbed 31% to \$7.3 billion, and revenue rose 17%, not including acquisitions.

The Bad: The Federal Aviation Administration. If you've flown recently, you've experienced one of 2007's worst examples of execution. Despite the efforts of the Federal Aviation Administration (FAA), air travel is worse than ever. More than 909,000 flights were late through June of 2007 (twice the level of 2002), and almost everyone has a horror story involving missed connections, lost luggage, or hours spent waiting on the tarmac.

The obstacle to finding a solution does not seem to be either of the usual suspects, funding shortfalls (the FAA did not spend all the money it was allocated last year) or lack of know-how (existing technology could meet the demand created by the increased number of fliers). Instead, it appears the FAA is unable to break the gridlock among the key players in the system. Big airlines, small aircraft owners, labor unions, politicians, airplane manufacturers, and other parties fight to protect their interests and blame each other for causing the problems.

The Lesson: "Most employees approach their work with good intentions," Lepsinger says. "Yet, ensuring that decisions and actions are coordinated across organizational boundaries requires more than faith and words alone. Shared goals and clearly defined roles provide the foundation upon which cooperation and coordination can be built. In addition, people must be held accountable. This requires a combination of direct leader behavior and systems that encourage and reinforce the appropriate behavior among employees."

EXECUTION AREA #2

Decision Dynamics: Involving Others for Know-How and Buy-In

The Good: New York City Schools. Five years ago, Mayor Mike Bloomberg took control of New York City's school districts. One of the most powerful reforms he introduced was phasing out large failing neighborhood schools and replacing them with smaller schools with caps on enrollment. Principals were given greater control over their budget and curriculum, which allowed them to better address the specific needs of their student population and focus on raising attendance, test scores, and graduation rates. They can also choose their own assistant principals.

Parents have gotten involved in the decision making as well. They can now screen and recommend candidates for the Parent Coordinator program, whose members work to involve moms and dads in their children's educations. So far the results have been very positive: In 2002, 40% of students in grades three to eight were reading and doing math at grade level; today 65% are proficient in math and 51% in reading.

The Bad: Merrill Lynch. Many observers see the breakdown in risk management at Merrill Lynch as a matter of poor execution. Although Stanley O'Neal is widely credited with boosting Merrill's profitability and transforming it into an international firm, former employees point to a flaw in his leadership style. He is said to be uncomfortable around people with views different from his own, and some report that he did not engage in debate with individuals who could have helped him steer clear of the subprime troubles. As a result, when the market value of Merrill's asset-backed debt fell, the information may not have moved through the corporate hierarchy, which made it difficult for the firm to respond quickly.

The Lesson: "Some leaders view involving people in decision making as a sign of weakness," says Lepsinger. "Others fear giving up control. In reality, though, the world is too complex for any leader to go it alone. To make good decisions, he or she must seek out the perspectives of a wide range of people. Furthermore, involving people in decisions that impact them increases ownership of the issue or problem and helps focus them on generating solutions rather than complaining or waiting to be told what to do."

EXECUTION AREA #3

Cost Containment and Growth: Mastering the Paradox

The Good: Costco. The big box retailer headquartered in Seattle, WA, is consistently on the list of companies that are among the best at execution and getting things done. Why? Because it has a remarkable ability to simultaneously focus on two performance areas that appear to be mutually exclusive: cost containment and growth.

The company is obsessive about keeping costs low. It does not use pricey ad agencies. There are no commissioned salespeople. Signage looks like it came off a laser printer. And yes, there are no shopping bags. Yet with \$59 billion in sales from 488 warehouse locations, Costco has never had a negative monthly same store sales result since it was founded twenty-three years ago. Much of its success can be attributed to store managers who are treated as entrepreneurs and are subsequently allowed to make decisions and choices that meet the needs of the shoppers in their geographies.

The Bad: 3M Worldwide. 3M prided itself on its ability to grow through innovation, yet its flexibility and lack of structure produced a bloated staff and inefficient workflow. When James McNerney became CEO, he introduced Six Sigma to get costs back in line. As a result, profits grew, on average, 22% a year. However, many research scientists felt that Six Sigma stifled creativity, and as innovation slowed, 3M had two quarterly earnings misses. In response, the new CEO, George Buckley, has removed the obligation of 3M scientists to adhere to the Six Sigma objectives.

Buckley's decision may, indeed, help innovation get back on track. However, it now appears that the tension between cost management and growth through innovation is being treated as an "either/or" choice and not as an "and" option. The pendulum is in danger of swinging back the other way.

The Lesson: "Today's leaders must be able to balance two opposing concepts: cost containment and growth," says Lepsinger. "They should never be treated as trade-offs. Leaders face many choices that appear to be mutually exclusive: strategy and operations, change and consistency, efficiency and growth, control and empowerment. Finding ways for these paradoxes to coexist is essential for effective execution and the achievement of consistent business results."

EXECUTION AREA #4

Aligning Structure and Strategy

The Good: IBM. In 2007, IBM's effort to become a "globally integrated enterprise" gained significant momentum. The key? It has put in place a structure that best supports its strategy. Historically, IBM created mini versions of itself in each country where it operated. As it turned out, this was inefficient and expensive. Now the company sets up shop wherever it finds the right talent at the right price: for example, global IT service delivery in India, global supply chain in China, and global financing back office in Brazil. IBM also redesigned business processes and automated work with software to help coordinate these activities.

In addition, to keep the supply of human capital flowing to wherever it is needed, HR shifted from a silo structure to three cross-functional teams, each dedicated to a specific set of employees. The change appears to be paying off: In the second quarter, IBM's revenues increased 9% to \$23.8 billion, and each

division reported healthy growth.

The Bad: Wal-Mart. Although Wal-Mart has spent over \$1 billion in Japan, its Seiyu stores are struggling. Several decisions have created consumer apathy and employee distrust: for instance, laying off employees, cutting out distribution middlemen, mandating that stores stay open 24 hours, and introducing low-cost products that don't meet Japanese tastes or standards of quality.

Many observers attribute these problems to the fact that Wal-Mart's international operations are centrally controlled in the U.S. by people who lack appropriate international experience. In addition, Wal-Mart's and Seiyu's systems have not meshed well, resulting in many products not being ordered on time and suppliers not being paid on time.

The Lesson: "Our research has found that finding the right balance of centralization and decentralization differentiates top-performing companies from less successful ones," Lepsinger reveals. "Many organizations place a lot of emphasis on developing an exciting vision and realistic strategy and engaging employees. Problem is, leaders can't just assume that the current organizational structure and systems will support the new strategy and enable employees to get things done. As we see from the examples above, this is frequently not the case."

Start an "Execution Revolution"

Creating a culture of execution is, of course, the bottom line for all companies and Lepsinger urges his clients to start an "execution revolution." He says five factors differentiate companies that excel at getting things done from those that are less successful.

"Companies that are able to create a culture of execution have the ability to coordinate decisions and actions across organizational boundaries, have organizational structures and systems that support the strategy, involve employees in decisions that affect them, hold people accountable, and are able to manage paradoxes," says Lepsinger. "Keep these five factors in mind and let them guide every decision you make. A year from now, when you're looking back at 2008, you'll be glad you did."

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