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Pushing the Boundaries for Shareowner Value

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Forty-odd years ago, as a would-be writer, student of literature, and aspiring journalist, I was redirected by family pressures into the study of engineering – hardly a remarkable event. And as that young man, struggling with the first concepts of integral calculus and their application to the fundamental laws of Newton, I realized that early scientists and mathematicians had neatly repackaged the universe into a collection of probabilities – presumptive pieces that could be analyzed and dealt with as a predictable system. In short, *I* discovered boundary conditions – those extremes within which a system still acts in a predictable way like a continuum.

I was never a very skilled engineer. But I attended a very good university, which is something, and I finished in the top 80 percent of my class, which is not much. Looking back, I'd say I've learned more about boundary conditions from business than I did from engineering or integral calculus.

And boundary conditions are important, because it is *there* that strategic business planning ought to be conducted – at the edges, at the discontinuities.

Strategic planning is not about the mainstream continuum of markets and growth rates, and costs and sales forecasts, and market share. Strategic planning is a road to which one commits resources to establish and sustain real competitive advantage. But unfortunately it is usually practiced within boundaries or presumptive limits.

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The Laws of Boundary Conditions

The first law of boundary conditions as applied to business strategic planning is that boundaries move – quite often at night – unbeknownst to those within the system. The second law is that there is probably more wealth to be found by examining the boundary conditions and assumptions surrounding them, searching for potential dislocations, than by trying to live within the continuum and within the system. It may be worth reflecting on as we in business try to avoid our herd migration through the land of cyclicality, overcapacity, restructuring, inadequate returns, and renewed growth.

In a global business environment where businesspeople – more than they like to admit – are driven by things like national imperative, rich tradition, loyalty to the past and the status quo, there is clear need for thinking at the borderline and many opportunities for those who do. Extremes of value added *or* value detracted exist at the boundary conditions.

A Harvard University study of 450 companies and 3,000 business units taken over a long period in many different industries (called PIMS) shows that companies that are the *best* at what they do, whether they are manufacturing, service, commodity, or specialty companies, make returns well above the cost of capital – about twice as much as the average performer in their same industry. So the reward for being the best in a given field is supported by the data that intuitive thinking might suggest. By extension one might say the reward for examining and thinking beyond the herd – at the boundary condition – is supported by the data.

Let me be clear and necessarily humble: my company did not come to break-the-mold thinking voluntarily or through divine providence. We were led there only after having to deal with ugly and awful tragedy – a double barrel of human and financial distress: Bhopal, India, followed by a painful and hostile break-up, bust-up takeover attempt on our corporation.

This is not a paper about the Bhopal tragedy. It is about the crucible of competitive business strategy. It should not require a Bhopal or a rude takeover attempt to awaken management to the need for big change. For us it did.

And not right away, I should add. In that period following Bhopal, we were not planning long-term strategy; we were struggling to survive. But we came to understand pretty quickly that Carbide would never be the same. With the sweeping restructuring we were forced to undertake, the old company would vanish.

For us the unthinkable *had* happened. Things far beyond the conventional envelope – far beyond our ken – did in fact occur. This, I might add, reshapes the boundaries almost overnight.

The Union Carbide of 1984 was a $9 billion company with 110,000 employees worldwide in 15 principal businesses. The company's share price for quite a few years even before Bhopal had been languishing at less than 70 percent of book value. Still we eventually managed to become a company whose shares were the top performer from 1992 to 1995 among the 30 companies that make up the Dow Jones Industrial Averages. Aggregate market value had increased tenfold since 1991. But now Carbide is a $6 billion company with 15,000 employees focused on a few businesses in which it has significant competitive advantages. To comprehend this transition requires going beyond the envelope.

Going beyond the envelope in business terms requires thinking the unthinkable: examining structure, examining the possibility of technical obsolescence, financial collapse and where it might come from, questioning long familiar and successful behaviors, questioning the possibility of environmental or product liability tragedy, asking oneself about the real effectiveness of close business associates and old friends. As University of Michigan Business Professor C.K. Prahalad says: looking back a few years, whom would you have bet on in 1980 – CNN or NBC, British Air or Pan Am?

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I attended a seminar conducted by and for CEOs of the Business Roundtable a few years ago to exchange experiences on Total Quality Management. An observation surprised me: The vast majority – say 80 percent of the CEOs attending – said they were led to the quality movement, in fact were obliged to jump in and endorse TQM from the top down only in desperation, because they saw their businesses were in deep crisis. In fact, the few CEOs attending who had tried to enter into TQM during good times said they had great difficulty getting their organizations energized and on board with TQM. They could not excite their people about the idea of revolutionary change. This is, perhaps, not so surprising. It is not only a challenge to leadership – it may be what leadership is all about.

Breaking Through the Barriers

Let me suggest that on occasion you throw out the playbook and run to examine the unthinkable, but that as you do, you should be aware of the many barriers to thinking at the boundary. Because there *are* difficult barriers to the examination of change as you approach the borders or boundary conditions, people are squeamish about thinking the unthinkable. Here is where an exercise in strategic thinking becomes an exercise in helping people see and hurdle the barriers to change. Perhaps if I name them, you will recognize and identify with a few:

Going beyond the envelope in business terms requires thinking the unthinkable.

Barrier No. 1: Business assets in the final analysis are worth what the market says they are worth, not what our accountants or our engineers say. For many of us who have been through write-offs and the concomitant destruction of shareholder equity, this is a painful process, an admission of misjudgment.

If it is followed by a second and third round of write-offs and results in broad scale employee dismissals, it's even more painful. I think for three or four years in a row in our company, we went through the fourth quarter write-off syndrome. It was always intended to be the last cleaning of the slate, but it was never quite enough. Surely this is a sine qua non of business restructuring – to permit the reality of the market to drive our decisions. One has to look at how the market values our assets. To restructure, one has to concede that one may not be best in class. It requires a brutal honesty about one's performance and one's prospects.

Barrier No. 2: A second barrier to thinking at the boundary conditions is that people with vested interests in preserving the status quo make very poor advisors, and yet our closest advisors are most often just such people. Who else so shares and shapes our intimate knowledge of the business? It nettles us in business that we are increasingly driven by what the outside world believes, by public interests, by shareholder and creditor interests. But their perception ultimately becomes our reality, like it or not. Best to listen early to those outside voices. They have, in the end, more influence than our closest internal advisors and chums.

Barrier No. 3: Yet another not insignificant barrier can be boards of directors themselves. Boards are not intuitively given to change or to breaking things up, especially if you have been telling them once a month or once a quarter how well things are going, and, by implication, how smart your management team is. Are not boards themselves often composed of past and present chairmen, builders, and implementers? They don't take easily to breaking down what has been painstakingly built up.

The Final Hurdle

Now if you've gotten past these three barriers to thinking at the borderline, you may reach the toughest one of all (because it can't be easily quantified), and that is *cultural change*. It's a soft issue and a quagmire on the road to major strategic change.

Yet, I have had more CEOs than I can count tell me in the last few years that cultural change has been the most important single element in determining the success or failure of fundamental strategic change. "Culture" is defined as the way people behave individually and collectively in an enterprise. And what brings it about? Surely individuals leaving my company and joining yours can and do change their behavior overnight as they see how things are done. But how do we change their behavior in their existing jobs? Has the leadership espoused a vision worthy of their commitment? Does the leadership walk in that light? Do the people buy in? I will tell you that in our shop, starting with vigor and enthusiasm and driven by the need to survive in 1985 (but with little else and limited credibility), we began by espousing a set of values and a vision which have stood up pretty well. But we found that vision and values would take us only about halfway. Visions and values alone are not enough. They help pull the organization together, provide a common language, and help to get everyone pulling in the same direction so you can begin to think about competitive advantage. But shareholder return drives the enterprise.

Barrier No. 4: The last barrier, and I make no pretense that this list is inclusive, is something that we call silo thinking. This describes not only the overall problem of thinking within boundary conditions, it describes, as well, a condition of vertical tunnel vision within a box – of thinking vertically, as if there were no other interest or responsibility beyond one's own function.

Take for example a corporate organization chart of many boxes, and imagine each box thinking only for itself and for the boxes directly beneath it. Who integrates horizontally? Senior management maybe? But how many senior managers really do? How many senior managers believe it is their role – not to manage and direct each box but to manage in the white spaces between the boxes? To integrate, to wonder, indeed, why we even need all these boxes in the first place.

General Electric has imagined an organization without a structure and without boxes where people see themselves as part of a continuum, part of a team focused on a team goal, or, indeed, on many goals. This requires behavioral as well as organizational change.

Culture of Survival

Today, there is hardly an American company or major industry which has not been through the painful cycle of restructuring, downsizing, equity write-offs, refocusing, even Total Quality. And now much of the current call is for top-line growth with control of fixed costs. "Productivity and growth" are today's banner slogans.

What kind of culture is flexible enough to survive, or better, even thrive on such rapid changes in emphasis. And how to create believers? Business people need a business reason worthy of their commitment, and it can't be the CEO's vision alone. It must be shared and embraced by 100 or 1,000 leaders. It takes an incredible amount of talking with people to really accomplish a shared vision. You will be bored with the message and bored with your own voice long before you have persuaded and motivated half of your people. But persuade you must.

I started this essay talking about finding competitive advantage at the boundary conditions, and I finished talking about people and leadership. It's no mistake. I didn't unintentionally wander off course. That finally is what competitive advantage and winning are all about. People and leadership risking at the edge to find the advantage.

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