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In April 2015, more than 50 executives attended an IMD Discovery Event that explored what organizations can do to become and remain customer-led. The participants – senior managers from a variety of companies and industries – applied theoretical tools and principles to their personal business challenges and co-created new insights during this lively event.

Discovery Events are exclusively available to members of IMD's Corporate Learning Network. To find out more, go to www.imd.org/cln

The Winner's Tornado



What happens when organizations grow and enjoy success? Do they get caught in the “winner’s tornado” where increased complexity and growing demands on management lead them to spiral out of control and lose sight of why they became successful in the first place? How does this impact managerial focus, and what are the implications for leadership? In this insights@IMD we examine the challenges of maintaining organizational success and what organizations can do to become and remain customer-led.

Organizational growth and leadership focus

To begin the event, participants were asked to think about their businesses over the past five years and address two issues: (1) the extent to which their organization has grown organically relative to its main competitors; and (2) the extent to which the main focus of their organization’s leadership has evolved in terms of internal focus (e.g., organization, controls, cost cutting, compliance) versus external focus (e.g., market trends, customers, opportunities). As seen in *Figure 1*, the trend for participants shows that organizations experiencing higher organic growth were more externally focused, while those experiencing lower growth were more internally focused. Participants from

higher growing organizations cited “an active outbound sales force” and “innovation on key customer insight” as reasons for success, while those from slower growing organizations cited “lack of customer insight” and “the need to manage growth by focusing internally on building the organization” as reasons for relative lack of success. These results confirm that an outside-in management focus matters.

Research by Professor Seán Meehan and Charlie Dawson illustrates the connection between organizational growth and leadership focus (see *Figure 2*). In a company’s early days, the need to attract and keep customers is pronounced and there are fewer layers between the management and customer-facing teams. An *outside-in* view is easier to maintain as leaders have to contend with fewer internal distractions. Externally focused, committed and assertive leadership, fueled by a belief in being customer-led, brings success in the form of organic growth.

As organizations mature, however, the demands in running the organization mean that leadership focus changes. Growth brings scale, mass and bureaucracy. Like a growing planet, the force of gravity increases, drawing managers’ focus inwards and leading them to concentrate their attention more strongly

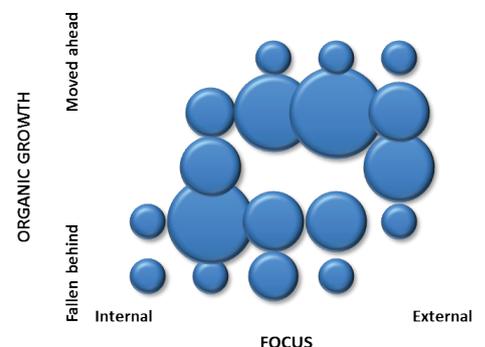


Figure 1: Growth and leadership focus: Participant survey results

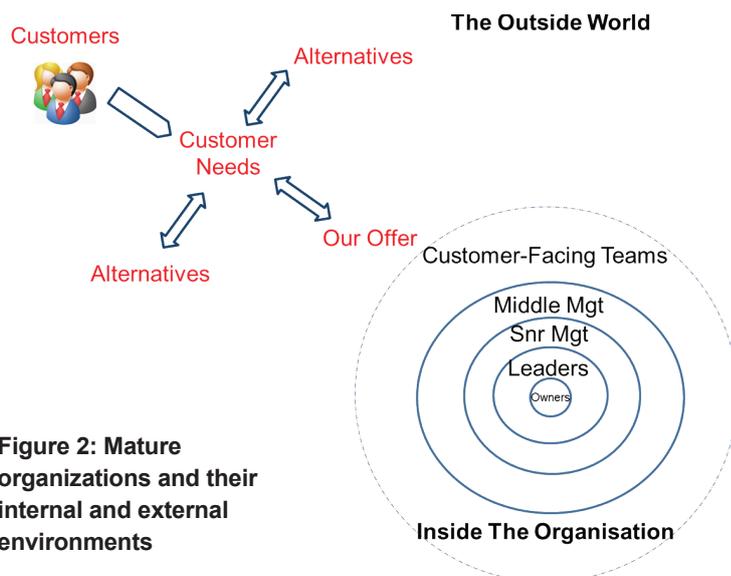


Figure 2: Mature organizations and their internal and external environments

Externally focused, committed and assertive leadership, fueled by a belief in being customer-led, brings success in the form of organic growth.

within their own organization. The result is that customers and markets are frequently further from their lives, since there are more layers between the management and customer-facing teams. The orientation changes from outside-in to inside-out, which undermines the belief that being customer-led is what brings success, personally and for the organization. What were previously leadership strengths – being focused, committed and assertive – have become liabilities by being redirected from the outside to the inside of the business.

This matters to companies because research suggests that if customer satisfaction levels are higher, then companies will grow faster and experience better performance.¹ Thus, management's preoccupation should be about being relevant to the lives of customers and bringing them something of value in relation to the alternatives they have. If management loses this outside-in perspective, then the organization's performance suffers (see Figure 3). This is a common pitfall of organizations and

¹ See: Drucker, Peter, *The Practice of Management*, New York: HarperCollins, 2006; Day, George and Moorman, Christine, *Strategy from the Outside In: Profiting from Customer Value*, New York: McGraw Hill, 2010; and Barwise, Patrick and Meehan, Seán, *Simply Better: Winning and Keeping Customers by Delivering What Matters Most*, Boston: Harvard Business School Press, 2004.

research shows the difficulties of sustaining growth and profitability at the same time: Only 24% of companies managed to do both at the same time for 5 years and only 1% of companies maintained this over a 15-year period.²

Is the reorientation from outside-in to inside-out somehow inevitable as organizations grow? When we see successful companies fail and spiral out of control due to the "winner's tornado," it is a lazy association to attribute it to managerial hubris since many of these companies have highly committed and competent senior management teams. There could be another explanation – these companies are no longer able to continue being customer-led.

An approach to lasting success

Customer-led organizations have a deep understanding of what customers value that runs through the organization, and they are better than others at creating that value. This does not mean they continually ask customers what they think – it means they do not lose sight of the problems they are really solving, and continually look for new and better ways of doing so. Companies can achieve lasting success in this way, by focusing on *execution* and *leadership*. This matters to managers because the executional strengths and leadership behind customer-led growth become barriers to its continuation (see *Tesco text box*).

Execution

In order to create customer value at scale, an organization grows around a particular model, a particular approach that initially has competitive advantages. When a disruptor emerges on the scene with a better customer answer, it is exceptionally difficult to change that model, either proactively or when the crisis hits. Execution in a customer-led organization – creating an

² See: Chakravarthy, Bala and Lorange, Peter, *Profit or Growth: Why You Don't Have to Choose*, Harlow: Pearson Education, 2007; and Collins, Jim, *How the Mighty Fall: And Why Some Companies Never Give In*, London: Random House Business Books, 2009.

Growth and Decline: Tesco's Journey

Tim Mason, chairman of Bonmarché plc and board director of Tesco from 1995 to 2012, shared the story of the company's remarkable journey over 30 years. Mason's personal journey saw him rise from product manager to deputy CEO. Over that time, Tesco grew from 12% to 33% UK market share, from 1 country to 14 countries, from no. 3 in the UK to no. 3 in the world, and from £50 million to £4 billion profit.

Tesco became a leader for three reasons. First, there was a decade-long focus on operational effectiveness – aligning people, processes and systems. Second, there was a strong customer focus: Everyone who reached the top management ranks had come up through the stores, frontline employees were empowered to make on-the-spot decisions to improve customer satisfaction, and big data was used to learn more about customer habits. Third, there was a concerted effort placed on brand exploitation and growing beyond the core to further serve customer needs. Because of its operational excellence and being customer-led, Tesco was able to successfully introduce hypermarkets, Tesco Extra, Tesco Express and tesco.com.

Yet despite this success, there were seeds of failure. After the financial crisis, Tesco seemed to lose an understanding of its customers' needs. This became apparent when the company did not continue Ian MacLaurin's approach to appointing Tesco board members that had prevailed since the 1980s, with directors recruited from retail or supplier sectors, paid a high fee (£75,000 p.a.), and expected to invest significant time visiting stores to meet store staff and customers. Twenty-five years later, the approach was different: an "insider" was replaced as chairman by an "outsider," none of the non-executive directors had retail experience, and the relationship between the board and senior management was adversarial. They went from having shared beliefs to having very different ones.

Tesco is an example of what customer-led growth looks like, how it can work over decades, and how it is difficult to sustain. When successful organizations with customer-led beliefs start to fail, the pressure is on the management team to make decisions. And if they were not around during the time of the customer-led growth and do not understand why the company became successful in the first place, they might not make decisions that are in line with the original, customer-led belief system that led to the company's success.

adaptable "machine" with processes that allow for operation at scale – is characterized by the following:

- Clear choices: Which customers and customer needs?
- Guiding insight: What the chosen customers value in relation to the needs the business is choosing to meet.
- Innovative propositions: Creating this value in new and better ways by meeting needs (not just selling products) and leading the market, not following.
- Empowered people: Trusted, fast, empathetic.
- Rapid learning: From practical customer and market feedback.

Leadership

Company leaders need to be aware that in the "winner's tornado," the external focus on customers, which was the reason for success, can become an external focus on shareholders, retailers and suppliers, who have a short-term perspective. Additionally, assertiveness to lead the market on behalf

of customers becomes assertiveness to protect the market from new entrants and competition. Leadership in a customer-led organization involves focusing on specific behaviors and is characterized by being:

- Externally focused: Seeking to understand environment dynamics and finding a customer-relevant role.
- Committed: To improving the customer's lot above all.
- Assertive: Formulating a view about what is needed, and why, and responding proactively.

Inside-out undermines the belief in being customer-led. What were previously leadership strengths – being externally focused, committed and assertive – have become liabilities.

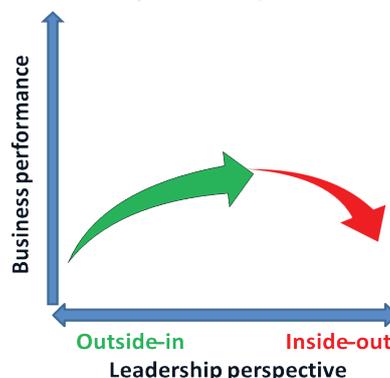


Figure 3: Business performance and leadership perspective

When we see great companies fail and spiral out of control due to the “winner’s tornado,” it could be because these companies are no longer customer-led.

Maintaining focus

A customer-led focus can be created and maintained in organizations by fostering *shared beliefs*, creating a supportive *climate* and promoting active *stewardship*.

Shared beliefs

The leadership group shapes a company’s shared beliefs. Also known as the “prevailing discourse” in an organization, these beliefs in what really matters for the company to win are informed by the individual perceptions of group members and how they interact. The natural, prevailing discourse in a large organization is shaped by looking from the inside-out; an alternative discourse comes by looking from the outside-in. Customer-led organizations have a shared belief in:

- How the business succeeds – customers are of greater value than shareholders.
- Priorities – for example, time with customers is more valuable than time with shareholders.
- What customers want (and why).
- Expectation of change and disruption.

Climate

Shared beliefs are invisible, but the organizational conditions within which people operate can be sensed. A customer-led, outside-in organizational climate is:

- Curious

- Sensitive
- Experimental
- Close to customers
- Conscious of using customer-led language.

Stewardship

To avoid being caught up in the “winner’s tornado,” active stewardship is needed. This involves action by an organization’s leaders: They need to safeguard and strengthen the essential shared beliefs and organizational climate that are required to foster and protect an outside-in perspective while maintaining the right balance between execution and leadership that delivers customer value both today and tomorrow (see *stewardship text box*). Stewardship also involves more than just an organization’s leaders. Individuals at all levels – from the board to the front line – must play a role if an organization is to remain customer-led.

Conclusion

Throughout the event, participants shared their experiences on the challenges and opportunities of being a customer-led organization in today’s increasingly complex business environment. Overall, the event emphasized that being blown off course by the “winner’s tornado” is not inevitable and that leaders can guide their organizations to lasting success.

Stewardship and External Focus

Paul Polman, Unilever CEO, offers a different solution to how a company’s leaders can increase external focus:

“I don’t think our fiduciary duty is to put shareholders first. I say the opposite. What we firmly believe is that if we focus our company on improving the lives of the world’s citizens and come up with genuine sustainable solutions, we are more in synch with consumers and society and ultimately this will result in good shareholder returns. [...] Historically, too many CEOs have just responded to shareholders instead of actively seeking out the right shareholders. Most CEOs go to visit their existing shareholders; we go to visit the ones we don’t yet have. [...] We are showcasing a different business model that shows how you give to society and the environment rather than just taking from them.”

Source: www.theguardian.com/sustainable-business/paul-polman-unilever-sustainable-living-plan