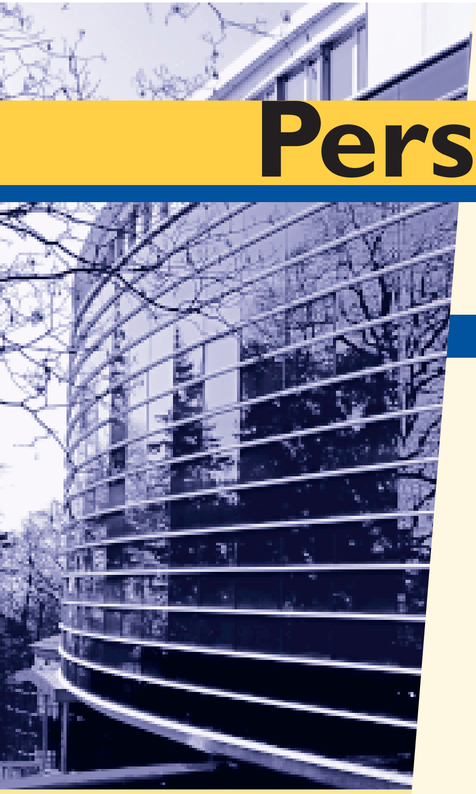

IMD
Perspectives for Managers

No. 102, November 2003

Beyond Best Practice: Introducing Trajectory Management

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with

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Winning repeatedly over time calls for differing approaches to exploit differing conditions. Universal best practice, following the one true approach, is not enough; the business and its environment are continually changing, best practice has to be adapted to the conditions. The key to success is capitalizing on the uniqueness of a business and its changing opportunities. This calls for the right managerial practice; adopting the right drivers to adapt to and shape the conditions facing a business over time.

A business usually contains a variety of business model, organizational, leadership and governance approaches. These are influenced by economic, socio-cultural, psychological, and political forces, which have their own separate dynamics and are not usually coordinated. At any point in time, to avoid confusion and pursue a direction, leaders have to emphasize a particular business model, organizational mode, leadership style, and governance role, for decision-making and resource allocation. These dominant approaches are the business drivers.

The internal conditions reflect the way the business has developed in the past, because history shapes managerial effectiveness, the openness of employees to change, the available resources, and distinctive capabilities. The external conditions reflect the business environment, which is continually changing, so that management always has to have an eye on the future.

The business drivers have to fit both the external and internal conditions, as illustrated in Figure 1. Management has to develop a driving business model that not only exploits and shapes value-creating opportunities, but also builds on the distinctive capabilities of the business. It has to install a driving mode of organization that not only deals with the complexity of the business environment, but also reflects the available resources. It has to acquire a driving leadership style that not only takes account of the urgency to change to support value creation, but also works with the readiness of employees. It has to ensure

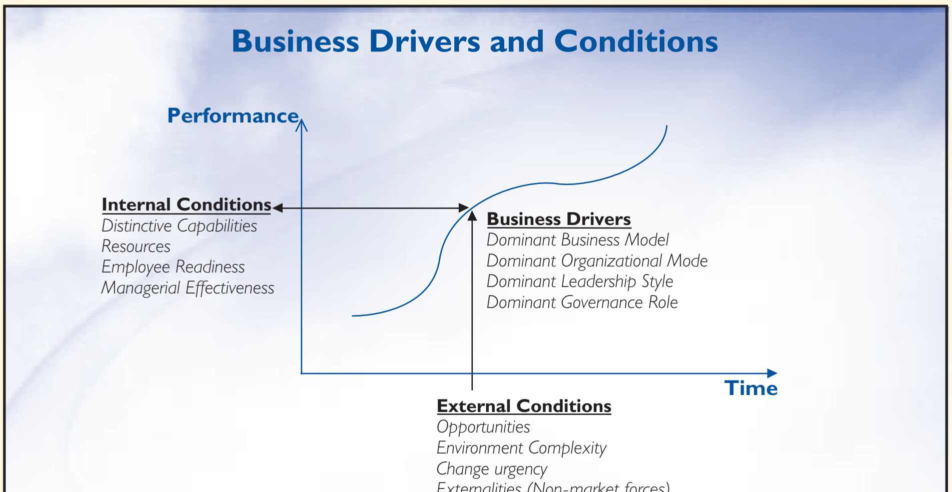

Figure 1

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"Managing the trajectory of a business is about periodically switching the drivers."

that the driving governance role of the board not only deals with the externalities (non-market issues) that shape the agendas of the business stakeholders and shareholders, but also complements its own power and effectiveness.

Over time, business performance, conditions and the drivers trace out a sequence, or path, which is the *trajectory* of the business. Managing the trajectory of a business is about periodically switching the drivers. It's about matching differing drivers with differing conditions. It's about anticipating how these conditions may change and shaping the conditions to support new drivers, so as to win repeatedly over time.

response to pressures from the financial markets when he took over. In the late eighties and early nineties, GE took advantage of international acquisition opportunities during the European and Japanese downturns. In the early nineties, to increase margins, he extended the acquisition drive to include services. In the mid-nineties, Welch responded to the challenge of organizational integration created by the multiple acquisitions, with the drive for process efficiency based on the Six Sigma program. And, in the late nineties, he used the e-business boom to re-energize the company. These switches in the drivers Welch used to lead GE are summarized in Figure 2, which

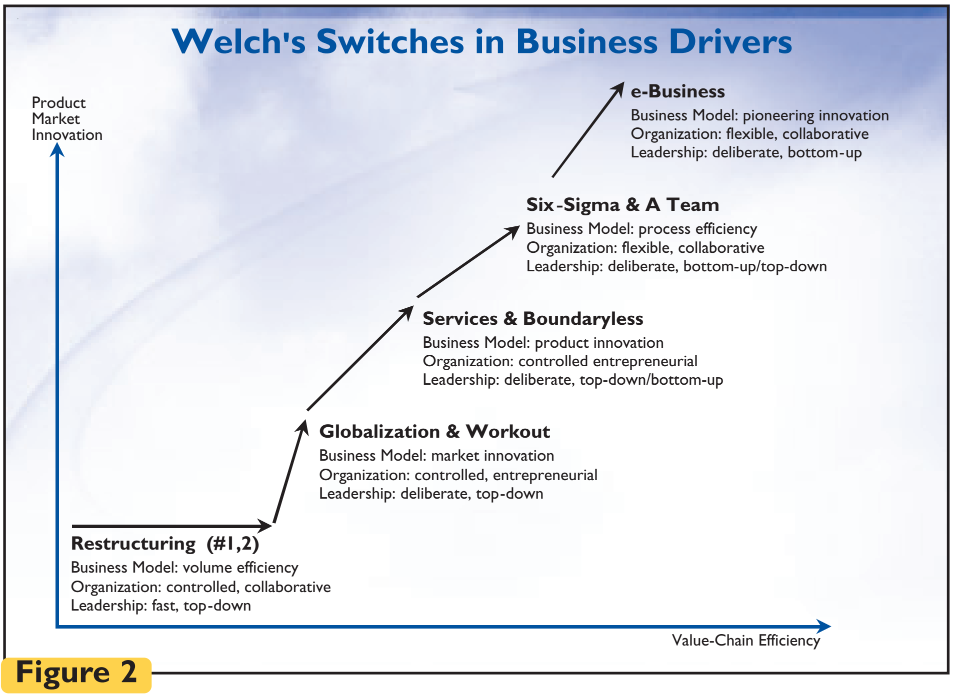

Figure 2

We shall illustrate the main guidelines for successful trajectory management by referring to the well-known and extensively discussed story of Jack Welch's leadership of GE over two decades from 1981 to 2001. We can understand better why Welch was successful by thinking in terms of trajectory management.

Periodically switch the business drivers to exploit shifts in external conditions and/or to deal with internal challenges.

To take advantage of changing conditions, the business drivers have to be switched from time to time. Welch switched business drivers in

highlights the shifts in business model emphasis between product market innovation and value chain efficiency.

The new drivers must be supported by the internal conditions.

The new drivers have to build on the existing internal conditions, in terms of distinctive capabilities, available resources, employee readiness, and the effectiveness of management. If not, the business and company becomes unhinged from the past and risks falling apart, as happened to GE's European competitor, ABB, when it tried to switch drivers under Göran Lindahl and then Jürgen Centermann in the late nineties and early two thousands. If the internal conditions do not support the desired drivers, a transformation process is needed to build a bridge from the existing conditions to those desired for the future. Welch was very aware of where GE was in the development of its internal capabilities and made sure that each new set of business drivers built on what went before. After restructuring around the number one or two position domestically, he went global, then he added services. To integrate the business portfolio, he emphasized Six Sigma, and finally, added e-business to enhance the processes even further.

Matching the drivers with the conditions.

Surveying Welch's two decades at the helm, the differences between his approaches in successive periods can be expressed in terms of a gap between the existing business drivers and the right behavior for the emerging conditions in the following period. Figure 3 illustrates one such gap that emerged during the transition between the third and fourth phases of Welch's leadership in the mid-nineties. The actual behaviors emphasized by Welch in the mid-nineties are represented by the + signs in the Figure, while the right behaviors that fit the newly emerging conditions of the later nineties are depicted by the * signs.

In terms of the driving business model, an employee survey in the mid-nineties crystallized the need to integrate the acquisitions. This was an increasingly critical condition that called for a switch in the driving business model towards greater efficiency and integration, reducing the existing emphasis on product-market innovation. In terms of the organizational mode, the complexity of GE's business processes called for a more flexible rather than controlled organization. The increasing pressure on resources also made collaboration a more important overall priority than entrepreneurship. In terms of leadership, the openness of GE's employees to more efficiency, as shown in the survey, meant that an even more bottom-up leadership style, rather than top-down, was possible. GE's performance also provided the time for continuing a deliberate leadership approach. Little information is available on the dominant governance behavior of GE's board. However, given Welch's experience and cumulated track record, it is safe to assume that the board was reduced to a monitoring role focused on financial performance.

The drivers have to be aligned internally.

The dominant leadership style and organizational mode have to complement the driving business model. Welch didn't change the driving business model, without putting complementary organizational and leadership drivers in place: streamlining around number one or two was accompanied by radical simplification of the planning process and organizational structure, with careful attention to the leadership succession pipeline.

"It takes time for the political forces behind governance, the psychological forces involved in leadership, and the cultural forces in the organization, to be realigned with a new business model."

Profile Gap between Actual (+) and Right (*) Driving Behaviours emphasized by Welch in the Mid-Nineties

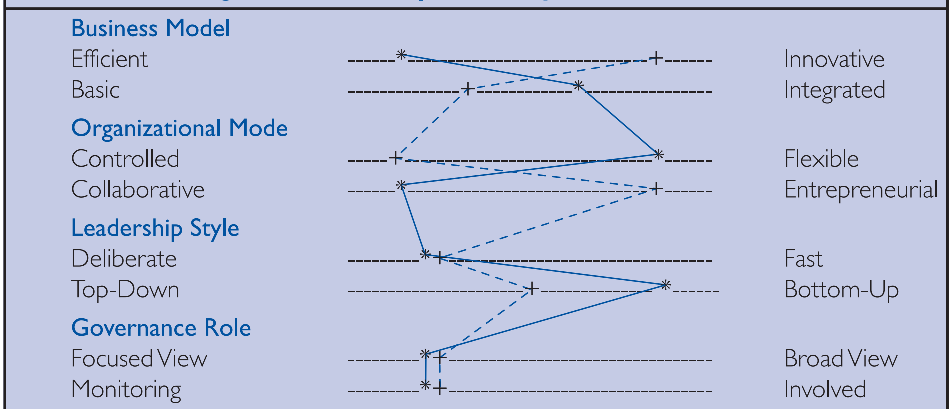

Figure 3

“Business leaders have to do what is right for longer-term value creation: select only a very limited number of new driver configurations and see the change in driving behaviours and conditions through to completion.”

Globalization was accompanied by organizational workouts to sensitize management to the frontline and a leadership emphasis on speed and simplicity to improve communication and build self-confidence. Services were accompanied by the introduction of boundaryless learning with a leadership emphasis on stretch, and the process efficiency drive was supported by Six Sigma-based continual improvement, complemented by edge, energy and execution on the leadership side.

The necessary time must be taken to anchor new driving behaviors in the organization.

Putting new drivers and conditions in place takes time. Changing the drivers too frequently is counterproductive, because there are limits to the amount of change people and organizations can absorb without becoming dysfunctional, or being totally disoriented. It takes time for the political forces behind governance, the psychological forces involved in leadership, and the cultural forces in the organization, to be realigned with a new business model. Over the course of two decades, Welch only shifted business drivers five times. He is on record saying that he began getting tired of hearing himself repeat the same message over and over again, until he realized that this was his job. He insisted on making each switch of drivers stick, sustaining the new trajectory and exploiting it to the full over several years.

Develop an anticipatory organization to keep in step with external conditions.

Sensing new conditions early enough to turn them into opportunities is essential for the shaping of a successful trajectory. Welch gradually developed GE into an anticipatory organization that was energized, future-oriented, always learning, and continually acquiring new capabilities. To energize his people, Welch used open dialogue, feedback meetings, brainstorming and task forces to test and stretch them. To instil a future orientation, GE’s strategy handbook for the business heads was structured around current market trends, competitor activities and a three-year competitive scenario. To develop a “boundaryless” organization that is always learning, externally and internally, GE spread process-driven learning throughout the organization with the Six Sigma program. To get new capabilities, Welch made the acquisition of smaller companies, followed by a disciplined integration process, the basis for a highly effective way of continually acquiring talent and skills.

In sum, if Welch had not gone beyond best practice and reinvented his leadership priorities and altered the business drivers periodically, he could not have achieved the levels of performance that GE enjoyed during his tenure. Doing this calls for a supporting organization that anticipates future conditions, as well as sensitivity to the speed with which new internal conditions can be shaped. The business drivers can only be changed periodically, because even with good learning skills, it takes time and disciplined persistence to reshape a trajectory. Business leaders have to do what is right for longer-term value creation: select only a very limited number of new driver configurations and see the change in driving behaviours and conditions through to completion.

This article is based on a new book by Paul Strebel, Trajectory Management: Leading a Business over Time, (Wiley, 2003). For a trajectory diagnostic and a link to order the book, see www.trajectorymanagement.com

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