Managing in the 1990s

Competitiveness will not vanish in the next decade. To confront the issue, management will need to manage both the present and the future.

FRED G. STEINGRABER

Fred G. Steingraber is chairman and chief executive officer of A.T. Kearney, Inc., an international management consulting firm headquartered in Chicago.

Projecting changes that will take place during the next decade is somehow not as adventurous as making predictions for another century. However, the 1990s are the gateway to the twenty-first century and will serve as a prelude to its challenges. CEOs must be always mindful of the adventure just beyond the next portal.

Janus, the ancient Roman god of gates and doorways, is depicted with two faces looking in opposite directions. Successful chief executives of the 1990s will have to follow Janus's example, being alert to both the present and the future, and attending to both internal needs and external pressures.

The changes faced by management during the 1980s were unprecedented in scope, magnitude, and pace. Yet the next decade promises an acceleration. The pace of change and the increasingly global nature of the business environment will be what management needs to face in the next decade. The executive's greatest challenges lie in motivating employees to embrace change, as well as in encouraging ordinary people to make extraordinary efforts to help the organization gain competitive advantage.

While the nature of these changes may not appear cataclysmic, their impact will be even greater than previously experienced. We have within our power the ability to anticipate, plan for, manage, and respond to change. Unfortunately, few organizations do this well. The 1990s will be the most competitive economic decade of this century and will prove fatal many organizations that do not manage for change.

The Competitive Environment in the 1990s

Many factors have contributed to a vast increase in global competition. The combination of new factors or conditions and the cumulative impact of all factors are accelerating the pace and impact of the new competitive forces.

Growth no longer means being able to enjoy a larger piece of a growing pie; it is now a market-share game. Population growth in the developed world will continue to be minimal, so consumer demand will not grow with the vigor of the 1960s and 1970s. Today manufactures cannot survive by selling more cars, boats, TVs, VCRs, and CD players. Strong population growth continues in the developing world, but those consumers cannot buy the fancy consumer products familiar to Western consumers.

Common standards of performance, world-class quality, and other factors such as fluctuating exchange rates and improved transportation, communication, and logistical systems, increase the flow of goods and services across borders and thereby increase competition. This will continue to accelerate.

Foreign Competition

The growth of foreign competition in the U.S. manufacturing sector illustrates the situation. Five years ago, only 5 percent of U.S. manufacturers in an A.T. Kearney survey faced a foreign company among their top five competitors. Today, 30 percent report that three of their top five competitors are foreign; almost 45 percent project three or more of their top five competitors will be foreign by 1992.

At the same time, there is growing tension worldwide concerning the issue of free trade. As Robert Galvin, chairman of Motorola, points out, taking multilateral actions through GATT (General Agreement on Tariffs and Trade) is no doubt the best policy in theory, but in practice the U.S. has not had the will to make GATT work in its behalf. Galvin believes a key result of GATT has been to open the U.S. market to others. Galvin prefers to use his influence to help work out bilateral agreements-country to country and industry to industry. An example of the future of managed trade is Japan's agreement to increase purchases of U.S. semiconductors from 8 percent to 20 percent over five years and to stop "dumping" computer chips in the U.S. market. The U.S. agreed in return to suspend pending anti-dumping duties against Japan.

The U.S. has been uncomfortable with such an approach because it violates our perception of free trade. But truly free trade remains a nineteenth-century dream, and fair trade under the traditional approach may no longer be possible.

The 1989 use of "Super-301", the legislation that strengthened Section 301 of the U.S. trade law, is likely to set the pattern for managed trade in the future. The trend will be for each country to open markets and expand trade. The Japanese concessions for beef imports, for instance, help Australian as well as U.S. beef producers. This process does result in opening markets and facilitating competition.

Companies cannot always wait for open markets, and they cannot be certain that elusive goal will be achieved. This has led to growing foreign direct investment and the formation of new global strategic alliances to secure positioning. Aside from the $160 billion of intra-U.S. acquisitions during 1988, $67.3 billion of mergers ocurred between U.S. and non-U.S. companies, according to *Mergers & Acquisitions'* 1988 profile. This latter category will grow in the next decade. To participate in the growing Asian markets and the changing European Community, companies on every continent will have to increase their direct foreign investment.

Recent research suggests U.S. companies currently doing business abroad expect their outside revenues to grow during the next five years from 22 percent to more than 25 percent of sales. Some 35 to 40 percent of U.S. companies expect their non-U.S. production to grow by 25 percent or more during the same period; 55 to 60 percent expect to acquire foreign films.

Despite the difficulties, strategic alliances will be used by mature businesses to penetrate foreign markets, combat direct foreign competition, accelerate technology development, raise product barries, and lower risk hurdles. In high-growth businesses, they also will be used to acquire critical resources and build core infraestructure.

Companies will use other familiar methods to take advantage of global opportunities in the 1990s. For manufacturers, the trend to sourcing, assembling, or manufacturing internationally will continue. For service companies, some back-office operations will continue to move offshore in search of lower costs or more efficient labor. Customers will increasingly shop for financial services globally; businesses and financial institutions will increasingly fund themselves on a global basis.

Political and Economic Upheaval

Systemic changes are uncoupling the private and public sectors throughout the world. The 1980s was the decade when the value of free enterprise, the profit motive, and a market-driven economy were recognized without regard to political system. The movement to convert public sector enterprises to private sector industry has been strongest in Great Britain under Margaret Thatcher, but examples can also be seen in France, Italy, and elsewhere. Privatization will continue in formerly monolithic socialist states such as China, the URSS, Poland, and Hungary. The same currents flow in other European countries, where socialized industry and services have been commonplace throughout the twentieth century.

The pattern of change in the new Europe is beginning to take shape already. The 1992 initiatives are removing internal barries among European countries and standardizing product requirements; they will make Europe more like a single market. Entry into this huge new market will be easier for companies that have European partners or European bases of operation.

The giant consumer companies are typically the first to take advantage of these opportunities; the Coca-Cola bottle and the Kentucky Fried Chicken store tend to be the flagships of American investment in these countries. But astute executives will see beyond the obvious charm of new markets hungry for Western goods. They will see government enterprises ripe for privatization and new production and management methods. They will see populations of skilled and unskilled workers eager to improve their standards of living by working in a Western-style environment.

The internal changes in these countries will move slowly; transition periods of up to 20 years will not be uncommon. The internal problems are huge and not easily overcome, but we will find out this decade whether these economies will overcome their philosophic inertia and become private-oriented economies.

Asia presents additional complexities. The movement toward a market economy in China seems more precarious today than even 12 months ago. The effect of making Hong Kong part of the People's Republic in 1997 is unclear. One should not be surprised to see these factors result in reconfiguration of the two Chinas in the mid-1990s. The present leadership in China may not reach compromise with those who press for democracy and greater Westernization of the economy. This could result in the more liberal areas in southern China, including Taiwan, Hong Kong, and Shanghai, uniting, leaving the rest of China rigidly communist with a socialistic economy.

But the key to the area is the relationship between the U.S. and Japan. We expect the present administration to work hard to smooth trade relations with Japan, participate in the reconstruction of the Philippines, and help smooth trade barriers between Japan and Europe. One factor in this success may well be more U.S./Japan joint ventures into Europe, especially Eastern Europe, by the middle of the decade.

The trend toward global competition will accelerate in the 1990s. New markets, new sources of supply, new competitors, foreign competitors, tougher competitors with greater scale and longer time horizons – that is the lineup. And as they look through the gateway to the twenty-first century, executives will see the possibility that the future will be radically different from anything they dream of in the present.

Challenges Facing Management in the 1990s

Management's most difficult challenge in the next decade will be embracing change to secure competitive survival and success. But it is not enough for chief executives and management teams to embrace change. Everyone in the organization must change the way he or she operates and relates to other workers, customers, suppliers, and competitors.

Specialization

The 1990s will see further declines of the conglomerates formed in the 1960s and 1970s. Focused companies will be the pattern of the nineties, as companies divest divisions and product lines that do not fit with their basic businesses. This will come about as management increasingly discovers the synergy gap and is simultaneously penalized by the equity markets. The need to "stick to your knitting", as Tom Peters and Bob Waterman preached, and the enormous debt overload associated with the goodwill of acquisitions and leveraged buyouts will result in wholesale selling of assets to pay off debts.

Companies will be have to move toward specialization and segmentation to be perceived by customers as credible, knowledgeable, and reliable. Customers will increasingly look for companies that can provide value through customized, tailored products; their perception will be that these are not available from giant conglomerates with bureaucratic structures, an unclear and capricious focus, and insecure futures.

The manufacturers' movement to specialization is mirrored by catalog merchandisers and retailers.

Lands' End, the successful merchandiser of classic clothing, mails a variety of specialty catalogs targeted to specific demographic groups. Mass merchandisers such as Sears have broken down their catalogs and their stores into specialty "stores within a store" to counter the competition from successful specialty retailers, such as The Limited and Sportmart.

These microniches are the wave of the decade. We discovered niche marketing in the 1980s; now we will see supersegmentation and products tailored to narrower groups of customers, including individual customers in the most extreme case. The trend is clear in manufacturing and merchandising. Publishing and television are equally affected, with hundreds of narrowly focused magazines driving out the general magazines and cable television cutting into the mass audience of the three broatcast networks. In the financial services industry, investors have traded savings accounts and stock certificates for futures in stock funds, T-bills, municipal bonds, foreign currencies, and mortgage-backed securities. Mutual funds, originally diversified to spread risk and ensure income, now are available at every level of risk and income and focus on particular industries. Credit cards have moved beyond facilitating purchases and travel to encompass cash cards, debit cards, affinity cards, and "smart" cards. By the end of the decade, few segments of business or services will be unaffected by the trend to superspecialization.

Vertical Dis-integration

Since the time Henry Ford began forging steel and molding tires for the Model T, vertical integration has been a strategic axiom of manufacturing. The first chinks in this firm belief came with the early outsourcing, offshore manufacturing, and strategic alliances in the 1980s, and the chinks will continue to appear.

The possibilities are endless, but where does management start in breaking down the cumbersome structure? The search begins with the value-added chain, identifying which parts or services should be outsourced. Properly developed outsourcing helps a company offer a unique mix of products tailored to the customer's needs, dramatically lowers cost, improves quality and service, releases capital, and increases flexibility to adapt to changing conditions.

During the past decade, a dramatic shift has taken place in the way companies have viewed and interacted with their supplier base. The old adversarial, "arm's length" relationships have been replaced by close, long-term supplier partnerships. Buyers' "penny a pound" short-term focus has been supplanted by top management's willingness to make long-term commitments with key suppliers.

As a result of this shift in orientation, companies have aligned themselves with sole suppliers, entered into binding, multiyear contracts, and committed to purchasing minimum quantities on an annual basis. Companies have also integrated suppliers into their own research, design, and development programs and supplier deliveries into their just-in-time operating environments. All this has had some very positive benefits. But what happens when the honeymoon is over? When a sole supplier of strategic material files for bankruptcy? When the market price of a key material drops well below the contract price and the buyer is at a severe competitive disadvantage? What if sales decline significantly and the buyer is unable to meet minimum purchase-quantity commitments? What if the life cycle of a major project is unexpectedly cut short with two years still left on a take-or-pay contract? What if a new material or technology is introduced by an alternate supplier at half the current price but the contract with an existing supplier cannot be broken? Clearly, companies must develop strategies that define the roles and relationships of key suppliers and how to effectively manage them.

"It is not enough for chief executives and management teams to embrace change. Everyone in the organization must change the way he or she operates and relates to other workers, customers, suppliers, and competitors".

A new twist to the increasingly common "vendor partnership" philosophy that companies are adopting is the "manufacture-less" and "distribution-less" business. This is the ultimate in supplier partnerships. Under this arrangement, the supplier performs virtually all of the operating functions and activities for its customer or contracting company, including manufacturing, research and development, distribution, transportation, and warehousing.

Will a growing number of businesses evolve into highly specialized corporate entities, some focusing on manufacturing or logistics alone, others concentrating on selling, marketing, and finance? How could this radically alter top management's views on such basic issues as capital requirements, risk, control, growth, and organization?

The manufacturing networks common in European industry enable member companies (competitors) to respond to changes in the marketplae. The typical industry network provides technical training and develops export market groups, purchasing consortiums and loan cooperatives. At later stages, members might exchange information about innovation, export laws, and new technology. Denmark's furniture industry has benefited greatly from network services, as has the machine tool industry in Modena, Italy. One of the few U.S. examples is the Flint River Project in Michigan, which includes a network of small companies that support the auto industry.

This concept of cooperating with competitions is inimical to most U.S. executives, but some of the activities of trade associations provide precedents. The greatest hurdle to such cooperation at the moment, other than mindset, is U.S. antitrust law.

A new form of outsourcing will take place in the office setting. Just as much physical office work-office cleaning, equipment maintenance, cafeteria operation-has already been removed from the corporate structure, much of the clerical work will be separated. Many organizations will use clerical work forces provided by contract suppliers on a permanent basis. The trend will spread to providing support servicies, such as data processing, order processing, accounting, advertising, and public relations. Companies will begin to replace lethargic corporate staffs in headquarters cities with a lean crew of senior executives, whose work is supported by contracted clerical, analytical, administrative, and professional staff on-site or in suburban back-office operations.

Productivity improvement is another reason to uncouple such clerical and support work. Productivity was not so important when the white-collar payroll was 10 to 15 percent of total costs. In the information age those payroll costs are more likely to total 40 to 60 percent. Outside contractors know that they will be tossed out and replaced by better-performing competitors unless they improve quality and cut costs.

Continuous-Improvement Philosophy

A critical ingredient missing in too many U.S. corporations is continuous improvement-*kaizen*, as the Japanese refer to it. Past performance is no benchmark for the future, and the competition is not standing still. U.S. managers and workers are still too often focused on fixed goals or standards and tend to be more concerned with their performace compared with the past than their companies' relative competitive positions.

Management makes a fatal error if it persists in using fixed standards of performance for quality, downtime, inventory turns, order-processing time, or service level. Instead, these must be moving targets that continuously stretch the organization to do better. The challenge for management is to be sure it compares and continuously updates the competition's performance in all areas. This keeps the emphasis on the outside, where it should be.

Once their progress in being evaluated, how can employees be motivated to accept this continuous-improvement philosophy? The subjet of employee motivation in the new world of the 1990s is touched on later in this article and in fact is too complex to deal with satisfactorily here. But the answer lies in corporate leadership demanding constant improvement, in securing the involvement of employees, in setting and accomplishing goals, and in appropriate recognition programs. Milliken & Company, a world leader in textiles, has adopted this philosophy and attitude throughout the business. Every department displays tables or charts so employees, suppliers, and customers can see progress against goals.

Customer Value

The cliche of the late 1980s was: Every business is a service business. But at the beginning of the 1990s, there are still plenty of businesses that have not put that socalled cliche into practice.

The customer value emphasis means focusing every organizational unit, instead of just the sales department, on customers. This is the way companies can begin to differentiate themselves from lower-cost foreign competitiors. It requires finding innovative ways to add value to products by bundling services and products into new configurations—in effect, building total quality, design engineering, warranties, information systems support, invoicing, training, maintenance, logistics services, and various other support activities into the total product offering.

Total quality is an important element in the customer value equation. Despite the publicity given to improved product quality, as Tom Peters says, quality is still not an obsession with enough companies. Too often management prefers to think that exotic technology will result in perfect products. Unfortunately, the answer is not that easy. Total quality requires massive culture change-changes in organizational structure, attitudes, and, most important, employee involvement. And this kind of change is specially difficult among large, mature enterprises.

Another route to building customer value is developing strategic alliances (multiyear relationships) between suppliers and customers. The mutual interests of supplier and customer become increasingly obvious. Comparisons then will be made less on differences between competitive products and more on how fully a product or service fulfills a customer's business goals.

Companies that focus their products and services on their customer's goals of market share, lower inventory, accelerated cycle time, improved quality, lower costs, or improved fill rates will secure long-term favorable relationship. Companies that have already moved aggressively to focus on customer value include Motorola, Milliken, L.L. Bean, American Airlines, and Land's End. They have gained market share advantage through advanced customer service systems, special support functions, and outstanding quality, and by working to exceed customer expectations. These companies have high-quality products and services and sophisticated marketing programs. But is not possible to separate the value provided by the systems themselves from the value of the products and marketing programs.

Unlocking the value chain is not a simple process. It is specific to each company and can only be identified and defined through a careful analytical process. But customer sophistication is growing along with competition. The prospective customer evaluates each company's offering and thus determines the level of customer value in terms of product hardware and software, quality, service, user economics, and other factors—not just price.

Moreover, as we add service enhancements, we increase the importance of people. This implies a need to improve recruitment, internal training, and new measurement systems to secure high-quality performance.

The service sector of the economy faces the same challenges now as manufacturing has faced in the past. These industries are only beginning to realize the need to market, compete, and serve more responsively. Industry maturity, knowledge transfer, and increasing foreign competition will contribute to the need to improve productivity and create customer value in the service sector every bit as much as in manufacturing. Quality, productivity, and overall service will have to be dramatically improved for companies to survive the consolidations that will take place in the service industries.

Geographic Orientation

Competition in every business sector is increasingly global. Many executives, however, still have a domestic mindset and inadequate understanding of the global marketplace. This is partly because for many businesses the U.S. market seemed to offer ample success; there was no need to incur inconvenience and complexity by seeking distant foreign markets. But today, with so much foreign competition and relatively stagnant consumer demand in their domestic markets, executives must take a comprehensive view of the global marketplace—whether in Toronto, Turin, or Tokyo.

Despite intense interest in and controversy about trade deficits and foreign competition, this domestic bias continues. The *Wall Street Journal* reported in July that a study of 1,500 managers worldwide found insularity among American CEOs compared to their foreign counterparts. Asked to rank skills important to CEOs in the twenty-first century, 35 percent of Americans thought experience outside the home country was important, compared to 74 percent of foreign counterparts. Some 62 percent of U.S. respondents ranked international outlook important, compared to 81 percent of Europeans, 87 percent of Latin Americans, and 100 percent of Japanese.

"The service sector of the economy faces the same challenges now as manufacturing has faced in the past. These industries are only beginning to realize the need

to market, compete, and serve more responsively"

Internationally oriented companies will stop judging foreign divisions simply on their ability to stand on their own. Instead, they will consider them part of an integrated strategy including foreign sourcing, focusing on market share, and cutting off cash flow at the foreign competitor's source. This latter strategy is exemplified by companies such as IBM, Motorola, and Caterpillar, who successfully compete head-on against foreign companies in their own markets.

CEOs will need to take advantage of the significant opportunities available through integrated global activities. To do this, they will seek out and train personnel who can operate in a multicultural enviroment. they will seek out foreign alliances and negotiate to trade technology transfer for foreign market share. Most importantly, they will acquire a better understanding of the cultural, market, and technological resources of competitors abroad.

New U.S. tax regulations under consideration would require corporate taxpayers to have an explicit, defensible policy for internal transfer pricing. Furthermore, this policy cannot be ad hoc because the tax authority would rule on the legitimacy of the policy in advance, including the specific methods by which transfer prices are determined. Other countries are sure to follow the U.S. lead. Exposure can easily be in the hundreds of millions of dollars for many corporations.

A major challenge in setting such policies will be to *harmonize tax regulations with business objetives.* Simple "market-based" pricing rules that satisfy tax rules often fail to create the correct incentives at the different levels of the value chain. This is particularly true when the alternative markets do not exist or when economies of vertical integration and other similar strategies are available. Instead, pricing mechanisms may be required that more fully match incentives with corporate goals and that allocate risks to the parties most capable of responding.

International Transfer Pricing

Transfer pricing is a growing challenge faced particularly by multinational manufacturers that source goods and services among company afiliates across international borders. The challenge is increasing because of offshore service and the growing scrutiny of tax authorities, who recognize multinational companies are increasingly easy prey for tax revenue otherwise difficult to come by through legislation these days.

In the 1990s these multinationals face a new vigilance by governments, both national and state, intent on obtaining their "fair" share of tax revenue. Companies must establish internal transfer pricing policies that support sound resource allocation and sourcing strategy decisions, while balancing the goal of tax minimization.

Whit the restructuring in Europe of complete industries such as telecomunications, electronics, chemicals, aerospace, and others in anticipation of the elimination of trade barriers by 1992, this problem will grow. The same is true with respect to the growing foreign investment in the U.S. and growing U.S.-Asian sourcing practices.

Environmental and Safety Issues

There will be much more regulation imposed on products in this decade. The greatest restrictions will be on the manufacturing, storage, handling, and usage of waste. Stringent health and safety regulations will dictate changes in raw materials, industrial processing, and materials handling. All of this presents significant challenges to manufacturers at every stage from R&D through production, distribution, and consumer use.

Minimizing waste will be a key strategy for industrial waste generators. Management will feel pressures such as escalating waste disposal transportation costs, higher treatment costs, and the spreading "NIMBY" (not-in-my-backyard) movements in communities everywhere.

In the European Community, environmental issues have moved to center stage in Brussels during the discussion of 1992 changes. Companies in EC countries such as France, Italy, and the U.K. are concerned about the costs and competitive ramifications of having to acquiesce in the ecological preoccupations of their more activist neighbors. German, Danish, and

Dutch companies live with stringent antipollution laws and look forward to a more level playing field throughout the EC after 1992. Issues that appear to be particularly divisive are auto emissions, waste recycling, and civil liabilities for damages caused by waste.

Management will also face liabilities associated with regulatory enforcement. Compliance will be more difficult and penalties more severe. For waste-producing industries such as paper, chemicals, and food, the threat is chilling. For other industries, problems unknown today will cause crises tomorrow. The CEO will need to make environmental considerations part to every new product development, facility planning and global strategy.

Education and Management-Skill Development

In A.T. Kearney's U.S. competitiveness research, the subject of education was uppermost in the minds of chief executives and economic experts surveyed. Their principal concern was that the quality of the work force expected in the 1990s is not suitable for the vast technological and operational changes that industry must undertake to regain its competitive advantage.

The U.S. is now losing at least $25 billion a year in productivity through inadequate education and training of the work force. We have 22 million functionally illiterate people in our nation and the number is growing. According to Roger Semerad, former assistant secretary of labor, we have one million students per year who never complete high school and another 750,000 who graduate from high school each year but cannot read their diplomas.

For the first time, there are fewer teen-agers than people over 65. By 1995, the number of 17-22 year olds will drop by three million. One-third of all new workers will be immigrants or minorities, a group that will need considerable language training and remedial education. And a Conference Board survey reported that approximately 75 percent of the U.S. work force in the year 2005 is already in place, so we also have a major task in skill upgrading and training over the next 10 to 15 years for our existing work force. Private industry is already spending $40 billion annually to provide remedial training in reading, writing, and computational skills.

The solutions to this complex problem are difficult. It will take a national revolution to remedy the situation, and by all indications not enough will be done in the next five to ten years to secure a significant turnaround. The current low unemployment rate and growing skill shortages in the future will fuel inflation, reduce quality and service and, ultimately, undermine the ability to compete. In addition to galvanizing state and national governments to undertake major reform, business leaders must look at ways to stop the bleeding in the short term while counting on achieving structural reform in the educational system in the longer term. Major sums will be necessary for remedial education and skill training inside the corporation, as well as for support of schools with a variety of financial, intellectual, and mentor support programs.

Business education must also improve if the management teams of the 1990 are to be capable of bringing about change both within and outside the firm. Companies must make better use of the intellectual capital they recruit. Management development programs must be integrated with the company's business goals. Education and management development must be interdisciplinary. Successful managers have to learn to work comfortably in a participatory environment; one of their roles will be coaching their employees to help them succeed, and motivating them attain extraordinary performance.

Managers will need enhanced people skills in the next decade because workers will be different, too. They will have more choices in their work and personal lives; they will be more flexible and independent workers. They will make day-to-day decisions on their own, move from task to task with ease, and will work more in ad hoc teams, sometimes in different teams on different efforts from different organizational units.

The preferred management style will be consensus building rather than authoritarian. The tighter labor market will mean firms will have to get the most from their employees. The human resources department will become a power center for recruiting and orchestrating the development of talented new employees and coaching managers to work with the new breed of workers. Human resources departments that are only paper-shuffling centers will only hurt the company. Moreover, companies must seek out and develop individuals who will be comfortable operating in a multicultural global environment. New types of management development programs and exposure will be required.

"One of the key factors in evaluating senior management in the future will be its ability to motivate ordinary people to extraordinary achievements".

One of the key factors in evaluating senior management in the future will be its ability to motivate ordinary people to extraordinary achievements. Ordinary performance will not be enough for the successful company. Performing far beyond the customer's expectation will be the basis for strategic differentiation and for cementing the customer relationship.

The Agenda for the CEO in the 1990s

To help CEOs prepare for these new challenges, we provide a leadership agenda that includes issues related to the business strategy, board of directors, management continuity, corporate values, and organization and measurement.

Business Strategy

We live in a competitive environment that is increasingly hostile and globally interdependent. In this environment, every CEO and board of directors must have a well-articulated strategy. This is vital not only for internal reasons, but also to clearly demonstrate how the strategy will build long-term shareholder value. CEOs and boards who want to fend off unfriendly takeovers and unfriendly comments from Wall Street analysts need to review their strategies. They need to question how competitiveness will be enhanced, financial goals accomplished, and shareholder value increased by any of the following:

- More or less product line breadth or depth;
- More or less vertical integration;
- A global presence; and
- Synergy across business units and functions.

In addition, they must determine whether the company has or intends to have a strategy based on low-cost provider status or customer value and whether management has appropriate responses to significant moves by key competitors.

Obviously, there are other critical questions for CEOs and boards to ponder, but these represent a critical starting point for firms that expect to survive, let alone succeed, in the 1990s.

The Board of Directors

Corporate boards of directors must become more effective shepherds of corporate resources and increase their credibility with shareholders and the financial community in the 1990s, for they will be held more accountable than in the past. They must be able to stand up to management on issues ranging from corporate strategy to ethics and performance. They must be able to stand up to greedy shareholders when the legitimate long-term interests of the business are not being fulfilled by the pressure of short-term takeover efforts. They will be expected to ensure that management has appropriate programs to address the challenges described in this article.

The membership mix of the typical board must also be reviewed. Boards should contain a greater mix of outside versus inside directors. Moreover, consideration should be given to creating a board that is more responsive to some of the critical constituencies the company depends on, as well as one that possesses the experience and perspectives needed to address the issues outlined above. Future appointments should shift the balance of review authority from inside to outside directors to secure more objetive counsel.

This organizational change is essential in today's fishbowl operational mode. In an era of frantic merger, acquisition, and buy-out activity, any company can find itself on the block through careless actions. Directors are now truly accountable. Today's board operates under highly restricted legal pressures and can find itself the focus of media attention at any moment. Board members will increasingly need to be skilled, qualified, and experienced in a variety of corporate problem areas. This means:

- Directors with global business expertise will be sought for their ability to help the corporation evaluate its global options and operations, develop global market perspectives, assess risks, and consider appropriate strategic alliance partners.
- Females and members of various minority groups, specially those representing significant constituencies served by the corporation, must be appointed

to help the board keep in touch with its consumers and employees.

- Directors will be chosen to represent various objetive or adversarial views. These include attorneys, environmentalists, scientists and research and development specialists, management consultants, and bankers. Exxon's recent appointment of a scientist-oceanologist to its board is a good example.

Management Continuity

In most of the truly successful companies in this decade, the cheif executive will almost certainly have risen through the ranks. He or she will be intimately familiar with the firm's operations, people, customers, and suppliers, and with both failed and successful strategies. Firms will try to achieve management continuity thoughout their executive ranks. Lone rangers who move from company to company, increasing their earnings and stock options with each move, will not be the pattern.

The succession of a new CEO increasingly will be a once-in-a-generation event at most companies. In A.T. Kearney's research on the management of the most successful U.S. companies, we found a striking difference between the CEOs of the top-performing *Fortune* 500 companies and the "run of the mill" *Fortune* 500 firms—the best outperforming the average companies by 50 percent. The most striking difference between these top-performing companies and the rest was that all but one of the CEOs of the top performing companies were apppointed from inside the company and had been CEO for an average of more than 16 years. (The only outside CEO had an unusually strong attachment to the company because of a long relationship as a management consultant.) In comparison, CEOs from the "run of the mill" *Fortune* 500 companies had average tenures of 6.9 years.

This continuity at the top is critical during a period of such pervasive change. It provides the bonding agent to secure adherence to a set of values and missions. The effect is to focus the average manager's attention on the longer-term success of the business rather than corporate politics. Among the Techniques that will be used by more companies to increase management continuity are the following.

- Employees with executive potential will be identified early and undergo cross-functional and cross-geographic training throughout their careers. People will be rotated through a variety of jobs so they can become knowledgeable about the full range of operations of the business unit and develop an extensive network of personal contacts within the global corporation.
- Companies will allocate considerable top management time to developing people for key jobs. For example, one large multinational company groomed three candidates for eight years for the top job job to ensure there was sufficient depth of talent to permit a choice of the best individual. The development time is not wasted because the other two individuals are prepared for other top management positions.
- Large corporations will increasingly confine an individual's career moves within a single business unit or industry sector because they place a premium on industry knowledge and continuity of experience.

Corporate Values

A significant responsibility for the chief executive of the 1990s will be as the keeper of the culture, the person ultimately responsible for fostering shared values throughout the organization. Corporate culture will not be just a subject for scholarly articles; it will be an important responsibility of management. The culture must match the mission of the business and support the common values and goals of the organization.

Some of the values that will require development efforts by chief executives have already been discussed. They include:

- Management's own global perspective, which must be transmitted to other executives so the narrowly provincial views of business operations can be left behind with the 1980s.
- The concept of continuous improvement, particularly in organizations accustomed to measuring progress against the past or against fixed performance targets;
- The teamwork philosophy necessary for success, which is not an accepted part of business today;
- Quality, which must receive comprehensive and persistent attention in all areas of business today; and
- Customer value, which is the most underexploited opportunity for achieving competitive advantage.

"Corporate culture will not be just a subject for scholarly articles; it will be an important responsibility of management".

Organization and Measurement

The trend of the 1980s to reduce the number of management levels and decision-making layers within the company will continue in this decade. Management will assign greater responsibility and delegate authority, but will demand accountability from management and plant workers alike. The continuing staff reductions and elimination of bureaucratic practices will help the organization become more flexible, innovative, and time-responsive.

The need to emphasize interdisciplinary management will be especially important in the 1990s. Faster will be better, as all elements of the organization work at reducing the time required to carry out each operation. Compression of time associated with planning, designing, developing, processing orders, manufacturing, and shipping will be expected by the customer; it will not be a premium for which a higher price is paid. Just as quality was a given in the 1980s, speed will be the standard in the 1990s.

This represents a major opportunity to reduce working capital and operating costs and improve service to customers and, in turn, translates into increased market share an return on investment. A major consumer products company has estimated that fully integrated operations could reduce food inventories of almost five months to one to two weeks. That translates into $530 billion of potential working capital savings in the U.S. food industry.

Developing new products faster can help a company gain competitive advantage by increasing market share while cutting overall development costs. Faster cycle times from order processing through manufacturing allow a more flexible response to customers and simultaneously reduce inventory costs. Currently, 21 percent of U.S. GNP is tied up in logistics costs. These costs are major targets for cycle-time improvement disciplines.

General Electric's overhaul of its stagnant circuit breaker business is a prime example of successful cycle-time improvement. The effort involved manufacturing, design, and marketing experts who considered every aspect of ordering and producing customized circuit breaker boxes for commercial buildings. The team consolidated the organization from six plants to one, reduced parts from 28,000 to 1,275, cut out engineers' and middle managers' roles, and gave worker teams more responsibility. The plant now has a backlog of two days rather than two months, and delivers a higher-quality product in three days rather than three weeks.

Robert Hayes of Harvard University attributes the time problem to infrastructure and the prerogatives of the functional organization. He employs the analogy that Pacific Basin competitors succeed at innovation because they operate like a rugby team, moving the ball down the field in parallel actions toward their goal. U.S. manufacturers, on the other hand, operate like a relay team, each function handing off the baton to the next when it has completed its work.

Shortening cycle times requires working to improve processes that cut across functional boundaries. While this is a more complex undertaking, it can yield spectacular improvements. Hewlett-Packard saved its computer terminal business from extinction this way. It redesigned the manufacturing process, cutting assembly time from days to hours. It saved 55 percent on materials and 75 percent on labor. These lower costs let HP price more aggressively; sales rose 150 percent in one year.

Cultural change is required to help people do their jobs as well as possible. If we handicap workers with rigid functional hierarchical structures and procedure manuals, we cannot expect them to deal well with nonroutine events. Refashioning culture means attacking the organization at several points at once.

First, the communication system must allow nonroutine events to surface quickly at the highest levels in the organization so they are treated with the same importance as any mainstream business problem. Second, individuals must be empowered to create change unencumbered by traditional reporting relationships, structures and measurement systems. Third, the project management concept must take on increasing importance to allow companies to respond promptly and objectively to major problems and business opportunities.

Using project management techniques, grouping and regrouping in work teams will make it possible for organizations to deal with nonroutine or "trigger" events. The organizational structures and performance measurements of most companies are based on the need for efficiency, not effectiveness and responsiveness. Nonroutine events – customer problems, acquisitions, technology breakthroughs, product recalls – spell crisis.

Innovative and responsive companies will develop structures that motivate management and workers to be creative and work to their full capability. Some of the best-known product development cases – the IBM PC, Lockheed's U-2, Xerox's plain paper copier – were achieved with new organizations or "skunk works" and measurement systems configured to aid the process.

Teamwork will be a critical ingredient. However, it will be an acquired skill for employees throughout the organization. It will enable the organization to respond to crises effectively and to manage innovation in product and service developments. Ad hoc organizational efforts will allow companies to develop exciting new products and resolve crises much more quickly than is possible in the mainstream structure. People will be able to cross functional lines and business units and move freely outside the established hierarchy to address the issue and achieve a prompt resolution.

Drastic revisions are needed in measurement systems to take these new organizational approaches into account. Most organizations overlay on their structures a mainstream measurement system focused on individual, department, or unit performance. These measurements encourage behavior that supports departmental efficiency but does not allow for effective integrated or interdepartmental responses.

The systems that focus on individual measurements are costly and counterproductive. Greater emphasis must be placed on measurement that looks at the performance of departments or business units on an interdisciplinary basis and encourages the cooperative behavior of individuals. The performance and reward of individuals should be tied to total unit outcome, ultimately focusing on the customer.

Greater emphasis also needs to be given to longer-term performance measurement systems, at least in the three- to five-year range, so actions in the operating environment conform more fully to priorities in the business strategies. Greater use of profit-sharing, gainsharing, and employee stock ownership will help.

Finally, the senior executive must be intimately involved with customers. Nurturing the relationship and assuring customer value will be one of the chief responsibilities of CEOs in the 1990s. And the responsibility will be shared throughout the organization, not restricted to the sales staff or the customer service department.

All executives will understand how wealth creation occurs and will strive to be wealth creators for their companies. Some of this will involve direct "selling" – chief executive to chief executive. Some of it will involve creative contact between supplier and customer executives. Even executives in positions not usually considered wealth creating will be able to contribute to his creative customer selling. Account teams with management and technical specialists as well as sales professionals will be able to communicate with customers effectively at all levels.

These efforts will focus on customers that promise to be particularly important for the company, rather than being diffused over the entire customer base. As the use of product specialization and microniche marketing becomes more widespread, companies also will need to differentiate on the basis of tailored customer service, particularly when implementing the customer value challenge. The formidable efforts to be taken companywide to bundle value around the product or service are worthwhile only for the most cherished and profitable of customers.

The principal responsibility for fostering this new organizational philosophy, including seeing the future of the company along with the customer, can only come from the CEO – from his or her values, communication, style, and way of measuring performance.

Industrial companies in the West have been improving their competitive positions throughout the 1980s. There have been enough positive signs of change in the last five years to make even a pessimist believe the glass is half full rather than half empty. It is realistic now to believe that Western companies can compete successfully in the global marketplace against Japan and the Little Dragons. However, the struggle is by no means over, and the growing service sector will face the same challenges in the decade ahead as manufacturing has faced in the past.

The movement toward renewed competitiveness has begun. CEOs must continue to ignore the seductive allure of government solutions and continue to work at improving competitiveness where it counts – in their own firms. Their competitors cannot be blamed for failures. Poor management contributes to failure. Lack of vision contributes to failure. Industrial companies do not have to be an endangered species. If they are, it is because they are unwilling to take risks and unable to make hard decisions.

Our overview of the 1990s suggests that there is much on which to build, but much yet to be done. Moreover, there are many ways to bring about the never-ending process of improvement. That process must start with the CEO putting together an agenda for the decade. Executives do have the vision to look through the gateway to the next century. If they do it properly, they will begin by recognizing their Janus-like role in the organization — the paradox of preparing for the future while dealing with the present. They will be at their best when they act as missionaries for change within their organizations and motivate their people to extraordinary efforts.