



SIX BASICS FOR GENERAL MANAGERS

Whatever the Leadership style they bring to their jobs, the best GMs focus on the same set of fundamental tasks.

Great coaches stress fundamentals - the basic skills and plays that make a team a consistent winner. Great general managers do the same thing. They know that sustained superior performance can't be built on one-shot improvements like restructurings, massive cost reductions, or reorganizations. Sure, they'll take such sweeping actions if they're in a situation where that's necessary or desirable. But their priority is avoiding that kind of situation. And they do that by focusing on the six key tasks that constitute the foundations of every general manager's job:

1. Shaping the work environment
2. Setting strategy
3. Allocating resources
4. Developing managers
5. Building the organization
6. Overseeing operations

This list shouldn't be surprising; the fundamentals of a general manager's job should sound familiar after all. What makes it important is its status as an organizing framework for the vast majority of activities general managers perform. It helps you define the scope of the job, set priorities, and see important interrelationships among these areas of activity:

Shaping the Work Environment

Every company has its own particular work environment, its legacy from the past that dictates to a considerable degree how its managers respond to problems and opportunities. But whatever the environment a general manager inherits from the past, shaping – reshaping - it is a critically important job. And that is as true in small - and medium-sized companies as it is in giants like General Motors and General Electric.

Three elements dictate a company's work environment: (1) the prevailing performance standards that set the pace and quality of people's efforts; (2) the business concepts that define what the company is like and how it operates; and (3) the people concepts and values that prevail and define what it's like to work there.

Of these three, performance standards are the single most important element because, broadly speaking, they determine the quality of effort the organization puts out. If the general manager sets high standards, key managers will usually follow suit.

If the GM's standards are low or vague, subordinates aren't likely to do much better. High standards are thus the principal means by which top general managers exert their influence and leverage their talents across the entire business.

For this reason, unless your company or division already has demanding standards - and very few do - the single biggest contribution you can make to immediate results and long-term success is to raise your performance expectations for every manager, not just for yourself. This means making conscious decisions about: what tangible measures constitute superior performance; where your company stands now; and whether you're prepared to make the tough calls and take the steps required to get from here to there.

Clearly one of the most important standards a GM sets is the company's goals. The best GMs establish goals that force the organization to stretch to achieve them. This doesn't mean arbitrary; unrealistic goals that are bound to be missed and motivate no one, but rather goals that won't allow anyone to forget how tough the competitive arena is.

I vividly remember one general manager who astonished subordinates by rejecting a plan that showed nice profits on a good sales gain for the third year in a row. They thought the plan was demanding and competitive. But the GM told them to come back with a plan that kept the same volumes but cut base cost levels 5% below the prior year's, instead of letting them rise with volume. A tough task, but he was convinced the goal was essential because he expected their chief competitor to cut prices to regain market share.

During the next few years, the company dramatically changed its cost structure through a series of innovative cost reductions in production, distribution, purchasing, corporate overhead, and product-mix management. As a result, despite substantial price erosion, it racked up record profits and share-of-market gains. I doubt the company would ever have achieved those results without that tangible goal staring management in the face every morning.

The same kind of thinking is apparent in the comments of a top Japanese CEO who was asked by a U.S. trade negotiator how his company would compete if the yen dropped from 200 to the dollar to 160. "We are already prepared to compete at 120 yen to the dollar," he replied, "so 160 doesn't worry us at all."

High standards come from more than demanding goals, of course. Like top coaches, military leaders, or symphony conductors, top general managers set a personal example in terms of the long hours they work, their obvious commitment to success, and the consistent quality of their efforts. Moreover, they set and reinforce high standards in small ways that quickly mount up.

They reject long-winded, poorly prepared plans and "bagged" profit targets instead of complaining but accepting them anyway. Their managers have to know the details of their business or function, not just the big picture. Marginal performers don't stay long in pivotal jobs. The best GMs set tight deadlines and enforce them. Above all they are impossible to satisfy. As soon as the sales or production or R&D department reaches one standard, they raise expectations a notch and go on from there.

One general manager, for instance, asks key managers to rank subordinates yearly on a scale from one to nine. Then he reminds everyone that the same performance it took to get a six this year will earn only a five next year. Sure, this approach creates extra stress, possibly even frustration. It also reduces complacency; encourages personal growth, and yields better results.

The second element of the work environment that GMs consistently influence is the basic business concepts the company adopts. Whether they've written it down or not, top-notch GMs have a broad overview of the fields they want to compete in and the way the company will succeed in those chosen fields - the balance between centralization and decentralization, the role of line and staff, the kinds of rewards that will motivate people to achieve their goals, the skills needed to become an industry leader. In short, this overview defines how the company is going to be different-and better-from a collection of totally independent businesses.

Moreover, because every business environment changes over time, the best general managers constantly ask: What kind of business do we want to run? Are we in the right fields? Do we still have viable positions in each? How should we be reshaping the business? The result of this process is a set of business concepts that shift in small ways in a consistent direction.

An excellent example was Johnson & Johnson, which has a fine corporate track record over several decades. The company wants to be the leader in the lower tech growth segments of health care, so it has a broad-based business in which it faces a wide variety of smaller competitors all around the globe. To remain a leader, CEO James Burke felt that he and his managers had to excel at spotting promising new market segments early; tailoring products to serve them, and getting those products to market quickly. They did this through a network of roughly 100 tightly focused, freestanding operating companies.

This highly decentralized organization is skilled at marketing and product innovation and supported by a corporate credo that glues everything together into a very humane yet competitive company: Managers throughout J&J know exactly what they're trying to do and how they are to do it. This carefully crafted corporate overview gave J&J a significant competitive edge virtually everywhere it operates.

Despite its overall success, J&J now faces a new set of competitive conditions that are forcing managers to rethink long-standing business concepts. In several major parts of the business, customers have decided they want fewer suppliers and better integrated distribution and administrative services. So J&J is figuring out how to maintain its traditional decentralized divisions - and all they stand for - yet compete with companies that offer broader coordinated product lines and services.

The third element in shaping the work environment - the company's people concepts - is closely related to the other two. Fast-paced, innovative businesses require different managers than companies in slow-growth, grind-it-out businesses where the emphasis is on cost control and high volume. For example, one aggressive, growth-oriented company decided it needed: a mix of high-potential managers, not a few good managers at the top with implementers below; innovative managers who act like owners, not administrators content to pass decisions up the line; and ambitious quick learners, not people content to move slowly up the corporate ladder.

Naturally; that same pattern won't apply to every company. To determine what does apply; a GM focuses on two questions: What kind of managers do we need to compete effectively; now and in the foreseeable future? What do we have to do to attract, motivate, and keep those people? GMs who ask these questions consistently and act on the answers end up with more high-impact managers than those who haven't given much attention to the mix of skills and styles it takes to win their particular battles.

The best GMs also get deeply involved in determining their company's values - "what it's like to work here!" Henry Schacht, the former CEO of Cummins Engine, is a good example. He had a keen sense of the kind of organization he wants Cummins to be. Even as he

reduced the company's work force by 50%, he carefully thought through how to make cuts in a way people would understand and consider fair. More over, this deep concern for fellow employees and high ethical standards permeate Cummins - just as before. So employees don't need policy manuals or rule books to act ethically and fairly - they just do it.

While this may sound obvious, I've known many general managers who end up with conflicting cultural values and inconsistent norms of behaviour because they haven't consciously decided what's important to them. And of course, there are always a few whose own values are flawed or expedient, but who are nonetheless successful in the short run. In time, however, character flaws or even short - comings like inconsistency do catch up with people - causing serious problems for both the GM and the company.

Crafting a Strategic Vision

Since the general manager is the only executive who can commit the entire organization to a particular strategy; the best GMs are invariably involved in strategy formulation, spearheading the effort, not just presiding over it. To begin with, they have a strategic vision for each business, or they develop one quickly when they're appointed to a new job. When Ned Johnson took over Fidelity Management & Research in the U.S., for example, he decided there were two things wrong with the mutual fund industry: competition was based on who had performed best lately, so fund managers lived or died on the basis of each quarter's or year's performance; and customers were constantly shifting funds because of poor performance or poor service. To avoid these problems, Johnson envisioned a supermarket of 50 to 60 funds that offer customers every conceivable investment focus plus superior service. That way, if a particular fund doesn't have a record year, customers usually blame themselves, not the fund manager. And the company's superior service makes it easy for customers to switch to another super fund. Moreover, with so many funds operating, Fidelity always has four or five winners to brag about.

When David Farrell took over May Department Stores in the U.S. some years back, several "experts" advised him to diversify out of the "dying" department store business. But Farrell saw an opportunity in the fact that competitors like Sears were diversifying into financial services, while others were moving into specialty stores. Instead of following the crowd, he focused his company on becoming the merchandising and operating leader in the department store business in each of its markets.

He centralized merchandising concepts, priced aggressively; eliminated loser departments, built strong execution-driven local managements, and got control of costs. The result: while former key competitors like Allied, ADG, and Federated were stumbling, May emerged as the largest, best run publicly held company in its chosen field. Not in every market, of course; but overall, it's the best - which is a long way from the medium-sized, lacklustre performer Farrell inherited.

In both cases, the GM's strategic vision, which took into account the industry; the customer, and a specific competitive environment, led to innovation targeted at a particular competitive position. That's what distinguishes a useful vision from the bunch of meaningless generalities some GMs use to describe their business strategies.

Next, high-impact GMs regard competitiveness gaps - in products, features, and service - as crises. Closing those gaps becomes their overriding priority; not just another important business problem. Implicit in achieving that is something most GMs don't do well, namely understanding in detail how their costs, products, services, and systems stack up against their competitors'. How many GMs, for instance, would have disassembled a competitor's

entire car to show production people what they were up against, as Honda's U.S. president did? Too many GMs - not just the ones in Detroit - build their strategies around unsupported assumptions and wishful thinking about their comparative performance.

Recently, for example, I saw a consultant's report comparing the cost structure of a major Australian electronics components producer with its Japanese competitor. The Japanese company spent more money and a higher percentage of sales in just two areas - R&D and quality. In return, it got fewer rejects, better products, more market share, and higher earnings per share. Guess who changed his views – five years too late - about where his company stood and what was required to regain market leadership?

Today you cannot write about strategy without talking about giving customers better value than your competitors do. Yet talking about the concept and making it live are two different things. Outstanding GMs seem to be personally committed to serving customers better and to producing better performing products. Instead of just looking inward, they get their competitive information firsthand by talking to knowledgeable customers and distributors.

And that knowledge gives them the conviction they need to make things happen and gain a competitive edge.

Recognizing that lasting competitive edges are hard to generate, the best GMs build on existing strengths while searching out new sources of advantage. First, they improve sales and profits of their strongest products, in their strongest markets, with their strongest distributors. Then they use the resulting faster payoffs to help fund the search for future edges. In the 1970 & 80s, for example, Pepsi concentrated on its heartland markets, grocery chains, and new large packages - all Pepsi strengths. By contrast, in the 1960s, Pepsi spent so much of its money and effort trying to prop up weaker markets, products, and channels that it lacked the resources to go all out in stronger areas. Worse, its managers were convinced it was easier to build a 5% market share to 10% than to grow 30% to 35%. Actually; it was the other way round, just as it is for most companies. Moreover, building on strength keeps competitors so busy responding to your initiatives that they have less time to launch their own.

Finally, the best GMs expect their competitors to retaliate to any strategic move that works, and they plan for the worst-case response. They also get out of games they cannot win. For years, for example, Heinz prided itself on introducing more new soups than Campbell did. Then its managers discovered they were playing Campbell's game, not their own, since Campbell would routinely copy their new product and use its superior brand acceptance and distribution muscle to overwhelm them at the point of sale. Consequently; Heinz shifted its focus from "beating Campbell " to making money in soup; it cut costs and concentrated on the low-price niche that didn't interest Campbell.

Marshalling Resources

All general managers say they allocate resources to support competitive strategies, keep the company economically healthy; and produce high returns. Yet if you analyse the way the process works in most companies, you find excessive support for marginal businesses, low payout projects, and operating necessities. In short, no strategic focus.

The best GMs concentrate more resources on situations that provide the opportunity to gain an important competitive edge, or at least improve on one they already enjoy; Long before restructuring came into vogue, they were prepared to shift emphasis to get more bounce for their bucks. That's what one new GM did when he took over Frito-Lay in the late 1970s. At the time, the company was building new potato chip plants every year to gain market share in this low return business. Instead of continuing his predecessor's practice or

scaling back on his big potato chip business (as the financial vice president recommended), this GM invested a small fraction of his resources in process and productivity improvements that raised the margin on chips. Once that investment began to payoff, he resumed new plant construction, but at a much improved ROI.

Another difference is the way the top GMs treat money; Sounds humorous until you reflect on one of the cardinal weaknesses of most professional managers: they spend company cash as though it belonged to someone else. Even one-time owners often invest in marginal projects they'd never have dreamed of financing when the business belonged to them. In contrast, outstanding GMs think like owners. They avoid projects where everything has to work 110% to get a decent return. To marshal resources for winning strategies, they're willing to postpone or rethink high-risk investments or short-change low-return businesses. They're also tough-minded about who gets what because they realize outstanding returns don't come from parcelling out money to subordinates who promise the best numbers (despite low odds) or to key managers to keep them happy; This doesn't mean they are risk-averse-far from it. But by focusing on fewer bets and backing them aggressively, they improve the odds.

Moreover, top GMs carefully protect the downside on major investments. Everyone knows that promising ideas often fail in the marketplace. Yet many GMs are perfectly willing to bet the company before they know if a new strategy will work. They plunge ahead and build a factory; hire lots of overhead, and launch new products quickly and aggressively - presumably to beat competitors to the punch. But when the idea doesn't succeed right away; this flat-out approach produces nothing but a big write-off.

The best GMs also do lots of little things – like farming out pilot runs and renting plants and machinery - that limit their front-end exposure. They try to avoid processes that can't be converted to other uses. They add overhead grudgingly; They do regional roll-outs to test the market and control costs. Then, when they're sure the idea will work, they go to war for it.

Finally top GMs are always searching for unproductive assets to get them up to par or off the books. To do this, they follow up on big capital expenditures to be sure the projected benefits are realized. They charge each business unit with managing its balance sheet and carefully measure its return. And they put constant pressure on the organization to improve productivity.

A former CEO expressed this perspective in a colourful way; "Every Friday evening we start a whole new ball game," he'd say; "That means every business, plant, machine, and job is open to question. If it's not producing an adequate return, it's on our hit list. If we can't figure out how to improve the situation promptly; we start to look for ways to get rid of it:'

Developing Star Performers

Everyone knows how important it is to attract talented managers, develop them quickly; and keep them challenged and effectively deployed. Yet not everyone does what's required to achieve this. In fact, very few companies do. Lack of management talent ranks right behind low standards as a cause of poor performance.

The best GMs willingly make the tough calls it takes to upgrade an organization. They don't try to rationalize inaction by hoping that more experience will somehow transform a weak manager into a strong one or a solid performer into an outstanding one. As a result, each year they have better managers in critical spots instead of a group that's merely one year longer in the tooth.

Making tough people decisions has to start at the top. Otherwise managers will postpone action, rationalize marginal performance, or mistake the recruitment of one or two outsiders for real upgrading. For this reason, the best GMs lead annual personnel reviews instead of delegating that job to department heads or division presidents.

They use challenging job assignments to speed high-potential managers' development and eliminate blockages to open up spots. They also understand how critically important job rotation is and break down functional empires that get in the way. Finally; they directly influence important appointments by exercising a veto or offering subordinates a slate of candidates to choose from.

Above all, they get line managers deeply involved. in the upgrading process by forcing periodic, tough-minded appraisals of individuals and groups. They constantly ask how their high-potential people are performing and how managers are solving their people problems. But action, not questions, is the key, especially against the bottom quartile performers. To that end, they make sure the process produces better results each year and that it gets pushed farther down in the organization.

“Academics tell you not to intrude on someone else's territory when you see a serious problem. They're wrong.”

The best GMs also know that compensation is a means to an end, not an end in itself. Rewards are linked to performance. They pay their best performers considerably more, even if that means paying the average performers less than they expect. They're also willing to take the heat by cutting bonuses in a poor year instead of pretending the bad year never happened and rewarding everyone for "trying hard:"

Finally; the best GMs invariably surround themselves with good people-achievers, not cronies or loyalists. They don't hire only in their own image but rather tolerate, even encourage, a variety of styles. Every year their talent pool gets deeper and better because they're constantly building critical mass on the theory that you never have enough good people. That way; when opportunities arise, they don't have to create a hole in one part of the business to fill an opening in another.

Organizational Bodybuilding

One of the most innovative GMs I know once proudly told me about his plan to reorganize and decentralize his business in order to make faster decisions, improve execution in local markets, and reduce costs. Great objectives if they're realistic. In his business, however, fast, local decisions aren't particularly important-and his company was already regarded as a fast mover, not a laggard. The company's local execution was already superior to its main competitor's by a wide margin. The new decentralized organization would cost roughly what the old one did-in the early stages, before it had a chance to grow. In short, he was planning a major reorganization for generic problems that didn't apply to his company: The moral of this story: before you re-organize, be sure of what you're trying to do better and why.

The best GMs seem to look for the simplest ways to do things, which usually means fewer layers, bigger jobs, and broader responsibilities. They also get personally involved in solving important problems, regardless of what the organization chart says. Academic organizational concepts won't keep them from intruding on someone else's territory if the stakes are crucial to the company's success. To reduce hurt feelings, they make sure -in advance – that subordinates understand how the system works and why intrusion is sometimes required. But they don't use that prerogative as an excuse to dabble in everyone else's territory.

Another organizational bias worth noting is that the best GMs organize around people rather than concepts or principles. When they have a strategy or business problem or a big opportunity, they turn to the individual who has the right skills and style for that job. Then, having made the match, they delegate responsibility without hemming the person in with a tight job description or organizational constraints. Then managers feel more responsible for results simply because they are more responsible.

I've seen many GMs who thought they were solving major problems with logical sounding reorganizations that left out the most essential ingredient - the appropriate leader. Naturally; those reorganizations accomplished very little. You can't ignore organizational logic or strategic fit, to be sure. But people are usually the dominant consideration.

Trite as it may sound, somewhere along the line, the best GMs have learned the value and impact of teamwork. With so much emphasis today on financial restructuring, strategy formulation, and technology, it's not surprising that many executives get ahead by spearheading successful projects in their particular functional areas. They learn to push their ideas through a small, narrowly based group of subordinates and peers but not how to manage a diverse team of executives from several areas. And they learn almost nothing about the problems of implementing their ideas in other functional areas or integrating the efforts of a disparate, often geographically dispersed group of managers.

In contrast, the best GMs routinely bring managers together to talk about the business, to get multiple inputs on important projects, and to line up their support.

Finally the best GMs use staff people well and expect them to make positive contributions, not to nit-pick or "gotcha." They appoint strong functional leaders (not line-manager rejects, politicians, or tired old pros) who can provide innovative, idea-driven leadership (not just ask good questions) and can transfer ideas across the organization. As a result, line managers respect and use the staff instead of writing unfriendly memos or playing unproductive political games.

Up and Running

The sixth and last area of responsibility for a GM is supervising operations and implementation. That means running the business day-to-day by producing sound plans, spotting problems and opportunities early; and responding aggressively to them.

Top GMs are usually very results oriented. Their operating plans are commitments, not just something they're trying hard to achieve. They know the numbers and what's required to meet them. But they also know that surprises will occur, so they keep enough flexibility in their spending to allow for competitive threats, good new ideas, or softer volume. Unlike less resourceful GMs, they don't miss their profit plan every year because of expected unexpected events.

At the same time, they don't wreck the business to "make plan" in a serious downturn. If business drops off sharply; they move faster than others to scale back costs, cut discretionary expenditures, and eliminate losers. But they don't sacrifice competitiveness just to look good in a bad year.

Next, they push for functional excellence all across the business. In contrast to the GM who is satisfied to have one or two high-performing departments only; they demand superior execution in every function. They also refuse to let weakness in one or two areas (like control, R&D, or engineering) neutralize their strong departments. As a result, they get more out of every strategy and every program than their competitors do.

A keen sense of the organization's capabilities separates top GMs from less able executives. They don't commit the company to more things than it can handle or - at the other extreme - to a pace that falls short of its capacity. They also understand the impact of concentrating on a few things at one time. At May Department Stores, for instance, David Farrell achieved almost miraculous improvements in shrinkage, inventory levels, labour costs, and store-level merchandising simply by focusing the entire organization's efforts on these mundane operating problems.

These managers are also bugs on costs. They understand the "money mechanics" of their business: how costs behave as volumes shift. And they don't let cost percentages get out of control however "reasonable" the explanation may be. For example, they simply won't permit overhead to rise from 12% of sales to 14% no matter what. They continually search for ways to do things better at lower cost. And they don't settle for vague answers, wishful thinking, or lack of follow-up when new departments or programs are proposed.

Finally; top GMs use information better than their colleagues do to spot problems early and to identify potential competitive edges. It isn't a question of more information; they simply use information better. Partly it's because the best GMs are that rare combination of fine operator and fine conceptualizer. But it goes beyond that. Figures and facts mean something to them because they know their customers, products, and competitors so well. And they never stop trying to read those facts and figures for clues to an edge in the marketplace.

They train themselves to ask "so what" and "why." Field visits to plants and offices provide them with first hand information. They demand reports on what's important, not sheets and sheets of data from MIS. Above all, they've learned to listen, to be genuinely interested in what people think about the business, the competitive environment, strategy; other people, the organization - the works. Lawrence Bossidy; vice chairman of GE, put it well: "If your subordinates don't have good ideas, get rid of them and get some who do. But when you have good people, make darned sure you listen to what they have to say."

To sum up, outstanding GMs affect their companies in six important ways. They develop a distinctive work environment, spearhead innovative strategic thinking, manage company resources productively, direct the people development and deployment process, build a dynamic organization and oversee day-to-day operations. Individually none of these things is totally new or unique. But successful GMs are better at seeing the interrelationships among these six areas, setting priorities, and making the right things happen. As a result, their activities in these areas make a coherent and consistent pattern that moves the business forward.

These six responsibilities don't tell the whole story; of course. Leadership skills and the GM's personal style and experience are important pieces of the whole. But focusing effort in these six areas will help any GM become more effective. And that should mean making the right things happen faster and more often - which is what all of us want to achieve as general managers.

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