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Avoid change at your peril

No business model lasts forever

Presented by



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It is comforting to think that the conditions that destroy organizations arise suddenly. After all, it is easier to forgive managers who fail to adapt to unprecedented situations or those that seem to occur without warning than to hold their feet to the fire. However, with few exceptions, most long-term change moves at glacial speed and telegraphs its existence well before it has substantive impact.

General Motors, for example, has had almost six decades of declining market share. Despite management promises for "a renewed sense of urgency" (1998), decreased complacency ("make no mistake; we do not accept GM's continued share decline" (1999), and action ("there are places where we have plenty of room to improve. And improve we will" (2003), it is far from clear that the latest round of government-induced life support will improve GM's future.

Rather than delay the inevitable, what GM really needs is not more hope, handouts and subsidies, but a plan that reflects what it is, what it represents and how it is going to compete.

One place to start is with Peter Drucker's Theory of the Business. Based upon the idea that all organizations operate under a core series of assumptions managers make about their environment, market, customers, competitors and technology, Drucker believed that each firm's theory defined how they behave.

No business model lasts forever. For Drucker, however, the problem is that incremental adjustments are doomed to fail. Instead, he proposed two measures.

The first, abandonment, requires challenging every single product, service, policy and channel with the question, "If we were not in this already, would we be going into it now?" Famously adopted by neutron Jack Welch in his revitalization of General Electric Co., this strategy required the exit or sale of all business units that were not first or second in their markets. Abandonment can create significant shareholder value but is a form of shock treatment few have the courage to embrace.

The second approach studies non-customers to understand what is missing from the current strategy or what is being performed poorly. Volkswagen AG used this approach when it first focused on the overlooked market for small second vehicles. Although this sounds relatively easy, success creates deep groves that can be hard to escape. Execution is hampered by a strong preference to examine success

rather than failure. As unbelievable as it sounds today, when Nissan Motor Co. made its main entry to North American markets in the 1960s it chose to use the name Datsun so that the parent company would avoid the damage to their reputation if the small cars failed.

GM has tried both of these strategies, albeit unconvincingly. Although it remains to be seen if GM will actually shutter brands or simply reabsorb them elsewhere, they have begun to shed poorly performing units. Similarly, GM's Saturn division, while it started as a bold attempt at reinvention, was poorly executed and never achieved its promise. Instead, for much of the past 60 years GM has operated under minor adjustments to four assumptions. The market is homogeneous; people will regularly buy and trade up; North American cars have acceptable initial quality; and after-sales service is not particularly important.

These are all questionable but emphasis on initial quality in particular shows just how out of touch GM has become. Their vehicles may have the same or even higher initial quality than imports, but it no longer matters. Initial quality is irrelevant because everyone has it. Long-term quality and after-sales service, areas where GM underperforms, are much more important.

For the past seven years I have asked my students what kind of car they think that they will drive in 10 years. Their answers paint a dismal picture. Most imagine themselves driving Honda, Toyota and Nissan. GM has ceased to be an aspirational brand.

There are two messages for GM. First, quality is indicated by resale values and service costs, not merit badges and magazine articles. GM must rebuild its reputation with after-sales service and warranties. Second, future markets are critical. Before the inevitable next round of subsidies, GM needs to explain how it will win markets that do not consider its products. They must rediscover the creative half of Austrian economist Joseph Schumpeter's "creative destruction."

Adapting to what seems like seismic change is difficult. The Internet, which turns 40 in October, has created threats to all organizations that are at least as significant to those facing GM. Accepting the inevitability of major change does not mean that it has to be a surprise and we should resist the tendency to describe it as such. When you think about the theory of your business it is wise to think about the underlying assumptions and the extent to which they are still valid.

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