Building Breakout Strategy

Positive and Negative Leadership Capabilities in Action

Breakout strategy requires leadership. In fact, there can be no breakout strategy without breakout leadership. Remarkably, our research has pointed out the importance of both "positive" and "negative" capabilities that leaders must combine to maximize breakout opportunities.

Breakout is a structured and purposeful approach to corporate change and market transformation, leading to spectacular performance improvements and dramatic business success. It is a deliberate and innovative course of action initiated by individuals and teams in pursuit of routes to high growth and market prominence. Breakout strategy is an action framework for the delivery of accelerated expansion, founded on strategic excellence from beginning to end, and providing a systematic route to market triumph. Surprisingly, those companies that purposefully set out to excel are remarkably few and far between. Those that do so in a logical and consistent way are even fewer. Breakout strategy is a state-of-mind as much as a step-by-step process and it signifies the assimilation of intent to be the best with a system for taking you there.

Breakout may be associated with the rapid growth of a new industry or market arena or the emergence of a formidable new competitor rising to dominance in an established industry. Breakouts typically are accompanied by sudden and dramatic increases in output, performance and levels of activity. From a strategy perspective, what matters is the process by which enterprises come from nowhere to achieve prominence, if not preeminence, in their chosen markets, usually in the space of a few years. In some cases, entirely new companies like Google or easyJet experience breakout. In other cases, established companies like Apple or Burberry breakout from existing positions to create or conquer new markets at home and abroad.

Breakout strategy requires leadership. In fact, there can be no breakout strategy without breakout leadership. In virtually every instance of breakout, fundamental decisions with long-lasting impact are made, and we know that they are made by the people leading organizations toward the goal of double-digit growth. In truth, one of the most difficult challenges in any breakout is the creation of a momentum for change, of a new agenda that is designed to transform an organization from second-tier player to industry leader. Remarkably, our research has pointed out the importance of both "positive" and "negative" capabilities that leaders must combine to maximize breakout opportunities. This article explores what these capabilities really are, and how to think about leadership when seeking, or confronting, a breakout opportunity.

Positive Capabilities

On the face of it, positive capabilities seem easy to understand. In point of fact, however, demonstrating positive capabilities is much more difficult. Consider Paul Pressler, who took over as CEO of the mega-retailer Gap in 2002. A big part of his turnaround strategy was to install world-class managerial processes in a company that had followed a more entrepreneurial trajectory for years. So, rather than sit with clothing designers and debate what he liked and didn't like (actually not that unusual in the fashion business), Pressler asked questions that forced people to consider basic business principles, such as whether the consumer liked it or not. While not revolutionary in many companies to be sure, an emphasis on what the marketplace was demanding, as opposed to what internal staff wanted the marketplace to demand, was an essential mindshift.

Unfortunately, Gap's attempt to breakout under Pressler has not been successful to date. Fashion retail requires fashion taste, making the right design calls, and staying hot in the minds of consumers, and Gap has yet to bulk up in these areas. This example is instructive, for it highlights that positive capabilities in the absence of execution are often not enough.

Two quick side notes: First, the idea that a company knows more than its customers is almost always a failing proposition. While there are occasions where customers need to be educated on what a provider can do for them (this was true in the earliest days of fiber optics, for example), most of the time this attitude arises from leadership arrogance and narrow-mindedness. Many high-tech companies have fallen into this trap over the years, including Motorola (believing that their analog mobile phones were preferred by customers as digital began to take off), Cabletron (assuming customers wanted to just buy technology as a product, and not a solution to their networking problems), and Iridium (the satellite communications company that assumed customers would flock to their gee-whiz technology despite outrageous pricing and inherent equipment limitations). Would-be breakout leaders will do well to dispel such notions right from the beginning.

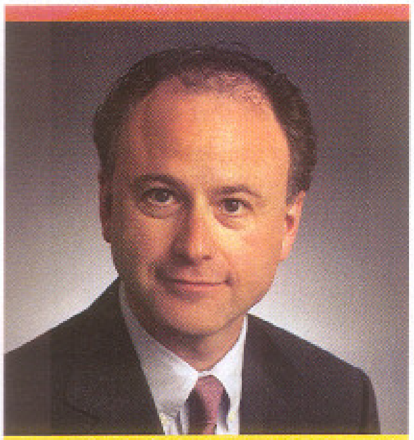
Second, the ability to effectively manage change is an essential part of the breakout leader's capability set. Despite the hard slogging, many of Paul Pressler's changes at Gap were long overdue, really a prerequisite to change in that instance. In much the same way, other recent turnarounds have put breakout CEOs front and center in leading change. And this is where positive capabilities do play a big role—the ability to recognize when something is not working, the internal strength of character to resolve to do something about it, and the capacity to articulate and inspire people to follow this lead. Mark Hurd, the breakout leader at HP who has been quickly transforming that former laggard to a new leadership position in information technology and consumer electronics, puts it this way:

"When things weren't right in the past, they were fixed. If things aren't right now, we've got to fix them. If that's countercultural to the past few years, so be it. We're just trying to run the fundamentals of a sound business."[1]

The ability of a leader to inspire and to set a vision that others care about are among the most important of positive capabilities. Breakout leaders have primary responsibility for developing the vision of the enterprise. Further, at the heart of any inspirational leader is the highest of ethical values. We need not be reminded of what can happen to an organization that may have many other positive, perhaps stellar, attributes when senior leaders allow their ethical compass to go off kilter. Breakout involves, by definition, considerable change and transformation. It is not a status quo event, and so there are many balls in the air and competing demands to address. In this environment, it is essential to remain vigilant as a leader, and to actively promote ethical conduct and values. In truth, when the pressure is on (think WorldCom), there are temptations, and the most effective breakout leaders channel their awareness of inherent risk toward real vigilance.

Breakout leaders must also build commitment in their organizations toward change. The reason why many companies don't embrace breakout, remain on the sidelines or as laggards, is because their leaders allow it to happen. As Ed Zander, the CEO of Motorola who is in the midst of a classic "laggard to leader" breakout, puts it, "leaders often don't want to shake things up; they prefer to remain in their comfort zone." He relates how much of the demise of companies in the old Route 128 high-tech corridor around Boston—DEC, Wang Labs, Honeywell, Compaq—was due to their unwillingness to reinvent themselves in the face of changing markets. There is no doubt that changing markets create huge opportunities for breakout, whether it is an entrepreneurial company jumping to a new market space, an established company migrating over via refined value propositions and business models, or even those rare companies that actively seek to restructure markets, but nothing can happen without leaders who are willing and able to see the opportunity. That is a lot of what we mean by positive capabilities—leaders who can both articulate an inspirational vision and mobilize resources toward realizing that vision. For breakout strategies focused on market leadership after a sometimes long period of malaise, CEOs like Ed Zander focused on getting people to believe in themselves again, restoring the company's positive culture and confidence, and generating commitment among managers and employees alike. Zander crafted a card that all employees now have—to remind them of what the company stands for and what the commitment is—customers, innovation, principles (doing the right thing), one Motorola (cooperation and not warring tribes), and performance (I'm here to win)[2] - use. Breakout leaders don't just choose direction and expect people to follow, they inspire others to want exactly the same thing. The best breakout leaders have followers, this is true, but those followers have completely embraced the same vision as their leaders. Any way you look at it, that's a pretty powerful combination for change.

Accountability is another key attribute of successful breakout leaders.



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1 Lashinsky Adam. "The Hurd Way: How a Sales-Obsessed CEO Rebooted HP," *Fortune*, April 17, 2006, p. 100.

To generate confidence among internal and external stakeholders, an organization must back up what it promises to do with real actions. This is critical when thinking about how to deliver the promise of a value proposition, but for leaders it goes even further than that. Accountability means that there is a performance orientation at work, that people know there are high expectations that must be met, and that leaders hold their people to those expectations. It is hard to imagine how breakout strategy can take hold in an organization that cannot back up its talk with meaningful action. For example, when CEO Mike McGavick joined Safeco Insurance in 2001 after the company chalked up five straight years of declining return on equity, the Seattle-based property and casualty insurance provider, one of his first priorities was to instill a renewed sense of responsibility to management and employees. He said it was essential to "hold the people and their organizations accountable for what we say we will do. We develop a plan together, people go off and do their work, then it's my job to make sure there's a pattern of accountability to that and a process of discovering results relative to the promises."[3]

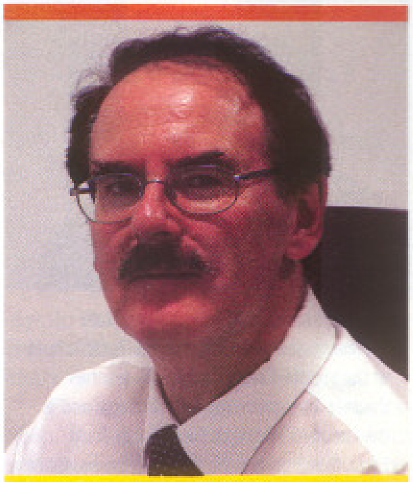
Finally, an important characteristic of breakout leaders with positive capabilities is their resolve in seeking out new opportunities. These leaders are unafraid to make decisions, often tough decisions that entail a nontrivial degree of risk. Such was the case at CEMEX under CEO Lorenzo Zambrano, who spearheaded a classic breakout that restructured an entire industry. From a base in Mexico, the company has expanded via mergers and acquisitions around the world. As Zambrano puts it: "If there's an opportunity, either you grab it or you let go. If you let go, you don't grow."[4] Resolve in the face of tough decisions is a key part of breakout, and positive capabilities are essential in this.

Negative Capabilities

Negative capabilities are perhaps the most difficult to understand for executives. How can you be negative? Isn't "negative thinking" one of the best ways to fall out of favor in most companies? Well, unbridled negative thinking is not optimal, to be sure, but imagine an organization that consists of only positive thinkers! Where will the debate, the challenge, come from? How will such organizations be able to adapt to change if no one is asking the tough questions? Is breakout even possible when the entire executive team speaks with one voice on all issues, even in private?

We believe the most successful organizations are the ones that have open discussion and analysis. Many of the famous failures of the last five years—Enron, Tyco, WorldCom, Vivendi, and Parmalat—were characterized by a remarkable degree of unanimity at the top. These executives really believed they had it all figured out, and as a result there was little real debate and analysis. CEOs in these companies in particular were able to take advantage of the culture of silence to make decisions that ended up costing shareholders billions of dollars, and employees their livelihoods.

In contrast, breakout leaders pick up on emerging trends, see opportunities when others see problems, fear not acting more than they do sitting still, and have the balanced confidence to lead. This latter point is an important one, and not always fully understood. Leadership certainly requires a significant degree of confidence, yet there are many examples—particularly from recent history—of leaders whose confidence turned into arrogance. So, leaders like Jeffrey Immelt of GE, Alan Lafley from P&G, and Ed Zander of Motorola are unafraid to make big changes to their businesses in part because they have the confidence to see a reasonable picture of the future and energize others to seek that future. But, unlike Jeffrey Skilling at Enron, Martin Glass at Rite-Aid, and Maurice Saatchi at the old Saatchi & Saatchi—each of whom also saw a future but one with unlimited potential that provoked unbridled aggressiveness devoid of balance—these leaders are aware of their own, and their organization's limitations. Ed Zander calls this "confidence without arrogance." There is a fine line between appropriate confidence and over-the-top arrogance, and the best breakout leaders inherently understand that they can't cross that line.



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In 2006, Professor Harvey published *Business Elites and Corporate Governance* in France and the UK (Palgrave Macmillan), co-authored with Mairi Maclean and Jon Press. His latest book, *Breakout Strategy*, written with Sydney Finkelstein and Tom Lawton, was published by McGraw-Hill in November 2006. He has been joint editor of *Business History* since 1988.

2 The comments attributed to Ed Zander in this section are from a speech at the Tuck School of Business, March 28, 2006.

3 Frayne Colette A and Callahan Robert E. "Safeco CEO Mike McGavick on Leading a Turnaround," *Academy of Management Executive*, 18 (3), p. 144.

4 Lindquist Diane, "From Cement to Services," *The Chief Executive*, November, 2002, http://www.findarticles.com/p/articles/mi_m4070/is_2002_Nov/ai_94145241.

Some of the most compelling examples of great breakout leadership in recent years—Michael Dell at Dell Computer, Andy Grove at Intel, Margaret Whitman at eBay, Herb Kelleher at Southwest Airlines, Lou Gerstner at IBM, to name a few—have precisely the balance we are writing about. Anyone who has ever met any of these CEOs and now former CEOs would certainly not say that they didn't believe in themselves and their companies, but at the same time few would ever label these leaders as arrogant. They started from the perspective that their organizations were vulnerable, that things sometimes do go wrong, and that humility fired up a culture that was all about excellence in ideas and execution. Take Michael Dell, for instance. Almost ten years ago, while not quite the powerhouse the company has become, he explained his philosophy in an interview in the magazine, *Industry Week*:

"You have to be self-critical to succeed. If you sat in on our management meetings, you would find that we are a remarkably self-critical bunch with a disdain for complacency that motivates us. We are always looking to do things more efficiently. We are 99% focused on what is going to happen and what could change the business in the future. We ask ourselves what are the risks to the business, what could go wrong."[5]

Why is this significant? Because this type of self-analysis and questioning sends a clear message to the entire management team that over-confidence is out and careful attention to reality is in. Breakout leaders benefit from this mindset because it helps keep them grounded, and in fact may help generate new ideas on what is possible by applying the logic to competitors. Remarkably, Michael Dell tells the same story today, an indication that the "balanced confidence" approach to breakout pays dividends:

"We think about failure all the time. We've been able to simulate failure in our minds before it happens and avoid extinction or disastrous consequences because we've thought through all the bad things that could happen."[6]

Negative capabilities are not only about open-mindedness and adaptability, as important as these characteristics are for breakout success. Organizational life is characterized by significant ambiguity, paradox, and change. Managers and employees look to their leaders for guidance on how to operate in such a world. The best leaders have the ability to cope with anxiety-provoking situations, with uncertainty, with resource constraints. Rather than jump to quick, and often not well thought-out solutions to problems, they are comfortable enough with ambiguity to promote testing, evaluating, and absorbing behaviors.[7] World-class negotiators have understood this logic for years—often the best response is to wait out your opponent, learn more, ask questions, and seek answers that go beyond the obvious. When Michael Dell pushes his leaders to ask the tough questions, he is implicitly saying that the answers are not obvious, we need to listen and understand better, and by doing so we will be in a better position to act when the time comes.

Finally, how do you know whether the leaders in your organization have the capability to do what we are advocating here—ask tough questions, display open-mindedness, learn from mistakes, and listen carefully to others? One of the efforts we have undertaken with a variety of organizations in the US, Europe, and Canada is to develop an "early warning system" that, in part, addresses precisely this question.[8] Through a series of carefully validated questions, we are able to assess the extent to which managers display these skill sets, and suggest areas for improvement if there are shortfalls. Here are some examples:

- To what extent is your management team open-minded in seeking answers to the problems you have?
- Do you do a good job of learning from past mistakes to avoid their recurrence?
- Do you sometimes rely on the same solutions from the past even when the challenges you face are different ones?
- Do you expect everyone on the management team to express 100% agreement around a strategy?
- Does your management team do a good job at not just accepting the surface answer, but pushing for more information when required?

These questions are part of a larger battery of questions that make up the "early warning system" for breakout strategy. They identify whether a management team is well-positioned to take advantage of strategic opportunities that offer breakout possibilities. It is critically important to understand that no matter how great the breakout opportunity "in theory", it simply can't be pursued without world-class leadership. Again, breakout strategy requires breakout leaders, and the often over-looked set of negative capabilities we have discussed here are an important part of what is required.

In conclusion, while managers spend so much of their time on thinking positively, in truth the best managers are those that can simultaneously combine the best of positive and negative capabilities. Both are critical for effective breakout, and hence, should be at the top of the list when we select and evaluate managers charged with leading change and transforming organizational fortunes—the breakout leaders that really make the difference in success and failure.

Note: This article is based on *Breakout Strategy: Meeting the Challenge of Double-digit Growth*, by Sydney Finkelstein, Charles Harvey, Thomas Lawton (McGraw-Hill, New York, 2007). For more information, contact Sydney.finkelstein@dartmouth.edu.

Reference # 03M-2007-01-07-01

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6 Stewart Thomas A and O'Brien Louise. "Execution Without Excuses," *Harvard Business Review*, March 2005, 83 (3): 102-111.

7 Simpson Peter French Robert, and Harvey Charles E. 2002. "Leadership and Negative Capability," Human Relations, 55 (10): 1209-1226.

8 Finkelstein, Sydney, 2004. "Seven Habits of Spectacularly Unsuccessful Executives and How to Spot Them," *Ivey Business Journal*, January-February: 1-6.