Amir Hartman • Craig LeGrande

"A very timely book. Hartman and LeGrande show organizational leaders a path to managing through turbulent times."

—Vijay Govindarajan, Coxe Distinguished Professor at Dartmouth's Tuck School of Business, and *New York Times* and *Wall Street Journal* Best-Selling Author

RUTHLESS EXECUTION

How Business Leaders Manage Through Turbulent Times

SECOND EDITION

Ruthless Execution

Second Edition

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Contents

Part III: Critical Capabilities

Part IV: Governance

Part V: What It All Means

Foreword

When I joined IMS Health in 2000 as the CEO, I set ambitious goals for our business and challenged the executive team to look beyond the status quo to find new growth opportunities.

Our company was doing well but we had hit a "wall" in our effort to create further growth in our business. By increasing the company's investment in core data assets, analytics, and new product development, and dramatically strengthening the company's consulting and services capabilities, we were able to expand IMS Health into new markets and draw in new customers.

As an outcome of our management discipline, we were able to ramp up the company's pace of innovation and enhance IMS's global execution. But this did not mean that all went smoothly throughout my tenure. I think the adage is true that the most dangerous times for companies are when things are going well. There are no guarantees in business, and hitting performance walls can happen with very little warning. Leaders must persistently challenge their teams to innovate to avoid market pitfalls—and to accomplish this, business leaders must be focused on both setting a smart strategy and executing against it year-to-year.

Being able to make a quick, solid recovery from any bumps in the road was a skill that I found often goes unrecognized. That is why I have been delighted to read *Ruthless Execution* and to find that it offers a set of guidelines on how to avoid and manage through performance walls. As the book points out, leadership in today's marketplace requires continuous transformation. Breaking through performance walls is when one is truly tested. It's when the greatest pressure is put on the leadership team to deliver.

I like the way *Ruthless Execution* frames how leaders should develop a well-aligned set of strategic and portfolio management disciplines to ensure agility in the business. And how they can achieve new levels of customer loyalty and business performance through a reinvigorated focus on the customer and by communicating the true value of their company's products and services.

These simple and powerful frameworks—from strategy formulation to operational controls and corporate governance—offer business leaders a set of tried and true concepts to transform their own management practices. Of particular value is a new set of "critical capabilities" outlined in the book—customer success management and technology innovation—that provide thought-provoking models business leaders need to consider as they draw up their own strategic plans.

I've learned in my own business career that success is driven by a cogent strategic vision, simply communicated, managed continuously, and paired with strong incentives to ensure successful execution.

The true value of this book is in giving executives an understanding of what it means to engage in ruthless execution in today's turbulent economic times. The message of the book is simply this: Hitting a performance wall is inevitable. But as this book so wisely points out, we as leaders can effectively leap over these walls with the right leadership practices in place.

—David Thomas, former CEO of IMS Health and
chairman of Fortune Brands, July 2014

Acknowledgments

In our 25 years working for and advising some of most admired companies and business leaders, we have had the privilege of rubbing shoulders with many business leaders who served to enrich our understanding of the business world.

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We want to express our sincere gratitude to Rob Bracken for some crucial advice and the time he gave in shaping the structure and writing of this book. We also want to thank our colleagues at Mainstay—not only for their encouragement, but for their input on many topics. Lastly, thanks go out to our families, who often feel the burden of such a project the most. We are truly grateful for their support.

About the Authors

An authority on corporate and technology transformations, **Amir Hartman** is an international bestselling author and advisor to leading global businesses. Hartman has been on the faculty at Columbia's Graduate School of Business, Berkeley's Haas School of Business, and Harvard Business School Interactive where he's taught management of innovation and technology to senior business leaders. A frequent speaker at business leader forums, he is the author of several influential books, most recently *Ruthless Execution: How Business Leaders Manage Through Turbulent Times*. Prior to forming Mainstay, Mr. Hartman served as managing director for Cisco System's Corporate Internet Strategy and the Internet Business Solutions Group. In this role he was responsible for shaping Cisco's Internet business strategy and advising key customers on Internet business strategies.

Craig LeGrande has served as senior advisor to leading companies in the automotive, retail, and high-technology industries, helping them identify new market opportunities and develop effective capital investment strategies. The author of more than a hundred case studies and research papers for high-technology leaders such as Oracle, SAP, EDS, BearingPoint, EMC, and Network Appliance, Mr. LeGrande is an expert at proving business value by means of objective, quantitative evidence and analysis. Prior to forming Mainstay, Mr. LeGrande worked in Cisco's Internet Business Solutions Group and Accenture's Strategic Services group. He received an MBA from the Tuck School of Business at Dartmouth College and a BS in Electrical Engineering with Honors.

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1

Introduction to Ruthless Execution

Ruthless execution is the term we use for the methods and strategies business leaders employ to break through performance walls and manage through turbulent times. We first employed this term in 1996 when we were doing work for Hewlett-Packard (HP). During the research process for this and our first *Ruthless* book, it became clear that the same term captured the essence of the strategies that business leaders execute to overcome tough or turbulent times.

Few books have focused on how companies navigate tough times and how these same companies have come back stronger and more nimble from that experience. Books on American corporate life have tended to proffer advice on how to steer a business during good or "normal" times. As we've witnessed over the past decade plus, leaders are realizing they need to plan for more of a roller coaster ride than a rocket ship. A new fact of life in business has become clear: Invariably, business leaders are going to experience tough or turbulent times. Accordingly, this book tries to prepare companies for taking advantage of the "ups" as well as offers practical ways to build corporate resilience to manage through the "downs."

Hitting a Performance Wall

We define **hitting the performance wall** as a rude awakening that occurs when a company has enjoyed consistent high-level performance and then experiences two or more years of flat or declining

growth. This flat performance can be driven by different factors: a downward turn in the economy, a lack of product innovation, growth that occurs too rapidly, a missed market opportunity, or, as is most often the case, ineffective execution. The awakening is typically "rude" because most business leaders don't see it coming, and it is often preceded by strong performance.

In this book, there is no attempt to explain why companies hit a performance wall. That sort of analysis has been the subject of a number of other books and articles. More important to note is that what causes reversals is most often controllable. Irrespective of cause, almost always it is an inability to focus and execute that is at the heart of the problem.

Indeed, if hitting a wall has become a new business norm, if the potential for a business reversal haunts the leadership of companies more now than at any other time, it makes sense to offer urgent guidance on how to navigate a path of success, or how to recover after *hitting the wall.*

From 2000 to 2003, we investigated companies in this predicament, companies that over the long run had been strong performers, but from time to time had fallen into periods of stagnation. From our research, we came up with a way of looking at these companies that we found extremely useful.

The long and the short is that it's becoming more and more difficult to be a successful business leader. Given the quickened pace of change in the last few decades—changes wrought by major waves of technology innovation, sharper competition, empowered customers, and "smart" products—the business environment is confusing, complex, and uncertain.

A way forward exists that requires doing nothing more than studying business leaders who have gotten themselves through these difficult situations. *The leaders who have pulled themselves through these*

tough times share certain behavioral patterns, exhibiting "ruthless execution."

In 2000, watching companies struggle with the collapse of the "New Economy" and ensuing economic downturn, we became interested in uncovering the ingredients that leaders who overcame these struggles shared. That became the thrust of three years of research, which eventually made it clear that *the notion of ruthless execution could serve well as a powerful and overarching framework for guiding business leaders through turbulent times and performance uncertainties that inevitably occur.*

The research examined companies that had at one time or another suffered setbacks. The goal was to discover what practices these companies employed that helped them break through the performance walls and manage through these times. The means was to study a diverse set of industries and companies, large and small, using surveys, company documents, research reports, publicly available financial data (10-Ks), and, where possible, interviews with key business leaders. At times, we served as a consultant to these companies, enabling us to build case studies of these enterprises.

What we learned is that ruthless execution means that business leaders take the time and opportunity to study the issues—and then act on them. During tough times, leaders do not have to rush into making decisions, but just the opposite. They have predefined strategic and operational methodologies that allow them to uncover issues early and react prudently, focusing the company's efforts to drive through the wall. Indeed, business leaders who have broken through performance walls have tended to be very fact based, team oriented, and analytical in their approach to problem solving.

Exhibiting patience is a definite requirement for making decisions in uncertain times, because the last thing you want to do is to suggest that it is easy to revitalize an organization.

To be clear, this book is not about fixing companies in crisis. This book is about learning from leaders who were able to manage through the turbulent times and perform again. The plain truth is that most large corporations—more than 90 percent of all public companies—suffer rude awakenings from time to time; indeed, setbacks happen to these large enterprises frequently. Large, established companies can become complacent; they may become too bureaucratic to innovate. Also, innovative enterprises may favor hyper-growth at the expense of discipline and rigor.

To highlight the challenges of consistent performance in these turbulent times, we researched the financial performance of the Fortune 500 over a 12-year period (2001-2012), removing the Great Recession years of 2008-2010 given the exceptional challenges of these years. Over this period, not a single company in the Fortune 500 had consecutive years of revenue and profit growth. Lowering the bar even further, only 3 companies were able to achieve revenue and profit growth for all except 2 years during this period.

Ruthless Execution II

As was the case with the first edition of *Ruthless,* the strategies of ruthless execution are framed in three distinct categories that are already part and parcel of every executive's daily life: *leadership, critical capabilities, and governance*. After a decade of turbulent times in which businesses faced down a great recession and made it through, we wanted to see whether the *Ruthless* concepts were still valid. Did companies who were able to weather the storm employ some of the same strategies? Were new approaches born in the process? Within each of these categories, a number of practices will be detailed throughout the book. What we've tried to do with the new edition is validate what still holds true more than a decade later and, more important, document what's new or different from the previous strategies employed. There is no suggestion that engaging successfully in

any one of these strategies automatically allows you to break through a performance wall. The idea is to point out the common ingredients and practices of business leaders who have figured out how to effectively manage through turbulent times.

Leadership

Leadership frames the specific actions that drive strategic recalibration from formulation to execution, and to a degree, the characteristics that business leaders need to overcome business reversals. The focus in the leadership category is on strategic formulation.

The key questions to answer for this category are as follows:

- What is important to your company? How do you fundamentally create value?
- What is your "return on strategy"? Are you effectively balancing between performance-oriented initiatives and growth efforts?
- Has a clear focus been defined and effectively communicated throughout the organization?

What has emerged in the past decade is that rather than this being an exercise that leaders do every three years as part of their long-range planning, today's *Ruthless* leaders employ these concepts on an ongoing basis. The best organizations are continuously undergoing transformational efforts.

After developing necessary strategies, business leaders are ready for the actual recalibration process to occur. They must put in place a number of critical capabilities that are, in and of themselves, the very essence of recalibrating.

Critical Capabilities

Critical capabilities are the specific initiatives that executives must make part of the corporate DNA in order to survive the tectonic

shifts in today's markets. Critical capabilities are very action oriented. As was the case more than a decade ago, these critical capabilities include productivity management, talent management, and focused corporate transactions (mergers, acquisitions, and divestitures). However, two new critical capabilities have emerged: managing customer success and what we call the "cloudification" of business. It is through these critical capabilities that business leaders can leap over their competition and clear current performance hurdles.

The key questions to answer for this category are as follows:

- Are costs and productivity improvements in the DNA of the organization?
- How good are you at finding and getting rid of nonperformers?
- What business functions should you keep and which should you let go?
- What measurable value are your customers harvesting from your products/solutions?
- How is the cloud and Big Data changing the way you deliver value to customers?

Governance

Governance spells out the rules of the game; it deals with issues such as the way decisions get made and the discipline that leaders impose on their teams. Toward that end, leaders need to operate within the governance framework, with accountability, performance management, and discipline as the main strategic drivers for determining how to engage in the recalibration process.

The key questions to answer for this category are as follows:

- Do you have a disciplined process for allocating resources and spending capital?

- Do you use the right performance measures, and are you measuring the right things?
- Do you have a disciplined performance-management process in place?
- Are Big Data and the cloudification of business on the board's agenda?
- Does the board meet regularly with customers to understand the value they are delivering?

Throughout this book, case studies will be used to illustrate a particular ruthless execution strategy. These studies show how the company in question has used one or more of the strategies to cope. We believe that you also can benefit by employing one strategy or another in your own efforts to manage through turbulent times and break through your performance walls.

Lastly, we introduce the Ruthless Execution Index. This index can serve as a "signpost" for business leaders who want to understand where they can improve their ruthless execution. We encourage you to revisit these practices on a regular basis.

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Index

U-V

W-X-Y-Z