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Big Bets, Fast Failures

David Nadler has advised the CEOs of some of the biggest and best-known companies in the world -- a few of which, such as Xerox and Lucent, have experienced high-profile setbacks over the past few years. It goes with the fast-changing leadership territory

by Keith H. Hammonds

David Nadler recalls the day, at the height of the dotcom boom, when the young executives of an Internet consultancy dropped in to buy his 20-year-old strategy firm, Delta Consulting Group. "They looked at us in disdain and said, 'You're an old-economy company.' "

No question, Nadler, 52, is an icon of the old-line American corporation. Since he left his teaching post at Columbia Business School to found Delta in 1980, he has served as guru to CEOs at 50 big companies -- most notably, AT&T, Corning, Xerox, the Limited, and Bristol-Myers Squibb.

As such, he has become intimately acquainted with those companies' successes over the years -- and with the recent, very public collapses of a few. He advises chairman Paul Allaire and president and COO Anne Mulcahy at Xerox, which fought rumors of bankruptcy earlier this year. He also works with Henry Schacht at Lucent Technologies, where strategic miscues led to a shocking $3.6 billion loss in the quarter that ended March 31.

Nadler is author of *Champions of Change: How CEOs and Their Companies Are Mastering the Skills of Radical Change* (Jossey-Bass, 1998). More recently, he's started preaching the notion of the "strategic enterprise" -- an emerging pattern of organizational architecture that combines strategically aligned businesses to maximize flexibility and focus. (Last year, he sold Delta, not to a dotcom upstart, but to Mercer Consulting Group. Its new name: Mercer Delta Consulting.)

The central problem for leaders of large companies, Nadler argues, is the dramatic acceleration of business over the past decade. In a recent interview, he spoke to Fast Company about leading in a maelstrom, assessing enterprise elasticity, and navigating failure.

At 70 MPH, Failure Comes Faster

The single greatest consequence of the past decade for corporations and their leaders is the dramatic change in clock speed. Today, every business is an information business. Thanks to widespread digitization and communication linkages, deals and innovations happen on a much shorter time cycle. At the same time, the speed at which strategy deteriorates and the speed at which decisions must be made is picking up a faster pace within every company we advise.

Transactions that used to take a week now take a day or a couple of hours. Decisions you used to put off for a week now can't be pushed back. And the consequences of those decisions are seen immediately, not months or years later. So the way companies work, and the way they run

themselves, has changed in very profound ways.

In this high-speed environment, the capacity for a leader to destroy enormous amounts of economic value in a short time is awesome. Value evaporates overnight. That's why so many CEOs are being fired so quickly. The new transparency of information heightens the potential for wrong moves to create faster shifts of value, as perceived by investors. Value has become much more portable and transient.

At the same time, traditional financial measures are lagging measures -- they're the rearview mirrors, not the headlights. When I'm traveling at 70 MPH, lagging measures become less and less relevant; financial indicators from a month ago -- the results of decisions made six months ago -- are now ancient history.

Beware: Balance Sheets Can Kill

But corporations' real financial risks don't come from operating problems. The biggest threat is the tyranny of the balance sheet. If you look at Lucent and Xerox, huge operational issues are overshadowed by serious damage done to the balance sheet. Corporate debt created such a burden that it became oppressive.

If you have a profits-and-losses problem, you can take a few quarters to work it out. Your stock may suffer while you fine-tune things, but your business will become more effective in the long run.

But when you have a balance-sheet difficulty, a problem with liquidity, it overwhelms everything else. You're worried about the next revolver loan coming due or the next agency rating. If you don't worry about that stuff, you're out of business. But fixing the balance sheet has nothing to do with the underlying business itself. As you try to sell assets or raise cash or get new investors, you're not addressing the customer, the product, the people, or the processes. Fixing the problem becomes a whirlpool that sucks your company down.

Transparency magnifies that phenomenon. Fifteen years ago, financial information wasn't so readily accessible and visible. Now investors can see that data and make judgments. So can competitors and suppliers.

Ask Yourself: How Elastic Is My Enterprise?

Most failures have nothing to do with strategy. Most hinge on execution. As you grow and move faster, you must master more plain-vanilla tasks. Do you have the right information systems in place? Can you forecast demand? Can you get products out of the factory and deliver them? They are fundamental processes that can derail your business very quickly if you don't pay attention.

Leaders today must also heed enterprise elasticity: How far can I stretch the place? Can I take a large organization and grow it at 30% to 40% a year? If so, how much do I stretch people? Do I stretch them beyond their capacity? If I do, what will happen? Sometimes people start doing things because they fear failure. Those actions often contradict the organization's goals and result in ugly outcomes.

Clearly, a leader has to recognize his organization's bandwidth for plausible change and think, "If I listen to what everyone says, I won't move fast enough. But if I move too fast for too long, I will start to break the thing."

Henry Schacht of Lucent argues that if you can raise people's expectations, results will follow. He's absolutely right. But at some point, people may feel that your expectations are simply beyond organization's the physical capacity. A leader has to be sensitive to the shift. You have to create some process for assessing whether employees are signaling a resistance to change or a test of the leader's sanity.

Understand What It Really Is That You Do Best

Companies don't exist forever. Some survive for long periods of time, but immortality is the exception rather than the rule. Few companies figure out what enables them to live through different eras while there are massive moves in how value is created. Only a few sense those shifts over time and understand themselves well enough to ask, "How can we leverage what we do well to take advantage of change?"

Corning is about to celebrate its 150th anniversary. Not many 150-year-old organizations are widely recognized as successful growth companies. Corning has thrived for so long because it doesn't define itself by its products. Its brand revolves around a commitment to science, invention, and innovation. Corning is an organization whose investments in science lead to discoveries that become leading products or technologies over time. Second, Corning understands that processes, particularly in manufacturing, are important.

And by the way, Corning also knows how to exit a market space. They don't make lightbulbs anymore. They're mostly out of the picture-tube business and the sunglasses business. They've ditched cookware. Why? Because at some point they said, "This is a business that no longer capitalizes on our strengths. We are a company engaged in science, invention, and processes -- usually in things we hope will change the world. That's not what this business is about." They have a clear sense of themselves. Bigger isn't always better.

Moving Faster Means Braking Faster Too

Right now, my clients are figuring out how to apply the brakes. On one hand, companies realize that the demand for speed means they need to brake faster in times like these. The thinking is "We went through period of rapid growth -- and growth hides a lot of sins -- so it's healthy to stop and take a look at cost structures and people now." When talent is scarce, you hire aggressively. As long as people can fog up a mirror, you keep them. Now, guess what? This is probably a good opportunity to take a look at how well your people are really working.

On the other hand, leaders are balancing short-term and long-term objectives better than in previous cycles. Companies are saying, "We have to lay off some people. But what if we lay off 40 people -- employees whom we spent a lot of time and money recruiting and retaining -- and a year from now we realize that they are critical to our business?" Leaders today appreciate the scarcity and value of talent.

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