



Guru interview: Matthew S. Olson & Derek van Bever

Over time, 90 per cent of the Fortune 100 have experienced devastating growth stalls, yet almost the same percentage of those stalls were the result of preventable strategic or organizational factors...

Interview by Alistair Craven

 **Emerald Management First**

Matthew S. Olson (left) is an Executive Director of the Corporate Executive Board (NASDAQ: EXBD). He has been with the firm and its founding parent, the Advisory Board Company, since 1982.

Across his 26 years with the firm, Mr Olson has served as Research Director for the company's strategy & management, innovation, human resources and financial services practice areas.

Mr Olson's own research interests centre on the capabilities required by very large firms to create new businesses and new growth platforms to perpetuate their growth runs, as well as best practice in corporate strategy functions.

Mr Olson holds an undergraduate and master's degree from the University of Minnesota, as well as a master's degree from Johns Hopkins School of Advanced International Study (SAIS). He and his wife, Sally, have two children.

Derek C.M. van Bever is the Chief Research Officer of the Corporate Executive Board (NASDAQ: EXBD). He has also been a member of the firm's Executive Committee since its founding, and was a member of the team that led the firm's initial public offering roadshow in 1999.

Prior to assuming the role of CRO, Mr van Bever served as Publisher of the Advisory Board Company, the Corporate Executive Board's former parent. Prior to that, he served in a variety of research and management positions within the Advisory Board Company, including executive director of the financial services practice.

In his role as CRO, Mr van Bever is responsible for training and quality control for over 1,000 researchers based in the US, London and Gurgaon (India), and for authorship of signature content for the firm.

Mr van Bever's own research interests centre on the barriers to growth in large companies as well as on the economics of customer loyalty in service businesses. He has been invited to lecture on these and other topics at the Harvard Business School.

Hello and welcome. Can you tell us about the role and objectives of the Corporate Executive Board?

Olson & van Bever:

The Corporate Executive Board manages the premier advisory and performance improvement network for leaders of the world's largest public and private companies. We are organized as a series of memberships for heads of function in the organization (human resources, finance, sales, marketing, strategy, etc.), and we currently serve 50 executive constituencies. We are in our 25th year of service and include in our member base executives from over 5,000 organizations and 50 countries, including executives from over 80 per cent of the companies in the *Fortune 500* and 70 per cent of the companies in the *FTSE 100*. Probably the best way to think of our business model is as a high quality, low-cost alternative to traditional strategy consulting for the challenges that executives share in common with their peers around the world. Those of your readers interested in learning more about us can visit our company website, www.executiveboard.com.

What you mean by a stall point?

Olson & van Bever:

We define “stall points” as major turning points in company growth history – significant downturns in corporate revenue growth. We screen for stall points by calculating the compound annual growth rate of a company's revenue for 10 years before and 10 years after every year in the past half-century for which data are available and then scanning for downturns that exceed certain criteria we established. Our methodology is explained further in our book and on our website:

<http://www.stallpoints.executiveboard.com>

Incredibly, you have researched more than 600 Fortune 100 companies over the past 50 years. Do you have any interesting anecdotes you can share with us from your experiences with large organizations?

Olson & van Bever:

We have a lot of interesting company stories in our book – the methodology that we outline above serves to focus us on the most significant events in the histories of large companies across the past half-century. To pick a few that range across the time period we studied:

– In the 1960s, the director of RCA's research labs stated “The physicists have discovered about all

they are going to for the near future” in consumer electronics, leading the company's chairman to make the strategic decision to shift the company's focus away from its traditional core business and into unrelated acquisitions and businesses. Ironically enough, Steve Jobs and Bill Gates were at that time just finishing high school and about to begin companies and careers that would launch a revolution in RCA's former core markets.

– In the 1970s, following the death of Walt Disney, the Disney Company's core group of animators fell victim to neglect, as the generation that created all the classic characters and films retired or defected to other studios (as an aside: the mood in the studios of those days is reflected in a strangely un-Disney film of witchcraft and black magic entitled *The Black Cauldron*). By the time of Michael Eisner's arrival, the Disney board was rumoured to be considering closing the division and purchasing features from the outside. The investments Eisner and his senior team put in place rescued the group, and Eisner summarized its importance at the dedication of the company's new Feature Animation building: “It all starts here. If it doesn't work here, everything else we do doesn't matter.”

– In 1996, Levi Strauss suffered a growth stall that came directly on the heels of the company's most torrid period of growth. The company had achieved a personal best of \$7 billion in sales that year, capping a decade in which overall revenue had more than doubled. And then, the stall. Company sales went into free fall, and its share of the core US jeans market was cut in half by the end of the decade. What's interesting about this story is how a company with sophisticated market research capabilities could completely miss the migration of its market both to the low and high ends. We call the phenomenon that caught them up “premium position captivity” – an inability or unwillingness on the part of management to react to changes in the external environment. Today, with a new management team in place, Levis Strauss has undergone a company-wide transformation, but has yet to return to growth.

You note that stalls are common and are often sudden and surprising, even to top-level management. However, you also state that many stalls are the result of “preventable strategic or organizational factors.” Do these two statements perhaps contradict one another?

Olson & van Bever:

Very often stalls are a surprise to the senior executive team, which can be sheltered from troubling, emerging new realities by still-robust sales figures. The apparent health of financial

indicators causes them to dismiss other signs of problems underlying the company's strategy. But typically, there are other constituencies in the firm who are closer to these emerging new realities, and thus experiencing them more directly.

The sales force, regional offices, market research, or even the high-potential employee (HIPO) cadre of the firm can have direct contact with new developments that are undermining the strategic beliefs of the senior executive team. The trick is to use these sources of dissonant information about the strategic health of the company as constructive challenges, if you will, to the belief system of the senior executive team. More often than not, some internal group of the firm sees the problem coming, but the senior executive team – already flooded with information – dismisses the signals as “noise.”

One of your four main causes of stalls is entitled “talent bench shortfall” – the failure to have adequate leaders. Why do you think companies falter in developing managers and also struggle to implement effective succession strategies?

Olson & van Bever:

Understandably, the development of talent at most highly successful firms is focused on creating balanced sets of competencies that the firm has labeled as critical to its success. Unfortunately, this too often is a backward snapshot of competencies responsible for past success, rather than a forward-looking set of capabilities that reflect future needs.

The disconnect seems to have two sources. First, currently successful firms with strong leaders tend to model their required competencies after the profile of their current leaders. A strong operating firm, for example, can be expected to emphasize operational competencies in its HIPO profiles and programmes. Then, when it needs entrepreneurial skill sets for growth challenges in the future, its internal talent development programmes can miss the mark. Second, it is still the case that many firms are weak at decomposing future strategy into detailed human resource plans and the required changes in recruiting, training and performance management.

To quote you, “for a variety of reasons, questioning assumptions is not something that most top teams do, or do well.” This sounds quite worrying. Can you elaborate?

Olson & van Bever:

Senior executive teams at successful firms develop comprehensive worldviews that are based on shared assumptions about customers, competitors and the evolution of their markets. The past success of the firm reinforces the validity of these underlying strategic assumptions, and thus they can quickly pass into the realm of unstated, untested beliefs. They are held so deeply and so unquestioningly, that they become almost instinctual to the senior-most executives of the firm.

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There are two challenges to effectively managing these belief systems. The first is surfacing and making very explicit these strategic assumptions so that they are exposed to the fresh air of new information. The second challenge is to create the “no fault” space where the senior team can openly test these beliefs against current information and – above all – dissonant opinion from elsewhere in the organization. This latter problem is especially vexing in organizations where senior leadership is focusing hard on execution, and thus wants to project its certainty about its strategic situation.

In the middle of the book you highlight an interesting management problem you have labelled “Missed Strategic Inflection in Demand.” Can you tell us about it?

Olson & van Bever:

“Missed Strategic Inflection in Demand” occurs when a company that is dominant in a product category fails to notice that customers are slowly but surely changing their valuation of the product's attributes. For example, a cell phone company that has relied on the notion that customers will always value ever-smaller physical size can miss a shift back to slightly larger sets that allow new functionalities. Or, a prestige auto manufacturer could miss a shift in customer preference from ever-higher performance to lower

maintenance and higher mileage. We take these kinds of developments for granted now, but in their early, first appearances, they are often interpreted as market “noise” that is limited to specific sub-markets and that will never spread to be the dominant behaviour. Market leaders can be tricked into this dismissal of nascent trends by continuing high growth until it is almost too late and the minority customer preference tips over into the dominant behaviour.

Interestingly, you note that your case files are replete with instances of companies that have blinded themselves into an incipient stall through unquestioned reliance on outdated (or simply wrong) performance metrics. Can you tell us a bit more about this?

Olson & van Bever:

Most great companies are highly data-driven – they’ve created performance metrics that have helped them execute the growth strategies leading to their current success. However, performance metrics that are not refreshed as to their relevance to emerging competitive situations can form a trap, delaying response until a stall is well underway.

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Usually, the problem stems from reliance on metrics that focus on past competitors, rather than new challengers. For decades, the retail banking industry focused on bank deposit share and branch economics, when the real competitive threat was coming from mutual fund growth. Instead of focusing on share of total household assets, banks comforted themselves with share of a shrinking portion of the pie and the costs of an inherently inefficient delivery channel. Likewise, legacy airlines focused for years on yield management on their flights, rather than on their overall cost structures, assuring themselves that full airplanes could protect them from new carriers with dramatically lower overall

costs. Performance metrics need to be stripped out from current competitive situations, rather than providing the false comfort of past success.

In the final section of the book you note that a product-centric firm can find itself “trapped by its own product innovation process.” Can you explain what you mean? What can be done about it?

Olson & van Bever:

Innovation-led companies develop cultures and cost structures that allow them to serially repeat the creation of new products or new product features that earn pricing premiums. Unfortunately, in some product categories, innovation can reach a point where customers cease valuing additions to it – how many parallel razor blades can be fit on a single shaver head? Or, cost can suddenly displace enhanced performance as the dominant driver of customer preference. In either case, the innovation-led company with a premium-based cost structure can find itself trapped by its own business model. The question then becomes, can the company innovate to take cost out, just as, formerly, it innovated to build pricing premiums in?

Can you provide a couple of examples of organizations that have successfully recovered from a growth stall?

Olson & van Bever:

There are lots of examples of companies that have successfully restarted growth following a stall; in fact, we classify 11 per cent of the 600 companies we studied as “growth restarts,” meaning that they recovered after their stall to a material (greater than 6 per cent annually) growth rate from the time of their stall through to the present. The postscript of our book (“If You’re in Freefall”) is explicitly addressed to management teams that believe they are currently stalled and are trying to recover.

Four quick examples of companies that restarted:

- **Bank of America** stalled in 1981, largely due to its ill-fated pursuit of international sovereign lending; the company recovered by 1988 when it returned to its core strengths in small business and retail banking, particularly in its home California market.
- **Caterpillar** stalled in 1975, under attack from Komatsu and other Japanese entrants to the U.S. market; the company responded with a decade-long campaign to reengineer its

manufacturing to a new quality and cost standard.

- **Hewlett-Packard** stumbled, rather than stalled, in the late 1990s, as their traditional engineering culture was no longer in step with the pace and direction of change in the PC and printer markets. Recognizing this change, HP leadership rebuilt its personal computing and imaging businesses to be much more responsive to shifting consumer preferences for style and personal applications over processing speed and business applications.
- **Volvo** stalled in 1995 when, in a desire to avoid home market labour costs, it diversified into a host of non-auto businesses; recovery occurred when, by the end of that decade, Volvo divested its non-auto businesses and ploughed the cash back into re-engineering its auto production lines for lower labour costs.

From your vast combined experience, can you share a few thoughts on the “perfect” structure for a corporate strategy function?

Olson & van Bever:

One has to start with the concession that every company will charge its strategy function with different missions. Especially across the past five years, we’ve seen corporate strategy functions take on a variety of “special missions” for the CEO/MDs office – change management, acquisition integration and cost management initiatives, for example. Also, the function is increasingly being viewed as a rotational assignment for the development of general management talent within the firm.

Despite these “on demand” activities, however, we see a permanent task for corporate strategy that must be maintained, no matter what other transient assignments come its way – as the owner of the set of key strategic assumptions upon which the firm builds its growth strategy. By owner, we mean that part of the senior executive team that serves as the institutional memory of the firm, surfacing and making explicit precisely those beliefs about customers, competitors and market evolution that the senior team holds most deeply and collectively, and holding them up to challenge from new, external, data-based realities.

We’re somewhat troubled then by what we see in our ongoing tracking of the demographics of the strategy function – faster rotations through the position, a movement toward more

improvisational strategy guidance activities and, paradoxically, longer time periods between major, comprehensive strategy reviews. That said, the tactics and staffing recommendations we outline in our book can ensure that, despite turnover and spreading mandates, the strategic assumptions of the firm can be tested against changing realities. 📖

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Stall Points is released on May 05, 2008. For more information and to pre-order the book, please visit:

<http://yalepress.yale.edu>



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