

Under the Buzz

Back to Basics in e-Business

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1. The Soap Opera Continues: HP vs. Hewlett is Looking Like Bush vs. Gore!

Unfortunately, the April 10 scoop by the local *San Jose Mercury News* of Carly Fiorina's March 17 voicemail message to CFO Bob Wayman on the eve of the March 19 shareholder vote is certain to extend the already drawn-out agony of HP customers and employees, as they see the company spend even more time and money in the effort to complete the acquisition. Saying things such as,

"You call the guy at Deutsche Bank again first thing Monday morning, and if you don't get the right answer from him, then you and I need to demand a conference call, an audience, to make sure that we get them in the right place. ... If it's the wrong one [answer], we have to swing into action,"

and,

"We may have to do something extraordinary for those two [Deutsche Bank and Northern Trust, two large shareholders] to bring 'em over the line here,"

Fiorina seemed to come close to the thin line separating aggressive though legitimate actions by corporate executives aimed at securing a vote in a hotly contested election, from dubious practices designed to elicit a result that was apparently not going their way. On the other side of things, William Hewlett, after having turned from popular folk-hero into a bit of a villain for "ungraciously" filing a lawsuit after appearing to lose the shareholder vote, now appears to have some right on his side, possibly justifying the decision of the Delaware court judge to determine that there was sufficient evidence to hold a full trial.

Standing back from the fray, it is sad to see this melodrama unfold, especially in the midst of a continued malaise in technology markets. After all, the idea of one of the computer industry's most venerable

institutions being dragged through this mess is not one that many of us would have expected in a million years. Industry bad boys Oracle, CA, or Microsoft, perhaps -- but HP? Naaah!

2. Hot Issues: From the Andersen Lynching to Expensing Stock Options

Following the tech-related disasters of the past two years (culminating in the recent dramatic fall of Enron and Global Crossing, and leading to the impending demise of one of the accounting industry's most respected auditing institutions, Andersen), the latest shareholder-related topic to attract attention from business leaders and politicians alike is the highly emotive one regarding the expensing of stock options. Since virtually everyone is being drawn one way or another to express his or her views on this controversy, I would like to briefly state my perspective.

At the end of every economic boom, especially a protracted expansion like the one that ended in late 2001, the excesses of poorly grounded corporate executives, who often seem to be rewarded in disproportion to their contribution even in the best of times, inevitably bubble to the surface. In an atmosphere of generalized disenchantment with the shabby and, in some cases, shady business practices that have led to corporate implosions, the instinct to apportion blame soon balloons into a search for the guilty. Soon a lynch mob forms and a few hapless "villains" (which, to their further detriment, may have been erstwhile admired models of success) become the victims of a witch-hunt. The manner in which Andersen is being "lynched" today by the Federal Government may be the best current example of this symptom of deepening mistrust of corporate executives on the part of shareholders.

On a related note, my sense is that it doesn't take long for the press to look further afield for culprits, and stock options, in my view, became embroiled in this spectacle because of the rapid enrichment of CEOs and others, often in spite of their companies' troubles. This is not to say that the fuss about options is without its merits. As Warren Buffett has said on more than one occasion, it is not clear that stock options give executives the same stake as shareholders have, especially when one sees the ways in which corporations ensure that executives profit from their options even if the stock price declines. Recent occurrences such as GE's decision to issue a new round of options in September 2001, to offset the impact of the 9.11 terrorist attacks, can only attract more negative attention about the manner in which companies often seem to administer their executive compensation schemes in apparent disregard for actual business realities.

Combine this with the activities of Senate and House politicians toward creating legislation to force the expensing of stock options, as well as quotes by people such as Alan Greenspan to the effect that, "the current treatment of stock options artificially boosted corporate earnings by a few percentage points a year from 1995 to 2000," and you have the potential for a good scrap. Well, if you accept that companies in some cases have abused the spirit of the stock option code – to the extent that they have privileged management over shareholders – what should be done about it?

Firstly, it seems to me that Warren Buffett's oft-reported 1992 argument that stock options should be treated as compensation, and therefore as a business expense just like any other, is actually fairly logical except for one aspect: risk. Most conventional forms of compensation are assured, provided that a certain contracted input (e.g., completing work duties) or outcome (e.g., achieving a sales or other goal) is delivered by an individual or a team. In contrast, stock options are actually a gamble on the part of the beneficiary, because there is no guarantee that the stock price will be higher than the option strike price when it comes to vesting time. So if you accept for a moment that options should be expensed, what rate should be used to calculate the amount of the expense? The market price on a certain date (which is possibly unfair, when the stocks concerned are by nature volatile, as technology stocks prove time and time again), or a more conservative metric, such as the average price over a given period (say, one full year), since the only shareholder value that is worth anything should be based on sustainability?

More important, in my view, is the issue of what has gone wrong in the administration of stock options, as well as other aspects of corporate behavior. My theory is that this phenomenon is largely a product of the

chronic state of corporate governance these days, at least in the U.S. It seems as if corporate boards have forgotten their serious responsibilities to defend the interests of the shareholders and exercise their oversight duties, and consequently have lapsed into a form of cronyism that in many cases can actually be criminal -- whether by intent or by negligence. Now, I can understand at a human level that CEOs in today's world might feel unjustifiably buffeted by pressure and second-guessing from multiple constituencies (such as financial and industry analysts, federal and state government agencies, minority groups, unions, environmental agencies, shareholders, investors, customers, partners, employees, and so on), and that they might wish to be able to take relative shelter in a relatively friendly board-room every month, rather than face one more hostile constituency in there. But I am waiting for the day when investors rise up to prevent abuses of good sense, as when (increasingly, it seems) CEOs decide to occupy the chairmanship of the board, and from there begin to run the only organization that, theoretically, has any chance of exercising oversight over their activities. This practice is insane in a culture where CEOs are granted almost mystic powers – however temporal – to drive their agendas using every corporate resource in their grasp.

3. What Prevents Companies from Executing Their Strategies?

Altogether now: “*All we have to do now is execute*”. Thus speak executives and managers in high-tech executives throughout the land(s) every day. It sounds like a litany – because for some mysterious reason, it's so difficult to accomplish. Though I have alluded to it occasionally in past editions, I have not previously presented an analysis of the reasons why technology organizations experience such difficulty executing even apparently straightforward decisions, whether it's related to launching a new product, entering a new market, or putting a new alliance relationship into practice. So in this latest *Back to Basics* article I shall explain what I see as the causes of the problem, then discuss one or two keys to enhancing the “actionability” of management's decisions on a day-to-day basis.

This is where I want to borrow from the experience and wisdom of John Hamm, venture partner at Redpoint Ventures and a highly successful tech company founder and CEO in his own right, to augment my own entrepreneurial and consulting experience with enterprise software and systems clients of all sizes and stages of maturity. Pick your favorites between these common causes of failed execution, which occur independently of the status of a company's basic product and/or service deliverables:

1. **Dilettante attitude toward leadership and management:** For many hard-worked and rushed executive teams, working out the strategy is, in relative terms, fun; planning in detail how to make it happen is not quite as fascinating; and making sure the work gets done is even less so. The prevailing creed seems to be something like this: “We're smart enough, we obviously get it, so let's just go execute!” While the strategy eventually gets worked out, it is not usually validated with any degree of thoroughness among core constituencies (not just customers, analysts and partners, but employees too!). This makes it difficult to pass it on to others in a sufficiently convincing manner to get them to act on it.
2. **Execution is the “obvious” next step after defining the strategy:** As John Hamm asserts, most high-tech leaders think that execution is “obvious” as a next step after determining and communicating the strategy; it doesn't occur to them that something may be missing. Unfortunately, when people don't have an opportunity to understand the whys and wherefores of the executive team decision, they soon feel alienated, and this leads to a form of what I call ‘civil disobedience,’ in which each individual resorts to using their own judgment of what they need to do in executing the strategy or plan.
3. **Decision-making “paralysis”(*):** Making tough choices between competing product and market opportunities is not the *forte* of technology executives; in a business normally characterized by being opportunity rich but resource poor, they want it all, and they want it now. So discussions on strategic issues can go on and on without reaching conclusion, and ‘final’ decisions get revisited and/or revoked on a frequent basis - and thus tend not to get acted on. This is one the principal causes of frustration for outsiders, who begin to see the company as

purgatory to deal with. To use a simple though profound statement by organizational guru Ichak Adizes, "Growing means moving from one set of problems to another". Think how often you see organizations in which decisions are never final, and the same problems hang around forever, preventing the organizations from evolving to their full potential?

4. **Silos are the norm, so task execution predominates over customer-focused activities:** My favorite definition of business processes states that they are about customers interacting with a company -- either requesting something, or receiving something from it. The snag is whereas business processes -- for example, the sale of a product or delivery of a service -- happen only *across* functions, most technology companies are organized in deep "silos," due in part to the intensity and focus required to get their basic job done. Unfortunately, by definition the only things that can get done within a functional or departmental silo are tasks, or in other words pieces of processes. In these situations, it takes personal heroism to work successfully across the silos, simply because it is not the normal form of behavior. But heroism is less scalable than institutionalized behavior, supported (as it has to be) by the daily example of the company's leaders. So silos begin to exert themselves negatively and they soon become an organizational vice, in more ways than one. That's when you start to hear complaints by people in one functional silo against another, and the language very quickly becomes about 'us' and 'them'. For example, service or support people will complain about sales when they find they are expected to provide a given service without having been previously consulted or forewarned at the time of the original sales contract; marketing rails against sales not knowing how to take advantage of the programs they have launched; development ignores requests from sales or customers for new functionality in the next release of the product, and just building the features they believe to be necessary; and, finance complains about everyone. Worse still can be the actual paralysis that occurs when a stalemate ensues over two or more departments not agreeing to get something important done.

Looking at this list of problems, it doesn't make things sound too good for high-tech management teams. On the other hand, I have found that if you address these root causes, which are few in number, rather than worrying about all the many symptoms (i.e., the day-to-day things that go wrong because of these malfunctions), it doesn't take long to achieve dramatic improvements in performance throughout the organization. To begin with, John Hamm makes the case that, whereas the single most important factor in the success of high-tech businesses may arguably be having a winning technology in hand, the second is undoubtedly the quality of the company's leadership and management. So, while it's okay to rely on the power of the product for success in good times, what about when things go wrong and the business environment turns on you, or new entrants start to eke away at your competitive advantage in the market? What happens then? From my perspective as a strategy consultant, therefore, I can unhesitatingly assert that ineffective management style is the root cause of failed execution. So what should we do to avoid having to repeat the well-worn mantra, "*All we have to do now is execute*", at every e-staff meeting, weekly sales conference call, or annual kick-off? Well, here are a few suggestions:

Remedies for Issue #1 – 'Dilettante' leadership and management mentality: To cure this dilettantism, there are a number of simple measures to adopt, but the main advice I would offer is this: "Just get serious about managing the business!" If you think you can get by with only a high-powered product or market strategy, think again. Even in the most successful cases, no technology company can go more than three or four years without a major crisis if executive staff does not pay attention to the basic details of managing the company as a *business* organization, rather than just as a technology development or product marketing organization. Among market-leading companies, just consider why Siebel seems to move forward without missing a step (notwithstanding the just announced revenue and earnings shortfall for Q1). Tom Siebel may be somewhat of a dictator, but at least everyone in the organization knows who determines strategy (Tom Siebel) and who is there to execute (everyone else). What is the secret of Siebel's success in execution? Well, they take management seriously. At a simple level, all that's needed is for management to put a bit of fundamental structure and simple good habits into its approach to strategy and operations: establish a culture wherein strategies are painstakingly communicated throughout the organization; implement basic disciplines around meeting management, and start by having highly effective e-staff meetings and other routine meetings. To achieve this, make

sure that meetings have a defined agenda, that they begin and end on time, and action items are always 'certified' by an agreed target date for completion and an accountable individual who has stated that they understand what they are signing up for, and are satisfied that they can accomplish the task by the agreed date. A corollary to this code is that when, as will on occasion happen, one or other action item cannot be completed on time, the task owner must be obliged to let their colleagues know ahead of time, in order to give their team-mates an opportunity to take the delay in stride, before a problem occurs. At a higher level, it is important to provide systematic coaching and mentoring for every career-oriented individual, and to do a minimum of career and succession planning for key positions in the organization

Remedies for Issue #2 – Execution is “obvious”: Between definition of the strategy and its execution, there is an important step that is frequently omitted called, in Hamm's vernacular, “structure”. This is a pre-requisite for effective execution, because it is where people get to understand *why* this strategy was chosen over another, and why it is likely to be more successful than other alternatives. Hamm further explains that people (especially smart, motivated people like those in high-tech companies) have an “insatiable” need to know why or why not, and they will make one up before they can bring themselves to go into execution mode. Executives who ignore this do so at their peril, because they are usually headed for one more mission that won't get properly carried out.

Remedies for Issue #3 – Decision-making ‘paralysis’: In general, I have found that every healthy organization needs to have a simple code to guide decision-making, from the information-gathering and opinion-consulting stages, to the definition of strategy, policy and/or associated actions. First, the leadership team (of one or more) needs to own up to the leadership style that will prevail in the company: if it is some kind of dictatorship, benevolent or otherwise (a la Oracle, Microsoft, CA, or Siebel), the boss needs to make this clear, preferably by their words as well as their deeds; if it is more of a club, or a parliamentary democracy, or whatever, leaders should state what type of regime they will be running. Unfortunately, this is a lot to ask of headstrong tech leaders, because they don't necessarily find it convenient to declare unequivocally how they really operate (and, surprisingly enough, they may not actually *know*). So let's assume that because we are living in a relatively democratic age, the prevailing leadership style is some form of democracy. In most cases, a three-phase decision-making process can work extremely effectively: there should be an initial consensus-building phase, followed by a decision phase, followed in turn by an execution phase, when it should be *verboten* to debate, or pull back on, the decision already made. The key is to signal clearly which phase you are in as you go through each decision-making process, then to make sure that once the decision is made, there is no going back – except in truly exceptional cases, when new circumstances may cause the original decision to be reviewed.

Remedies for Issue #4 – Silos preventing successful product or service response to customers: In order to enable technology organizations to execute business processes in service to their markets, functional groups need to be regularly organized into cross-functional project teams. This allows them to remain functionally organized in order to fully develop and nurture necessary specialized skillsets, while acting 'virtually' when it's time to get something done to serve their customers or other outsiders, such as partners and even suppliers. The simplest 'virtual' forum is a single cross-functional meeting. From there, groups can be brought together to achieve a mission that extends beyond a single meeting, such as a go-to-market initiative, or even a single customer implementation. Alarming, it is in the latter two cases that so many enterprise software and other technology companies seem to fall down. Once you appoint or otherwise select a cross-functional team, it is essential to set it up for success, using a number of “obvious” techniques, such as these:

- Provide a clear mission, bounded by time for completion and/or agreed milestones
- Make sure that each relevant functional area is adequately represented on the team
- Encourage the team to choose a leader and agree on how they will operate and communicate

Caveat on the topic of “ownership”:

It has become commonplace for companies to use the term 'ownership' to indicate who is responsible for getting agreed priorities executed. Unfortunately, however, companies often find

that the expected execution does not occur, despite one or more people being identified as “owners” of the action item, execution plan, or other deliverable. Why should this be? Well, it may have something to do with the conditions under which the team or individual is asked to operate. In order for the individual(s) tagged as owners of a specific action to complete their agreed task, a few conditions must exist:

- (a) They need to be **authorized** to do what’s necessary, without constantly deferring back up the hierarchy for permission to do what’s needed;
- (b) They need to have the required **skills and know-how** to act effectively;
- (c) They need to be **accountable** for the outcome in the agreed timeframe, with *rewards* and *penalties* accruing to those who do not perform the agreed task;
- (d) At the first sign that the deliverable will slip, or that it is not feasible, they need to advise the group to which they are accountable, in order to avoid the let-down of only letting people know after the fact, when it may be too late to agree a substitute action plan.

An additional point is that, before accepting a task or action item, the individual(s) in question must have agreed that they see a way of adapting it to their workload without causing extreme overload or burnout; otherwise, the valiant individual may accept the task as part of their professional attitude, and only later discover that they cannot do justice to it – at which point the organization may have lost valuable time to resolve the issue. Furthermore, wherever possible, it is better to identify one individual as a task owner, even if a team has been allocated the responsibility of performing the work required to complete the action item(s).

(*) *Paralysis: Term coined by a client executive to describe the undesirable phenomenon of paralysis by analysis.*

4. Choosing Between the Two Organizational Models for High-Tech Companies

During the past three or four decades, as the IT industry has evolved, two main organizational shapes have seemed to emerge as predominant models in high-tech – the “Complex Solutions” model and the “Packaged Products” model, both described briefly below. In fact, my colleagues at The Chasm Group and I would argue that technology companies need to choose which model they want to adopt because, based on our experience with client organizations, it is difficult for companies to blend aspects of each successfully. This is because there seems to be a definite tendency of the predominant model to create antibodies against the subordinate one.

As classic examples of each, IBM probably exemplifies the best and worst of the “Complex Solutions” model, whereas Microsoft may be the best example of the “Packaged Products” model. In enterprise software, SAP is an example of the former, whereas Autodesk is a good example of the second. Neither IBM nor SAP have ever been able to operate effectively with packaged solutions, which are often associated with departmental or consumer implementations, whereas Microsoft has had a tough time making NT into an effective enterprise-level offering. It just seems as if ‘high-end’ and ‘low-end’ cannot mix.

Managing the Complex Solutions Model

Sales

- Complex sale: multiple organizations + multiple levels
- Emphasize business consultation, application-specific focus

Services

- Diagnostic/prescriptive support (use to embed switching costs)
- Sold separately at a premium

Marketing

- Customer problem focus (i.e., not product focus)

- Industry orchestration based on domain expertise
- Partner certification and management

Engineering

- Build backward from a major customer problem
- Embed proprietary technology for value-chain control

Supply Chain

- Source sub-assemblies and control final assembly
- Contract oriented order management process

What about internet companies, that tended to design themselves to be low-end providers of low-cost and low-complexity solutions? Many of them now, redesigning themselves as enterprise software providers, are having a devil of a time adapting their business and organizational models -- and nowhere as spectacularly as with their sales and support activities. In the frenzied 1997-2000 period, when most internet companies modeled themselves to some degree on the Netscape 'ubiquity now, revenues later' model, even enterprise software companies were persuaded to ramp up for an immediate 'tornado' of demand. In the process, they invested – or got others to do so – in ramping up their sales forces and indirect channels, only to discover from 2001 on that there was more to getting their business off the ground than instant, inorganic 'scaling'.

A more surprising development was the discovery that, even if the software they produced was easily 'packaged' in terms of working out of the box, it nevertheless would have significant impact on customers' work habits and processes, and would require careful planning, customization, support for mission-critical deployment, comprehensive training of implementers, if not end-users, and so on.

Managing the Packaged Products Model

Sales

- Indirect sales through channels
- Emphasis on feature/benefit selling

Services

- Tiered technical support
- Base service included in price of product

Marketing

- Product-centric
- User-oriented

Engineering

- Build forward from a common platform & set of components
- Focus on extension modules to create high-margin value-add

Supply Chain

- Build platforms to forecast and customize at point of sale
- Standardized order fulfillment and processing

An exercise you might consider doing is to (a) assess which model best defines your current company, then (b) determine if anything has changed in the past year, or if any change of model is likely to be required in order to be successful going forward. If by chance you see that your organization needs to switch from one model to the other, identify which aspects of the transition will be most challenging. For example, did you design your sales model to sell a packaged (i.e., shrink-wrapped) product, and do you now need to convert to a complex (i.e., organizational) sale? Or, going in the opposite direction, did you originally design your services to be offered at a premium, and now discover that you need to embed them in the product price due to the maturity of your category, or some such factor?

Under the Buzz offers a monthly commentary on e-business. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this rapidly evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuations.

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