

## 9 Building on Strength

Analysis of the entire business and its basic economics always shows it to be in worse disrepair than anyone expected. The products everyone boasts of turn out to be yesterday's breadwinners or investments in managerial ego. Activities to which no one paid much attention turn out to be major cost centers and so expensive as to endanger the competitive position of the company. What everyone in the business believes to be quality turns out to have little meaning to the customer. Important and valuable knowledge either is not applied where it could produce results or produces results no one uses. I know more than one executive who fervently wished at the end of the analysis that he could forget all he had learned and go back to the old days of the "rat race" when "sufficient unto the day was the crisis thereof."

But precisely because there are so many different areas of importance, the day-by-day method of management is inadequate even in the smallest and simplest business. Because deterioration is what happens normally—that is, unless somebody counteracts it—there is need for a systematic and purposeful program. There is need to reduce the almost limitless possible tasks to a manageable number. There is need to concentrate scarce resources on the greatest opportunities and results. There is need to do the few right things and do them with excellence.

To make business effective the executive has available three well-tried and tested approaches:

1. He can start with a model of the "ideal business" which

would produce maximum results from the available markets and knowledge—or at least those results that, over a long period, are likely to be most favorable.

2. He can try to maximize opportunities by focusing the available resources on the most attractive possibilities and devoting them to obtaining the greatest possible results.

3. He can maximize resources so that those opportunities are found—if not created—that endow the available high-quality resources with the greatest possible impact.

The rise of every one of the truly great enterprises in economic history was based on these approaches.

#### THE RISE OF GENERAL MOTORS

An example of the ideal business approach is the rise of General Motors, both the world's largest automobile company and the world's largest manufacturing enterprise. Alfred P. Sloan, Jr., who first redesigned General Motors and then, as chief executive for almost thirty years, built the company, has told the story in a recent book.\* General Motors was on the verge of collapse when he took over in the depression of 1921. Ford with one model had a 60 per cent share of the American automobile market. General Motors with eight models was a weak second with about 12 per cent of the market. Only two of the eight models were profitable, six were losers—and had been losing not only money but market standing as well.

Sloan began by thinking through what the ideal automobile company in the American market would look like. He came out with a design in which five models covered the market. Only two of the existing models—the Buick and the Cadillac, both at the upper end of the line—fitted into this design. Three models were completely abandoned. Three others were replaced by what amounted to a brand new car even though it retained the old name. Sloan actually practiced the total marketing approach thirty years before the term was coined.

The Sloan design changed the concept of car marketing and

\* *My Years with General Motors* (New York 1964).

the approach to the customer. Each of his five models was placed in a price and performance class in which it was both the most expensive and best-performing car of a lower price range and the cheapest and simplest car of the next-higher one. For a fairly small additional sum the low-income customer could obtain a car which, in appearance as well as in performance, was well above the Ford Model T. The customer who could afford a medium-priced car could also save a little money by buying the low-priced car with most of the appearance and performance of the medium-priced line; or he could pay a little more and have a near-luxury car. Each of the five cars was a distinct entry into the market and designed to be the leader in its class. Yet each competed also with the GM car on either side of it. For Sloan rightly believed that unchallenged success was dangerous, and so provided each of his five makes with at least one strong challenger from within the family.

This design made General Motors within five years both the dominant American automobile manufacturer and by far the most profitable one. And when Ford itself hit the comeback trail after World War II, it deliberately adopted the Sloan design and imported executives from General Motors who had been reared in the Sloan concept and strategy.

For the early 1920's, Sloan's design was radical—so radical indeed that it was quite a few years before his associates at General Motors accepted it. It violated all the then "known facts." Instead of dividing the potential customers sharply into a mass-market wanting uniform automobiles at the lowest possible price, and a class-market with low volume and high prices, Sloan saw the customers as essentially homogeneous, demanding mass-production but also performance, low price and easy sale of a used car but also an annual model change, comfort, and styling.

Sloan did not try to dislodge Ford by doing just as well, nor even by doing better. He never considered doing again what Ford had done before; that is, building the cheapest, standardized, changeless car. Instead, he made the Model T obsolete through something which neither Ford (nor anyone else) could possibly produce: the one-year-old, secondhand car. It had been the

new car only one year earlier. As "transportation" it could easily compete with the Model T. It had the appearance, styling, and performance of the high-priced cars, but was cheaper even than the Model T.

Till then the used-car market had been considered a nuisance by the car makers. Sloan saw that it was the real volume market; and that the manufacturer had to design, sell, and service his new car both for greatest sale this year and for easiest resale a year or two hence.

In the medium-priced car market, Sloan found price differentiation to be less important. But here the role of the car as prestige symbol was greatest. This meant deliberately creating customer identification with specific makes, expressed through distinctive styling with fair continuity. Buick, for instance, was to identify itself with the successful professional man, through its styling, its pricing, its selling, and its promotion.

For the top price range Sloan's question was: What is the highest-priced car that still can be sold in such volume as to justify mass-production? In its way this too was an original and heretical approach. It had been axiomatic that the luxury car had to be handmade and handcrafted with production small and price high. General Motors' Cadillac, before Sloan, had followed this policy with considerable success. Yet Sloan replaced the profitable handcrafted Cadillac with a volume-produced, assembly-made car, which while costing less than a handmade car, actually exceeded in performance all but the Rolls Royce. Just as Chevrolet became, within a few years, the standard of the low-priced range, so Cadillac became the standard of the high-priced range.

It should be emphasized that Sloan's design was neither flash of genius nor product of years of hard toil with mathematical models and complicated computer runs. Sloan had of course given a good deal of thought to the automobile market before he took on General Motors. But his direct concern till then had mainly been the accessory business rather than the automobile business. He did not have a big staff for his study. He worked with a small

committee of company executives and had only one month for the job. He did the work primarily from observation of the market and by asking questions of his own executives and of automobile dealers.

In other words: the results of a fairly short and simple study, while crude, are good enough to serve as the foundation for major decisions and actions. The work can be done by ordinary techniques available to managers (though more sophisticated techniques should, of course, be used wherever they speed the work).

Alfred P. Sloan's grand design took a good many years to execute. Pontiac for instance really did not become the car Sloan had specified until almost fifteen years later. But from the beginning the design produced results. And this has been the experience wherever the ideal business approach, the approach that designs a business to be what the market wants, has been tried.

#### THE FIRST INNOVATORS

The second major approach asks: What are the opportunities for the greatest economic results?

The best illustrations of the maximization of opportunity are the two men who, independently of each other, created the electrical industry and indeed our electrified world of today: the German Werner von Siemens (1816-1892) and the American Thomas A. Edison (1847-1931). Together their impact on the world we live in has been a good deal greater than that of Henry Ford and Alfred P. Sloan.

One answer to the question: "What did Siemens invent?" is: the first practical electric generator. But one can also answer: the electric apparatus industry. To the question: "What did Edison invent?" one can answer: the electric light bulb. But one can also answer: the electric power and light industry. More than anyone else they developed methods of technological research. But there were many other men at the time working on the same inventions. One can even argue that every one of their inventions was either anticipated or perfected at the same time by someone

else.\* Yet only these two men designed and built major new industries.

They knew very well what they were doing. They were by no means alone in being excited by the new vistas opened up by the scientific developments in electricity, especially by the work of the great Faraday. But they alone asked: What are the major economic opportunities which this knowledge opens up? What in the way of new or additional technological invention and development is needed to realize this economic opportunity? Siemens did not develop the electric railway because he had a generator; he developed the generator because he had visualized the electric railway as a major industry, especially for travel within the city, and therefore needed an electric motor to provide traction. Similarly, Edison did not design the first light and power plant, complete with generating stations, transformers, and distribution system, because he had invented a practical light bulb. He went to work on the light bulb because it was the one thing missing in his design of an integrated citywide power and light industry.†

These men, in other words, were the first real “innovators.” They systematically defined the opportunity for new knowledge and new capacity to achieve—that is, the opportunity for innovation. Then they set to work to provide the needed new knowledge, capacity, and technology. They were also, it should be said, the first genuine “systems designers.”

Both lived a long productive life; but both were major figures by the time they were thirty; both had by that time already created new industries rather than merely a new piece of equipment or a new design. Both maximized economic opportunities by asking the question: In what area of application of electricity does the opportunity lie for the most successful and most profitable new industry?

Maximizing opportunity does not necessarily mean technologi-

\* As does for instance the Fifth Volume (1850–1900) of the well-known *History of Technology* (edited by Charles Singer, Oxford University Press 1958) with its unconcealed British bias.

† Edison's latest biography, *Edison*, by Matthew Josephson (New York 1959) brings this out fully.

cal innovation, as shown by the development of Japan as a modern industrial nation.

In the period between 1870 and 1900 when Japan turned herself from a pre-industrial economy of rural clans into the first non-Western modern economy, Japan could not possibly have promoted technological innovation. Her problem was rather that of social innovation: to create the institutions which would enable a thoroughly non-Western country with its own culture, tradition, and social structure to accept and use Western technology and economics.

The great family businesses—the Zaibatsu—who carried forward Japan's economic development in this period, consistently maximized opportunities. They asked: Which industries, at the present stage of our development, offer the greatest economic opportunities to Japan and to our business? The answer might be: a steamship line; a life insurance company; a textile industry; and so on. This, in turn, led to the identification of needs for social innovation—for instance, the need for a factory organization that would merge Japanese traditions of personal and social relationships with the discipline of modern industrial production. It is because of the conscious focus on maximizing opportunities that Japan succeeded in doing what no other non-Western country has done so far: to develop a modern economy fairly fast and with a minimum of social dislocation and political upheaval.

Successful planning is always based on maximizing opportunities. Soviet planning rests on a theory that sees in the entrepreneur the agent who maximizes opportunities for capital investment. (See Chapter 11 for a short description of the origin of this concept; its first practical application by the Brothers Pereire in their banking venture, the *Credit Mobilier*; and its impact throughout Europe.)

But there are many smaller and no less successful examples. Sears Roebuck in the United States and Marks & Spencer in Great Britain, two leading retail businesses of today, have consistently asked themselves: Which are the opportunities where doing something new and different is likely to have the greatest economic results? Their experience shows that this is a dynamic question, which produces new answers every few years—whereas

an ideal business, once designed and effective, is likely to retain its characteristics for a fairly long period.

#### HOW THE ROTHSCHILDS GREW

For the third approach, that of maximizing resources, there is no more instructive example than the rise of the House of Rothschild. It was anything but a foregone conclusion. In the late 1790's Meyer Amschel Rothschild, the founder of the dynasty, was still only a small-town money lender, barely known in the main centers of international finance. Less than twenty years later, at the end of the Napoleonic Wars, the House of Rothschild was the unchallenged financial great power of Europe, treating with other great powers such as France or Russia as an equal, and barely polite to minor princes and potentates. What had catapulted the Rothschilds to success in that short period was systematic maximization of the resources of the family.

The family had four first-rate resources in the four older sons, Nathan, James, Amschel and Salomon. For each their father (or more probably their mother) found and selected the major opportunity best fitted for his talent and character, the opportunity where the individual "resource" could make its greatest contribution.

Nathan was the ablest, daring and highly imaginative. But he was uncouth and arrogant. He was given London—at the time the greatest financial center in the world, but also a ruthlessly competitive market where financial and economic power was daily being fought for by aggressive business professionals who cared nothing for manners and counted only hard cash.

Napoleon's Paris went to James. Paris was then—and for a century to come—the greatest capital market on the continent. It was also the most treacherous spot in the financial universe. The financial conspiracies and plots in the novels of Balzac—James Rothschild's contemporary—were only partly fiction. Spies, paid by government or by competitors, were everywhere. Finance was a political business; yet political upheaval—revolution, terror, tyranny, and restoration—were endemic and destroyed many mightier financial powers than the Rothschilds then

were or could expect to be for years to come. But this was just the spot for James—in fact he might have been misplaced anywhere else. He thrived on intrigue and had been the political strategist of the family from early years.

Salomon, courteous, patient, and dignified to the point of pomposity, went to Vienna where banking still meant dealing with one client, the Hapsburg Court, with its interminable delay and indecision, its stiff ceremonial and its self-important aristocracy. Frankfurt finally, though home to the Rothschilds, was the least important of all financial centers in Europe. It became the seat of the family's "general manager," the industrious, conscientious Amschel who loved nothing better than the back office. He kept his brothers informed through voluminous handwritten letters. He built and ran the far-flung private network of information and intelligence which—before the age of daily newspaper, post office, telegraph, and telephone—gave the Rothschilds a near-monopoly on fast and dependable knowledge of world affairs. His greatest contribution was probably in the personnel field. He found, recruited, and largely trained the German-Jewish boys with a passion for anonymity who as confidential clerks and managers became the backbone of the business.

What the Rothschilds did not do is, however, even more revealing. They did not assign to Kalmann, the fifth son, any opportunity whatever. Instead they sent him to Naples—one royal court where there was no business, and where therefore no major damage could be done to the Rothschild standing or to their fortunes. There would have been plenty of important opportunities had the family wanted Kalmann to have one. Both Hamburg and Amsterdam were important enough to warrant establishing business partners and agencies there. The Rothschilds also were aware of the opportunities of the fledgling United States across the Atlantic. But Kalmann had neither superior ability nor superior industry, at least not by Rothschild standards. And it is the one absolute rule in maximizing resources that one never entrusts an opportunity to a non-resource, that is to mediocrity. It cannot turn the opportunity into advantage. But to every opportunity corresponds a risk; mediocrity is therefore bound to do harm if

entrusted with opportunity. If one has a fifth son and, as a family, has to take care of him adequately, it is cheaper to support him in royal style out of harm's way than to put him in charge of opportunities.

What is important is not that General Motors, Edison, and the Rothschilds became great and strong; it is that they started near the bottom. Whether the penniless Prussian officer Siemens, or the half-deaf, almost unschooled, errand boy Edison; the provincial, awkward—not to mention Jewish—Rothschilds in a world of prejudiced, arrogant aristocrats, or the undeveloped Japanese clans of 1860; they all started with nothing, except a systematic approach. Even General Motors, while a large corporation for the America of 1920, was a poor second to Ford. One can argue, of course, that even without any such approach Siemens and Edison would have been notable inventors, the Rothschilds well-known bankers, and General Motors a sizable company. What gave them leadership, however, was the systematic approach with which they applied their ability to the opportunities time and history had put within their grasp.

All three approaches have one thing in common: they build on strength; they look for opportunities rather than for problems; they stress attainable results rather than dangers to be avoided. In fact they are complementary. Each serves a distinct function and purpose. Together they convert the insight of analysis into a *program for effective action*.

Thinking through the design of the ideal business determines the direction a company should take to attain effectiveness. It sets fundamental objectives. It establishes the theoretical optimum of economic performance against which actual results can be measured.

Maximizing opportunities shows how to move the business from yesterday to today—thereby making it ready for the new challenges of tomorrow. It shows the existing activities that should be pushed and those that should be abandoned. And it brings out the new things that might multiply results in the market or in the company's field of knowledge.

Maximizing resources, finally, is the step from insight to action. It establishes priorities. And by concentrating resources on priorities it ensures that energy and efforts go to work where performance can produce the greatest results.

## II

### TARGETS AND TIME

The design of the ideal business sets the direction. It also makes it possible to set targets—for efforts as well as for results.

The ideal-business design controls itself through feed-back from its results to its own validity. The closer a business approaches the design, the greater should its profitability be. When profitability ceases to go up even though the actual business is still approaching the ideal, the design needs restudy. In all probability it has become obsolete. After all, even the best design does not last forever. Mr. Sloan's proved valid for an unusually long time—thirty-five years, until the Edsel failure of 1957. For Ford in its comeback after World War II had imitated the Sloan design; and the Edsel was to be the last, major element in a Ford Motor Company reconstructed on the lines of Sloan's earlier General Motors masterpiece.

One important element in the ideal-business design is establishment of the time period which is the proper "present" for any given business; it varies greatly.

The best illustrations are the contrasting fortunes of two companies in the aircraft industry. Curtiss Wright and the Martin Company. Curtiss Wright, in the late forties, was the stronger company: the second-largest aircraft-engine builder in the United States, solidly established as a leader in both civilian and military engines, with a heavy backlog of orders and great financial resources. Martin by contrast was an ailing airframe builder without a product of distinction, deeply in debt, and altogether, it seemed, an aging "war baby" without a future. But a new management at Martin came up with a present of eight to ten years as the time needed to develop a new technology in large-scale systems work. Research of shorter duration made not much sense and could not pay off. This also meant that

the business had to be something that did not exist in 1950: a space business rather than an improved aircraft business.

Curtiss Wright without an analysis of this kind stayed with the time period of World War II, when the emphasis was on production rather than on new design. Its present was one to two years. Although it spent perhaps more money than any other aircraft company on research and development, Curtiss Wright had all but disappeared as a business a decade later. Its definition of the present made management reject any project that did not promise a pay-off within twenty-four months. As a result not one of its many research projects produced anything. The Martin Company, by contrast, established a leading and successful space systems business with a relatively modest research outlay.

There is equally a present for the market, that is a period within which market results are significant.

General Motors had learned by the mid-twenties that the time-span of the present in the automobile market was five years—a complete cycle including one very good year, one poor one, and three fair ones. The logic of the secondhand car market dictated this. General Motors built this cycle into capital investments, appraisals of performance, and the planning of development work. Capital investment, according to an oft-published formula,\* was judged by the expected return over the five-year cycle at an average capacity utilization of 80 per cent. If the expected return over the cycle fell below a certain figure, or if expected capacity utilization ran below 80 per cent on average, the investment proposal was not considered acceptable. Similarly, the minimum span of technical development work was set—apparently not much later—at the three years needed to make any but minor style changes in automotive design, and the maximum (except for basic research work) at the five years that were the present of the automobile market.

As these examples show, determining the time-span that is the present of a company or industry largely determines what kind of efforts will be made. Efforts that promise results in less time are likely to be a waste not only of time, but of resources and money. To set too short a time-span and ban all efforts

\* Apparently first published as early as 1927.

exceeding this period (as Curtiss Wright did) is to condemn a company to sterility.

Perhaps the best way to go about designing the ideal business is to start with a broad sketch and to correct and refine as one goes along. Otherwise one may still be rewriting, polishing, and refining when the design has already become obsolete. The important thing is to get major results fast. For the largest part of the improvement in performance and results should come as soon as the business has begun to move with determination toward its vision. The first steps should be big ones.

### III

#### FROM YESTERDAY TO TODAY

Maximizing opportunities looks for those seven-league steps toward realizing the ideal business and obtaining rapidly the greatest benefits possible.

By projecting the ideal business design on the analysis of the existing business all the products, markets, distribution channels, cost centers, activities, and efforts of the business can be sorted out into *three categories*:

- One high-priority group where the real push has to be made, because there is a great opportunity to achieve extraordinary results.
- One high-priority group where the opportunity lies in not-doing; that is, in rapid and purposeful abandonment.
- One large and heterogeneous group of also-rans—products, markets, knowledge work, and so on—in which neither efforts to excel nor abandonment promise significant results.

To call abandonment an “opportunity” may come as a surprise. Yet planned, purposeful abandonment of the old and of the unrewarding is a prerequisite to successful pursuit of the new and highly promising. Above all, abandonment is the key to innovation—both because it frees the necessary resources and because it stimulates the search for the new that will replace the old.

Push areas and abandonment complement each other and therefore deserve equal priority.

The *push priorities* are easily identified. What should be pushed are those areas where the results, if successful, produce their costs many times over. These are invariably the products or markets that fit most closely the ideal-business design.

The General Motors' experience is characteristic. Buick and Cadillac, the two makes that were profitable in 1921 and had market leadership, were also the only two of the company's eight makes which fitted the ideal-business design.

Typical result areas which deserve priority are, for instance:

- Tomorrow's breadwinners and sleepers
- The development efforts needed to replace tomorrow's breadwinner the day after tomorrow
  - Important new knowledge and new distributive channels
  - Cutting back high support costs, high policing costs and waste in the cost structure

The areas of high potential are rarely over-supplied with resources. Hence what matters is not whether the budget for such an area is too high but whether it is high enough for results.

The *candidates for abandonment* are also usually fairly obvious.

There is first the investment in managerial ego. Unjustified specialties are also on the list. Then there are unnecessary support activities, and waste that can be eliminated without major effort.

Yesterday's breadwinner should almost always be abandoned on a fairly fast schedule. It still may produce net revenue. But it soon becomes a bar to the introduction and success of tomorrow's breadwinner. One should, therefore, abandon yesterday's breadwinner *before* one really wants to, let alone before one has to.

Altogether, whenever the cost of incremental acquisition is more than one-half of the likely return, there is a candidate for abandonment. It is not good enough that an activity does not appear to cost any money. It should produce results to be kept on.

And the hidden costs of any activity are always much greater than anybody assumes or than any accounting system shows.

To keep a man on the payroll always costs at least three times his wage or salary. He needs space to work in, heat, light, and a locker in the washroom. He needs materials to work with, supplies, a telephone, and so on. He needs a supervisor. In a hundred hidden ways he creates costs.

Every proposal for abandonment is opposed. The arguments that can be advanced to justify retention of the resultless, unpromising, and unrewarding are rarely more than excuses. Most common is the plea:

- *We must grow; we cannot afford to shrink.*

But growth, after all, is the result of success, of offering what the market wants, buys, and pays for, of using economic resources effectively, and of making the profits needed for expansion and for the risks of the future. General Motors either abandoned or completely made over six of the eight makes in the line—and the result was tremendous growth.

The argument is also sophistry: It confuses fat with muscle, and busy-ness with economic accomplishment. Activities which do not produce results waste substance. They are a burden—the way overweight is a burden on the strength of a human being.

A management in an expanding economy needs to be growth-conscious. But growth means exploiting the opportunities that the economy offers. It does not mean doing the wrong things to get volume. The volume will come soon enough if a business concentrates on doing the right things.

There are in each business products, services, activities, and efforts which are neither clear candidates for concentrated major work nor candidates for abandonment: the large number of *also-rans* which form the third category to be considered.

Among them will be today's breadwinners and frequently the productive specialties. Here also will be cost centers which, while representing a sizable cost burden, can be reduced only by efforts out of proportion to the probable results. And here will be found the

repair jobs of all kinds and descriptions, the products, services, markets, and so on, which might become worth while if only some major change or modification were made.

The main rule for also-rans is that they must not absorb resources at the expense of the high opportunity areas. Only if resources are left over after the high opportunity areas have received all the support they need, should the also-rans be considered. And high-grade resources already committed to also-rans should be kept there only if they cannot make a bigger contribution in a high opportunity task.

In practice, additional resources can rarely be spared for also-rans. And only the productive specialty among them normally deserves all the resources it employs. The others will almost always be found to absorb resources that would be more productive elsewhere.

Also-rans therefore have to make do with what they have—or with less. They are put on “milking status”: as long as they yield results, they will be kept—and milked. They will, however, not be “fed.” And as soon as these “milk cows” go into rapid decline, they should be slaughtered.

#### THE FORWARD PROJECTION

Upgrading the existing business leads to doing things better. But what are the different things that ought to be done?

Here there are two distinct categories of opportunities:

- *Replacements* of present products, activities, and efforts which are almost right, by products, activities, and efforts that are completely right

- *Innovations*, the highest-opportunity group, though a small one

*Replacements* deserve high priority only if a very small change can convert an almost right product into one that fits the ideal business design.

What distinguishes a replacement from a development is that it represents a different idea of what the market is and what it wants, or a different exploitation of the company's knowledge. A new packaging material is a development—no matter how difficult techno-

logically it might be to design and to produce it. A new packaging concept, shipping on pallets or in container bodies which fit on railway flatcars as well as on highway trucks, is a new idea and a replacement. In the General Motors redesign by Alfred P. Sloan, Jr., the replacements were the three cars that were revamped in everything but name: the old low-priced Chevrolet, the Oakland (later the Pontiac), and the Oldsmobile. These cars had customer acceptance and a dealer organization. They had the basic design. What they did not have was a clear idea of their function and place in the market, the right pricing policy, and management. For a downtown department store in the United States the suburban shopping centers were essentially replacements; they were ways to make the essential strengths of the department store—its reputation and its merchandising knowledge—available where the customers shopped.

A replacement should never present great technical difficulty. It should arise out of the recognition: "Now we suddenly understand what is wrong with this product, this market, this activity. Now we suddenly understand what we have done wrong, or failed to do." What changes is much less the product itself—if it is not almost right one should not waste time and effort on it—than the way the business itself sees, presents, and uses the product.

*Innovation* is the design and development of something new, as yet unknown and not in existence, which will establish a new economic configuration out of the old, known, existing elements. It will give these elements an entirely new economic dimension. It is the missing link between having a number of disconnected elements, each marginally effective, and an integrated system of great power.

It is this "systems" aspect of innovation that is invoked when we say that men like Siemens or Edison created a new industry. All the elements were there, except one. Adding this one new element created an entirely new economic capacity.

There are many other examples:

Sears Roebuck built its business on the innovation of a "money-back-and-no-questions-asked" guarantee to the farm customers. All

the ingredients of a successful mail-order business existed. What was lacking was the simple element of confidence in the customer.

IBM similarly created the computer industry by innovating the concept of programing as a distinct function which bridged the gap between the technically highly complex machine and the technically untrained potential customers, and which yet could be learned by high school graduates in a short time.

Sloan's innovation was the idea of an automobile company supplying the entire market in a planned and organized fashion where formerly General Motors—and all the others—had seen themselves as producers of individual makes each trying to appeal to all the potential customers.

American Motors innovated the idea of the "compact," that is the smallest car that would still give adequate room and performance to people used to big cars.

Innovation is not invention or discovery. It may require either—and often does. But its focus is not knowledge but performance—and in a business this means economic performance. Its essence is conceptual rather than technical or scientific. The characteristic of the innovator is the ability to envisage as a system what to others are unrelated, separate elements. Innovation is not the better the bigger it is. On the contrary, it is the better the smaller it can be. It is, to say it again, the successful attempt to find and to provide the smallest missing part that will convert already existing elements—knowledge, products, customer demand, markets—into a new and much more productive whole.

To find the areas where innovation would create maximum opportunities, one asks: What is lacking to make effective what is already possible? What one small step would transform our economic results? What small change would alter the capacity of the whole of our resources?

To describe the need is not to satisfy it. But describing the need gives a specification for the desirable results. Whether they are likely to be obtained can then be decided. Innovation is applicable to finding business potential and to making the future.

But its first application is as a strategy for making today fully effective, and for bringing the existing business closer to the ideal business.

#### IV

##### STAFFING FOR PERFORMANCE

The crux of a program of action is the allocation of resources, and especially the staffing decisions. Until they have been made and put into effect, nothing has really been *done*.

The one principle for the deployment of the scarcest and most productive resource—high-caliber people—is maximization of resources. Few businesses have resources of a caliber comparable to that of the four older Rothschild sons. But every business should follow the Rothschild example—if it wants results.

First-class people must always be allocated to major opportunities, to the areas of greatest possible return for each unit of effort. And first-class opportunities must always be staffed with people of superior ability and performance. If there are no resources available for major opportunities one must build them. One never tries to exploit major opportunities with anything but high-grade resources. One never assigns high-grade resources to anything but major opportunities, however. And one does not create resources for secondary opportunities.

To follow these principles in practice however, is not easy. There are, first, the "Kalmann Rothschilds"—the "members of the family in good standing" whose faithful service entitles them to be taken care of even though they lack the necessary ability. It is always cheaper to give them a sinecure than to entrust them with a major opportunity. In a sinecure they cost only their salary. In charge of a major opportunity they may waste the potential return from a new big business.

Equally unpopular is the decision to leave secondary opportunities to fend for themselves. Yet unless one is ruthless, the first-rate opportunities starve to death.

But the greatest temptation is to diffuse first-rate resources rather than to concentrate them: it is so easy to avoid painful priority deci-

sions by asking a strong man to be "available for support and advice" to a weak one. "It should after all, take only a day or two of his time, once in a while" is the standard excuse. But in no time at all the few really good men will do nothing but bolster weak men and secondary opportunities. Strength, to be effective, has to be concentrated. And any major opportunity is a challenge demanding undivided attention and dedication.

It is indeed so painful to staff for performance that managers should impose on themselves the discipline of what the psychologists call the "forced-choice method."

A list of major opportunities is drawn up, with each opportunity assigned a ranking. Here is the first forced choice—for each opportunity has to be ranked without ambiguity. The same procedure is followed with respect to first-rate people and staff groups—again ranking them by forced choice. Then to the highest-ranking opportunity is allocated all the high-ranking human resources it requires. The next-ranking opportunity comes next, then the third-ranking one, and so on. A lower-ranking opportunity is never staffed at the expense of a higher-ranking one.

The ranking of opportunities and of people becomes the real decision in this method; the rest follows.

Staffing decisions are the crucial decision. They decide whether the business has a program for effectiveness or only a scrap of paper.