1. Success is a sleeping pill

This chapter deals first with change as a prerequisite for survival. I then discuss the "rhythm" of growth and decline in everything – from nature to the life of men and to the life of an organisation – as sketched by the well-known S-curve. Using the idea of the S-curve, in combination with the ideas of "feed-forward" and "feedback", we can understand how the future always allows itself to be overtaken as it were by the past. But also: how managers can arm themselves with the "feed-forward hierarchy" against the assassin known as "the past" and use it to give their organisations the ability to start new innovations ahead of time … and thus escape from the prison of the S-curve, to escape, indeed, from S-catraz.

Change as a prerequisite for survival

"Continuous change," "the need for a company to be constantly alert to profit from movements in the market" – we're heard these phrases so many times they have become clichés. Yet if we take a good look around us, we will acknowledge how difficult it is to put these clichés into practice. We all have examples of companies getting stuck – where rules, procedures, and internal power relationships have become more important in day-to-day operations than looking for new ways of serving customers and keeping costs to the minimum.

The following example shows that even an organisation such as Hewlett-Packard can find itself trapped in a mental "Alcatraz." We will regularly refer to Hewlett-Packard in this chapter, because it not only has examples of rigidity in its history, but also is an example of how a company can constantly regenerate itself. In their bestseller *Built to Last*, Collins and Porras describe the results of their research into companies that have the constant ability to reinvent themselves. Hewlett-Packard, they conclude, belongs to the "best of the best." When Carly Fiorina took over the helm in the summer of 1999 from Lew Platt, the authoritative American business magazine *Business Week* was less than enthusiastic. HP, according to *Business Week*, had developed into an organisation of 130 different product groups with a "suffocating" bureaucracy.   A former member of the board illustrated the company's increasing bureaucracy with an anecdote about four managers of the retail chain Best Buy Co. They wanted to purchase a few computer products from HP and were bombarded by no less than 50 (!) employees, each praising the products of their various divisions. The culture of consensus that has developed over the years within HP has also undermined the innovation potential of the company, according to *Business Week*, that stated: [•]

The departing CEO had become part of the system. A new CEO was needed – one that could act as a breath of fresh air within the organisation. But what can be done to prevent Fiorina

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[•] Could you please supply the original article, so that the quotes used are accurate?

becoming, in the course of time, part of the HP system? She is, after all, only human. Aren't people always inclined to relax their mental defences when things are going well as if enjoying a summer day? Aren't people inclined to stick to a success formula and therefore relapse into rigidity? What causes this process of "relaxing mental defences" and "lapsing into rigidity"? And if we can find an answer to this, can we free ourselves from them, or are we in a mental Alcatraz from which escape is impossible? We will first take a look at this last question. Then we will look at what effects those beautiful summer days of success have on a company's ability to change.

There is, indeed, a mental Alcatraz where we all, regardless of who we are, constantly find ourselves trapped. It is almost as if the wages of success are paid in the currency of rigidity. It is as if in our struggle for success we are constantly ambushed by an invisible enemy. He lulls us to sleep before we are aware of it. When we wake up, the world has changed and our success has evaporated.

The S-curve: the rhythm of growth and decline

A practical way of applying the well-known concept of renewal, growth, and decay to management practices is the S-curve. The S-curve plots the process of decline and resurrection; it is the rhythm of the seasons that can be identified in everything that grows. This book is about people and organisations, but they do not have a monopoly on the S-curve. Whether we talk about the rise and fall of societies or mafia godfathers, rabbit colonies, love relationship, the life-cycle of DeskJet printers, our own career, or the course of epidemics: S-curves reveal the dynamics (see figure 1.1 – the vertical axis indicates the growth, the horizontal the time from left to right).

The S-curve has appeared increasingly in management books over the last years. Theodore Modis describes the S-curve for companies in his book *Conquering Uncertainty*. He uses the cycle of seasons: winter, spring, summer, autumn, winter, spring and so on:

Winter. In the winter, companies have time to develop new ideas, but profitability is poor. There is chaos and uncertainty. Death lies in wait. This gives a sense or urgency to keep on looking for solutions and finally to make choices.

Spring. The advantage of spring is enthusiasm. The disadvantage is that it demands high levels of investment. Innovative concepts are turned into tangible products and services. It is the period of "upscaling".

Summer. This is the time of production. Logistics, technique, and commerce all support the chosen direction. Investments are less important; profitability assumes centre stage. The innovative people who were around at the start have disappeared; their place has been taken by controllers and bureaucrats. This is the stage that sees the increase in rules and procedures aimed at increasing efficiency.

Autumn. In this stage, the first signs of decline become apparent. The company may, for example, start losing market share. Initially, decline is repudiated and reasons are given from all sides to explain why things are going wrong. But eventually, fear and anxiety can no longer be ignored and this can even give rise to panic. The solutions are downsizing, tightening the belt, pressing the last bit of profit from products, "back to basics," and so on.

Nobel Prize winners such as Jacques Monod and Ilya Prigogine have shown in their work how, in the light of the relationships described in the S-curve, order can emerge from chaos.

This concept has been translated for management by an increasing number of writers, particularly in the nineties. Authors such as Kenneth Blanchard, Terry Waghorn, Charles Handy, and Theodore Modis have shown how the S-curve is and should be part of the armoury of every leader, manager, and strategist. Marc van der Erve has shown how values and norms shift within the S-curve. Shay and Rothaermel sketch in an article how the S-curve provides a basic structure that allows existing models for strategy forming (including the growth/market share matrix of BCG) to be linked together, resulting in a broader and far more dynamic model for strategic analysis. For writer Theodore Modis, originally a physicist, is an excellent measuring tool that allows the formulation of exceptionally reliable prognoses: "This curve can be used quantatively to achieve predictability and deep insights. DEC saved many millions in 1985 by accurately predicting how much turnover could be generated from servicing an old product (...) In 1992, the British government, to give another example, could have spared itself the pain of attempting to close down two thirds of the coal mines..." Theodore Modis also applies similar mathematical calculations to the careers of individuals, such as Hemingway, Hitchcock, and Mozart. Using the S-curve for the works of Mozart, Modis calculates that the first eighteen compositions were probably never written down due to "technical" problems: the young Mozart could not write well enough nor speak well enough to dictate them to his father. Most authors, however, do *not* approach the S-curve in such a strict mathematical way, but make use of a "qualitative and subjective approach". In this book, we, too, use a conceptual approach to the S-curve rather than the strict mathematical approach adopted by Modis.

S-curves and people

The S-curve also applies to the lives of people. Take the S-curve of a relationship – perhaps a caricature, but certainly nothing out of the ordinary: we fall in love, perhaps emerging from a winter of solitude, and find ourselves in the spring of happiness. We dream about a future that ends "they lived happily ever after." We develop from being a couple in love, move in together and become partners for life. And all the time we are getting to know each better and better. And we learn about irritations, about weakness and the areas where interests conflict and polarisation is possible. Initially these are dismissed; they do not fit into our perception. After a while, the novelty wears off and the many advantages are taken for granted. Perhaps the next move is a marriage, children, a mortgage, two careers, and our days are filled with things that we had never imagined. Is this all there is? Is this the way it was supposed to be? A pattern of disagreement, stress, dissatisfaction, frustration shakes us awake and for the first time we look around at a world we had never discussed, never dreamed about, and yet apparently had worked towards it. We were happy with our marriage, happy with our children, happy with our mortgage, happy with our careers. But everything that used to please us now appears to have a reverse side, and all those reverses together feel like a straightjacket. *He* was pleased with her ambition, but now she refuses to give up her job and that causes a dilemma: do you take that international promotion or not? *She* was pleased with his ideas about emancipation, but when push comes to shove, he refuses to accept his responsibility. The relationship has moved through an S-curve. How it continues remains to be seen: either it comes to an end, or a new S-curve starts.

During our lives, we pass through dozens of such S-curves. The S-curve of our infancy, of primary school, of secondary school, relationships with friends, study, first job, second job, third job, marriage…

S-curves in organisations

There are enough recent examples of companies that had become too rigid to react to important technological change and, as a result, found themselves in a catch-up race that they most probably could never win. Merrill Lynch & Company resisted share trading over the Internet for four years. And all the while, new and existing companies, such as E-Trade, Charles Schwab and smaller "discount brokers" had captured market share with an efficient and cheap formula for buying and selling shares. Merrill Lynch was so hostile to Internet that Vice-President and Head of Share Trading John "Launny" Steffens publicly announced in August 1998 that share trading over the Internet "should be seen as a serious threat to the financial position of the American citizen." The paralysis at Merrill Lynch was not, however, caused by any concern for the public good, but was a result of the internal corporate culture. The contingent of 15,000 powerful traders were petrified that share trading over the Internet would erode their income from commission that made up 30% of their total salary; they resisted such a development with tooth and nail.

Merrill Lynch is by no means the only reputable company that has been held back by its own culture. When Amazon.com opened its Internet trading in 1995, Barnes & Noble refused to take this new form of "e-tailing" seriously. This leading chain of bookstores had just experienced a period of fevered growth. Barnes & Noble had, for example, just started innovative cafés and music shops in its large stores. Internally, so much attention was directed at expanding the physical chains that people were totally blind to the possibility of an alternate supply chain. It took two years for Barnes & Noble to open hesitantly the doors of their own virtual shop – Barnesandnoble.com. This delay has proved damaging to Barnes & Noble.

About summers that never end

"Seasons" are not the biggest challenge facing us. Neither in companies nor in our lives. It isn't about how we can protect the existing against decline – decline can't be stopped – but how we handle the rhythm of the seasons.

If we just allow the rise and fall to take its own course, then the curve will go downwards at approximately the same rate that it went upwards. The total curve will take the shape of the bell-shaped movement of the classic product life cycle.

Now we return to our previous question: why is it so difficult to remain flexible, to escape from the mental Alcatraz? The answer is found in the idea that many people have that summer will never end and in their inclination to keep a firm grasp on success. People construct their own mental Alcatraz. As the line of the S-curve rises, when success comes to complete fruition, then you step into Alcatraz – or more appropriately in this context: S-catraz. At the end of the rising S-curve, success smiles on you, and nothing indicates the possibility of decline. The fact that the high of success makes itself felt is actually the first signal that decline is imminent. Bernardo Bertolucci describes this poetically thus: "…

decline of which you are not aware, the decline of those that look but do not see, who listen but do not hear, of those who do not know how to judge themselves or others."

Richard D'Aveni, author of the management bestseller *Hypercompetition: Managing the Dynamics of Strategic Maneurvering* recounted during a lecture in 1996 that Peter Drukker had, after reading his book, invited him to dinner. On that occasion, Drukker is said to have remarked: "If the gods wish to destroy you, they give you twenty years of success." In other words, the summer of success can lull people to sleep. And success is what it is all about in the second or upper part of the S-curve. All efforts in the first half of the curve (the bottom part) are directed at harvesting in the second half (the upper part). Even at the very moment that the growth curve – that describes the life cycle of a product, an organisation, or anything else – is about to flatten out, everything still seems to be in order. Success still seems assured. Hamel and Pralahad and many others suggest, in relationship to strategic renewal, that success is one of the major threats to true organisational change. Their vision can easily be coupled to the S-curve. Hamel and Pralahad concentrate on two aspects. First, that people experiencing success have little appetite from distancing themselves from a successful past, and second, that people continue to concentrate on repeating and continuing success into the future. This makes them more focused on (the success of) yesterday than on the demands of tomorrow.

In itself, the observation that success lulls people to sleep is a letdown. The problem is well known. This rational knowledge seems insufficient to prevent rigidity, the sleep at the end of the S-curve. This is due to the devious way in which the process works. Nobody is aware of the exact moment they fall asleep. It's the same with an organisation: when renewal is required, there is the danger that they will without noticing it simply fall asleep. Similarly, a company can suddenly wake up disoriented and rub its eyes as it takes in the unknown surroundings in which it finds itself.

In other words: S-catraz is difficult to avoid because the road leading to it is paved with success and because that success, slowly but surely, will turn against the organisation. The situation described here (schematically shown in figure 1.3) is cleverly captured in the work of the Dutch graphic artist M. C. Escher; one of his works shows the subtle and imperceptible transformation of white horses into black ones (see figure 1.4).

In this work by Escher, a group of white knights on white horses rides across the page from left to right and around halfway seem to evaporate into black knights on black horses riding in the opposite direction. This image of a "white" force changing almost imperceptibly into a "black" force perfectly symbolises how initial "proponents of change" – at the bottom of the S-curve when an organisation is still in its infancy – imperceptibly change into a force that opposes change.

The image by Escher is all the more appropriate because the moment of change is so intangible. The same happens in organisations. Initially (at the start of the S-curve), factors such as structure and procedures are the allies of growth for the emerging organisation. At the start of the S-curve, the spring, there is a need for enthusiasm and optimism but, at the same time, a considerable need for the right investments in structures. It seems as if every has to happen at once, each aspect intertwined with the other: marketing, production, sales, service, after-sales, planning, logistics, distribution, legal, and staff matters. Any solution that helps structure this chaos and increases efficiency is welcomed with open arms. Structure is the friend of everything in the stage of development: it provides strength, effectiveness, efficiency, security, quality, and predictability.

Somewhere in this process, however, structure becomes a burden; entrepreneurs and specialists turn into controllers and bureaucrats. Somewhere in this process, and nobody can say with certainty exactly at what time or on what day is happens, the white horses suddenly turn black. There are still a lot of resources available, functions are easily thought up, and one rule more or less won't make all that difference – even though it may slow down the decision-making process. Everything, it seems, is possible, and then all at once it becomes too much, everything boils over, and it takes ages to reach decisions.

In other words, suddenly and without warning, those initial advocates of change turn into forces that oppose change with every means at their disposal. This also happens within the people in the organisation itself: the process is largely a mental one, and is reflected in the way people think about and look at the world around them. People become lazy; the structures that have arisen around them make things all too easy for them. What's more, success feeds vanity. The reward of success has become a sleeping pill, the befuddled senses that follow a bottle of good wine. The hangover comes the next day, when you wake up and find yourself in a strange room.

To summarise: during the course of the S-curve, those factors that were critical and essential for initial success become a stumbling block to change. What is so treacherous about all this is that it takes place as slowly and as imperceptibly as the transformation of Escher's white and black horses. A friend that took care of structures and processes and thus helped words to be turned into deeds changes into an enemy of change because he considers those structures and procedures as an end in themselves.

Feed forward and feedback or: How the future allows itself to be overtaken by the past

Life is a moment in space, when the dream has gone, it's a lonelier place… Barbra Streisand

The course of the S-curve in organisations can become more tangible – and thus better manageable – if we look at it with two ideas in the back of our minds: feedback and feed forward. Feed forward and feedback are not only important concepts for understanding the gradual rigidity that takes hold of an organisation in the process sketched above. We shall also refer to these ideas in the coming chapters when we discuss the way in which people have handled change and the fear of the unknown for millions of years. Feed forward and feedback are terms derived from the system theory.

Feedback: take a shower in an old hotel

Everybody knows the feedback system. The systems for controlling the refrigerator and the central heating are both examples of this. The human body is full of feedback systems that control such things as blood pressure, heartbeat, and the sugar level. The following illustration – one that has been used on many occasions – shows clearly how a feedback system works.

You are a guest in an ancient English castle that has been redeveloped as a hotel. The cavernous bathroom has a large bath in it, and above that bath are two taps. Somewhere deep down in the bowels of the hotel is a boiler or geyser that provides the building with hot water. You turn on the taps and the shower starts pouring down cold water – exactly what you would expect. You wait for some time and then decide to turn up the hot tap

and/or turn down the cold tap. Suddenly, the water is scalding hot, and you quickly turn down the hot tap. Then the water turns ice cold. You turn up the hot tap. If your stay is short, then you'll most probably never get the hang of the system. If you're fortunate to spend some time there, then you'll most probably get to know how long it takes for the system to react to a turn of the tap.

This example shows how preoccupied you are with the past. The temperature of the water in the shower is not the same as the temperature of the water that at that moment leaves the boiler. If you don't know how much delay there is in the system, then you can't really control the process. An additional factor is that the greater the delay in the system, the more difficult it is to control that system.

The essence of feedback is that the action is directed at achieving (again) a situation that existed in the past or that meets a standard set in the past (in this case, a comfortable shower temperature of 38°C). Feedback means control using information from the past. There are two forms of feedback: reinforcing feedback and balancing feedback. *Reinforcing* feedback is feedback that strengthens itself. A product is a hit, people starting talking to each other about it, more people buy it, more people talk to each other about it, and so on (think of the sayings: "Success breeds success" or "Money makes money"). *Balancing* feedback is feedback that produces stability: the temperature in a room is maintained at a constant level, the car stays within the white lines, a project remains on budget.

During the first stage of the S-curve, reinforcing feedback is predominant, ensuring that success breeds more success; in the second stage of the S-curve, balancing feedback takes over. For example, competitors may have entered the market and everybody in the market is keeping their eyes on everybody else. If one tinkers with the price, the rest follow suit.

Feed forward: from Amsterdam to Paris

Feed forward is another form of control that arises out of our ability to anticipate the future. It is as if the future is pulled back in order to control the present. Feedback is all about control based on information from the past; feed forward is control based on the expectations, hopes, dreams, and wishes people want to achieve in the future. An example will make this clear. Let's imagine a driver – and this is an extreme example, we admit – who constantly drives his car around a roundabout (see figure 1.5, left). This driver bases his actions purely on feedback. He pays attention to the lines on the road and makes use of the accelerator using feedback information (from the speedometer on the dashboard and the position of the car on the road) about the existing requirements (the maximum speed and the white lines on the road).

In a feed forward situation (see figure 1.5, right), the driver is not circling a roundabout, but has decided to drive from Amsterdam to Paris. Feed forward bases control on information it receives from the future. In a feedback situation, the actions are directed at *re-establishing* a situation that had occurred in the past, while in feed forward, actions are directed at *reaching* a goal that does not yet exist, a vision of the future. But not everything directed at a future aim is governed by feed forward. The aim of achieving an annual growth in turnover of 10% is, for example, without any further information about the higher aim and deeper intention of such growth, and without any additional information about the *context* of this aim, the same as the white line on the road: a rule that has to be followed.

The power of feed forward direction expresses itself in self-fulfilling prophecies: if we start our day thinking that things will turn out well, they generally do; if, however, we start the day off thinking that things will go badly, then that generally turns out true as well. Pribram has pointed out the fundamental difference between feedback and feed forward. He says that feedback has little to do with *information*: the driver who circles the roundabout only needs "information" about his position on the road in relationship to the white lines. He could even drive blindfolded, with a passenger who gives instructions such as "a little to the left," and "more to the right." Some managers think that when they are controlling budgets they are dealing with information. This is not true. All they are doing is judging figures against a norm that has already been set. The essential difference is that feedback-oriented work is directed by a signal (a deviation in the budget), while feed forward oriented working is directed at the content, about the *why* of the budget and about the context in which that budget is placed.

Feed forward is based on our ability to imagine the future and to anticipate it. That can have negative results – think, for example, about the fear of failure: we see failure looming up in front of us and that makes things go wrong. The positive side is that a strong vision, dream, or idea about the future can drive us forward. It can lead us down the road towards the realisation of our dream.

Figure 1.6 shows the differences between feedback and feed forward.

The feed forward hierarchy: a practical approach for managing the S-curve

The concept of the S-curve can be made more tangible – and more importantly, more applicable – if we use of terms that our part of our day-to-day vocabulary: strategy, norms, vision, dreams, process, structure, ideas, tactics, actions, procedures, mission. When I ask managers to list these terms in order from feed forward to feedback, then they generally produce a list much like the one shown in figure 1.7.

This feed forward hierarchy describes the S-curve, from the bottom upwards. The feed forward hierarchy gives managers a lever that they can use to move their company (or a department, project etc.) further up the S-curve and thus promote development. When a project is in the early stages of development, the manager has to apply downwards pressure on the lever: from values to dream to vision and so on. The more feedback the manager receives, the more tangible the project becomes for the organisation. Once the project has become concrete, top management will increasingly delegate the leadership of the project to middle management levels lower down in the organisation. In other words, the organisation will move step by step from feed-forward to feedback. This happens as gradually as in Esscher's print, where the white knights and horses gradually transform themselves into black knights and horses. This process is also essential: the more concrete a project becomes, the greater the feedback. Those "black horses" are not only inevitable, they are also useful. Success is "bought" with an increase in rigidity. Profitable operations are simply not possible without rules and feedback. Management's task is to accept this while remaining above it and anticipating it.

Values and norms

Any discussion with management about the order of the individual terms generally turns into a heated debate about the proper position of the term "values". This is hardly surprising, since generally (and certainly in the Netherlands) values and norms are lumped together – almost as if they were synonyms. Yet when I demonstrate things with real examples, then we generally reach the conclusion that values should be at the top of the list. For example: respect or honesty says something about the way you should act – and for this reason they *seem* to set a norm (in short: the highest form of feedback). But values have a "thou shalt" character, while norms have a "thou shalt not" character. Values give direction (information about the future, even if this is rather abstract), but say little about the way in which the direction is achieved. Norms provide a boundary, and are generally concrete in the way they mark this boundary. Norms are always derived from values: "don't lie" (a norm) is derived from "integrity" and "showing respect for each other" (values). On the other hand, somebody with values such as "integrity" and "showing respect for each other" may very well on occasions lie – there are situations in which that is appropriate. The classic example is hiding Jews during the Second World War: in such a situation there is justification, taking into account values, for breaking the norm about not telling lies. Anybody who rigidly sticks to the norm and by doing so betrays the Jews would no longer be considered a person of "integrity" or somebody who shows respect for others.

This sort of discussion usually results in managers reaching the conclusion that "values" should top the list in the feed-forward hierarchy. Norms, on the other hand, can be compared with traffic signs, of with the white lines on the road. They show what can and cannot be done. Values, to continue the traffic metaphor, are the *reason* you are on the road, the destination you wish to reach.

At the top, the feed-forward hierarchy is concerned with the future and abstract (values, vision). At the bottom, it is concerned with the past; it is concrete by nature and control-driven (procedures, norms). A fine practical example of feed-forward hierarchy is to be found in a speech given by Carly Fiorina, CEO of Hewlett-Packard to the annual general meeting of shareholders held on February 29, 2000 at Cupertino (California). In this speech, Fiorina wanders from the distant future (an advance on the next S-curve) to the present (results of the quarter that had just been concluded). The sub-headings show which part of the feed-forward hierarchy is being discussed.

Values

"HP is indeed a great company. It is a company that I have admired from afar, if you will, for many years. It is a company that I have admired for its values. The values of trust, integrity, teamwork, contribution. And it is a company that I admire greatly for its inventive capability (…) As we reinvent ourselves we are, in fact, in many real ways, drawing from our history and our traditions to help us in that reinvention. I believe that Hewlett-Packard has a unique opportunity to become what I would call, what many of us at HP now call, an e-company with a shining soul. (…) We are blessed with a company that was given a very strong soul and spirit and character by Bill Hewlett and Dave Packard. And it is the nature of that soul that helps us now in our reinvention.

"So I'd like first to start by sharing with you the rules of the garage, as we call them at HP now. (…) Our phrase for that inside HP today is, 'Preserve the best and reinvent the rest.' And if you look at these rules I think you will see that all of them come from the great

legacy that Bill and Dave left us. We talk here first about an environment in which every employee believes that their contribution can make a real difference. And so our first rule, as you see here, is believe you can change the world. (…)

"And coupled with that, believe you can change the world, is another rule at the end which says that believe together we can do anything. Because of course, teamwork is at the heart of all great reinvention (…) You will also see that we think speed is essential (…) Trust is important, as we talk about keeping the tools unlocked (…) Trust in sharing with our colleagues. And of course, a customer defines a job well done. And throughout it all we remember, for ourselves, for our customers, and for our share owners, that this is a company founded by inventors. And that it is fundamentally our inventive capacity which distinguishes us from our competitors. Which continues to allow us to make a contribution to our share owners and to our customers."

Vision

"As we move forward in this reinvention phase, we are constantly aware of the fact that we are now competing in a very different era. We believe, and others in our industry believe, that in fact the pure product era has come to a close. Every product now is more valuable based upon the types of services that are wrapped around that product. Whether we're talking about a printer that has with it a service of personalized news. (…) In fact, what is happening today is products are more and more valuable to the extent that they are networked and to the extent that they are included in a package of services. And so it's vital for us, as a company, to not only continue in our strong tradition of product generation, but also to put those products together with services. E-services is, we believe, the next great movement in the networked economy. (…) So the challenge for us in HP is to play uniquely in driving this e-services world."

Mission

"We believe HP is uniquely positioned at the intersection of these services, these assets or processes that can be turned into services to deliver over a network. The infrastructure that supports those services, and the appliances, the information appliances. Whether those are PCs or cell phones or wrist watches, or a microchip so tiny that it can be embedded in literally every device. It is our privilege and our competitive advantage to play at the intersection of those services. The infrastructure that supports it and the information appliances that deliver those services. So it is our job to use that privileged position to drive revenue opportunities and profit opportunities as we help transform our customers' businesses."

Strategy

"So we are really focused on six strategic priorities today. First I would say that we are focused on increasing the performance from our current core businesses. (…) Second strategic priority is to eliminate a lot of replication and redundancy and inefficiency that has grown up in our business. (…) Third, we must refocus our energies on providing a total customer experience that competitively advantages us. (…) Fourth, we have a very efficient

business in many ways, in terms of inventory management as an example. (...) And priorities five and six really come back to the notions I was talking about earlier. (...)

"So these are the strategic priorities that we are focused on as a business. These are the priorities that allow us to both reinvent the company and produce superior competitive results in the year 2000 and beyond."

Tactics

"One of the things that we've done is fairly fundamentally realign our business. And we've realigned our business so that we are both world class providers of technology and products and solutions, and world class providers of a total customer experience. We have created two product and technology generation engines. (...)

"In addition, we have formed two organizations that are focused on providing the best total customer experience."

Operational matters (processes, structure, procedure)

"So these are the four fundamental building block now within HP. World class product generation, world class customer experience. And of course, HP Labs is at the center of all of this. HP Labs is the place where our inventive capability begins and is perhaps best personified. And we're focused very much now on taking the technology and the capability of HP Labs and moving it more quickly into the businesses and out into the marketplace. I mentioned our deal with Kodak and I want to focus on this just for a moment. (...) Another important deal that we announced relatively recently was with Ford Motor Company. (...)"

Norms

And finally to update you on how we have performed over this first quarter in 2000, I will say that we have committed to our share owners for 2000 that we will provide revenue and profit growth in the 12-15% range. (...) We believe we've made good progress in our first quarter against that goal. As you can see, overall revenues were up 14%. (...) From an operating income perspective, we are two cents above analysts' expectations at 80 cents. Our reported earnings were 77 cents (...) And I might just add that our stock closed today at $134.8. [Applause] ."

The profession of leader from the perspective of the S-curve

Charles Handy quote; please supply original English text

In practice, management is all about juggling measures directed at either feed-forward or feedback. Result-oriented managers and leaders will always feel a certain pressure to make things concrete and tangible. Feed-forward indicates the reason for action and the direction it takes; feedback is essential for keeping everything on track and making sure that the goals sets are actually reached. Concentrating solely on feed-forward is something for dreamers, isolated from the real world; pure feedback is the reserve of bureaucrats.

At the start of the S-curve, very little is tangible. In the fragile early stages of the growth curve people who can "see" what "isn't there yet" (literally people with vision) are worth their weight in gold. The future has to be brought back to the present. Once the ideas have been given some sort of reality, then the visionaries have done their job, and operators now take over the responsibilities of production. Visionaries think in terms of "feed-forward," namely about things that are yet to happen. Operators think in terms of "feedback": controlling and checking that everything works as it should.

Actual management takes place on a sliding scale that shifts from feed-forward to feedback, from fantasy to reality. The paradox is that with each new piece of reality and each new success in achieving that ideal vision, people accept a slight increase in feedback – people want to maintain the success, to freeze it in rules – and so allow events to be increasingly directed by the past. You can't escape it. In reality, success is bought with in control terms with a little feedback, a little rigidity. Every further step along the scale, that sliding scale from feed-forward to feedback – demands sacrificing a little bit of future-oriented behaviour, increases slightly the rigidity, and people become more self-satisfied because they have reached a milestone.

Perhaps this is superfluous: for an individual product, this process is unavoidable. There comes a moment when the product is (more or less) fully developed and motor turns in the market. For that specific product the following holds true: make the production as efficient as possible, increase profitability, and (finally) decide when the curtain has to fall as the product lifecycle draws to an end. For an organisation as a whole, this does not mean the final curtain must fall as long as it makes sure there are other products and services in various stages of development. (This idea is as old as the famous matrix of the Boston Consultancy Group.) If management does not pay attention to this, then the organisation *as a whole* will move too far up the curve and could find itself in a life-threatening situation. It is advisable to take steps to ensure that a new S-curve has started before the existing one has reached the top of its profitability. There are means (in an organisation) and spirit (in a marriage) to support such a new development. Each S-curve passes the baton along to the next one (figure 1.8).

A pro-active agenda for change and growth has the following four priorities:
1. Create an image of a new future direction
2. Profit for as long and as much as possible from the advantages of the old S-curve
3. Demolish what should be removed and retain what is valuable
4. Manage the transformation.
   These points are shown in figure 1.9.
   The axis "harvest and invest" which runs down the right-hand side of figure 1.9, shows that investments must be made at the beginning of an S-curve. At the beginning of the sharply perpendicular line – if things go well – the first encouraging reports will filter in; during periods of transformation, profit is seldom made. At the end of the S-curve, profits will begin to decline.
   If management does not pay constant attention to this agenda of construction, transformation, and destruction of different S-curves in the organisation, when management does not – before the decay process sets in – start building up the next S-curve, then the existing projects, products, organisational units etc. will die, but no new S-curves will enter the pipeline. If products and programmes are not destroyed at the end of

their lifetime, then they will generally remain: they do not contribute very much, but they do keep employees at work, demand attention from management, and cost money. And the result is a situation in which all the products of a company are at the top of the S-curve simultaneously. This brings the whole organisation into mortal danger.

This book, however, is not about portfolio management. This book is about the elements that determine an organisation's ability to spring from one (nearly) completed S-curve to the start of another S-curve, and thus escape from S-Catraz, the prison of mental rigidity that seems inevitably connected with success.

The management of this escape from S-Catraz, this struggle against Esscher's black knights, is a top priority for leaders of any organisation. If they are to escape from S-Catraz, managers and employees need to let go of the old, with all the fear that entails, and at the same time set off towards a new future, in which fear and hope of a new success both play a role. Giving people the power to finish their own S-curve, to let go, and to start again is a core competence in the struggle against the black knights of organisational rigidity.

The following speech by Carly Fiorina gives a good example of this.
"It is a great pleasure to be with you today, our valued partners and our inventive colleagues. What I'd like to do today is talk with you about the spirit of invention. A spirit that I believe is necessary for all of us to thrive and prosper in this new net economy. A spirit that is necessary to help us adjust to all the changes in the net economy. And I think it's fitting in a way that we should take our inspiration this morning from the place in which we sit, The Louvre, arguably the most extraordinary collection, the extraordinary celebration of human ingenuity and creativity and inventiveness in the world. And as we reflect on this market as we reflect on the dynamics of the net economy, the promise of e-services, we can learn from one of the greatest inventors ever, Leonardo da Vinci.

"Now as we sit here in the Louvre you might think of Leonardo da Vinci as the painter of the Mona Lisa and of course, he was that, but he was also much more. He was perhaps one of the greatest inventors of our time. Though while he spent 50%, approximately of his time painting, he spent the rest of his time inventing. Inventing new products, inventing new prophesies, inventing new theories. Now in his famous notebooks, da Vinci tells a story of approaching a cave. And as he approaches this dark cave he is overcome by true emotions. One emotion of fear, the fear of what might be inside this dark and mysterious and somewhat threatening cave. And the other emotion desire, desire to see whether there is something miraculous and wonderful in this dark and mysterious cave. And I think these two twin emotions of fear and desire have much to teach us about how we as companies must adapt to the new net economy, to the new Millennium, to all of the challenges, the promises and yes the threats of the wonderful technology that we are all here to talk about.

"*Fear*. Fear can be a good emotion. Fear can help us be more pragmatic. Fear can hold us in check. Fear can allow us to think clearly about the strategies that we must use to be successful. But fear as well can hold us back. Fear of failure. Fear of making a mistake. Fear of the unknown. Fear of taking risks. This kind of fear can paralyze us. Can cause companies to stop when they should go forward.

"*Desire*. Desire can be a wonderful motivator to act. It can cause us to do things, boldly, with imagination, with courage. It can cause us to make choices that we would otherwise not be prepared to make. And yet, there are some things about desire that also one must be careful of. And frankly, we see some of the downside of desire today in many

dot.com companies. Too much desire can turn into destructive greed. Too much desire can blind us to strategy, to pragmatism, to reality. Because without the tempering of reality, desire can make us too impulsive. And in this impulsiveness, we can risk alienating our partners. We can exhaust our employees. We can disappoint our shareowners.

"Too much fear and companies become paralyzed by uncertainty and doubt. Too much desire and they flame out. And so I believe how we choose between fear and desire will motivate us and will help determine our success in this new economy.

"The best course of action, I believe, is to have an honest assessment of both our deepest fears and our most fervent desires. The most successful companies, I believe, will harness the power of both their fear and their desire. To fuel our best thinking, to energize our ranks and to leapfrog the competition.

"Which brings us back, perhaps, to the spirit of inventiveness. Truly inventive businesses will use the power of both fear and desire as a motivation to how they approach the net economy. Inventive companies will embrace their deepest fears. And they will look at these fears to help them make rational decisions, to get the best balance from dot.com agility and brick and mortar stability. And they will use the combination of fear and desire to forge their best partnerships. They will harness their intense desires. Desire to be first, the desire to further human progress, the desire to make money in new ways. To set the course for the next wave of business in the new economy."

Escaping from S-Catraz

Now that we have become acquainted with the black knights – the friends of success and at the same time the enemies of renewal – it is time to learn about the weapons we can use in our battle against them. These weapons are closely related to the themes discussed by Fiorina: fear and desire. The S-curves are older than humanity. It is thus hardly surprising that we all, in our nature, have weapons that can prevent us hanging on to a dying S-curve. These weapons are our own survival instincts. These survival instincts, attachment and exploration, govern to a large degree how we approach the conservation of the "now" – or the renewal and exploration of the unknown future. The evolution and nature of these instincts are the subject of the next chapter, in which we explain the way they work. In the chapters following, we look at what is required to help these omnipresent human powers come into flower within an organisation.