

What
America
Does
Right

Volume 2
Organization Is Strategic

Action Guide Preview

What America Does Right

Volume II

Organization Is Strategic

Welcome to the workbook for *What America Does Right: Volume II, Organization Is Strategic*. This Action guide is designed to supplement the video and to provide a context for applying the concepts presented in this program to your organization.

The two case studies highlighted in this volume show a number of cutting-edge innovations and specific strategic strengths. At AES, you will see how a rapidly growing young company has achieved success with a management philosophy based on a very strong system of values. AES is a model learning organization, both in the way in which its teams operate and in its reliance on a flat organizational structure. Merck is a very large company that has fostered an environment of continuous innovation and success by eliminating hierarchy and empowering creativity through autonomy. As you'll see, these basic principles can be key to organizational success in a wide range of organizations.

There are six key elements you should keep in mind as you watch the program:

1. **Structure.** These companies are not only flatter, they also focus on the extensive use of cross-functional teams to solve problems. The teams have access to abundant resources and are able to develop innovative ideas as they address problems.

2. **Systems.** The teamwork process at these two companies is in many ways organic. Teams address problems as they arise and, like a school of cruising sharks, attack new problems with energy and enthusiasm. These companies don't bury problems or ignore them – they solve them.
3. **People.** The individuals at these companies don't lose their individuality – they are encouraged to bring forth new ideas and innovations.
4. **Style.** Management at these organizations is willing to experiment and even fail, failure brings about learning. The organizational strategy is not handed down from some grand vision at the top – it's "retrospective sense-making" or, basically, hindsight. Management derives its strategy from the process. At the same time, management is never careless. Merck and AES maintain a loose management approach to innovation and risk taking yet a tight approach to equally important safety and environmental issues.
5. **Shared Values.** Both of these companies have clear, shared values – values that make people proud to work for these organizations. At AES, the values are fun, fairness, integrity and social responsibility. At Merck, their values are driven by their desire to actively fight human suffering.
6. **Radical Decentralization.** Both companies share a structural similarity – they are committed to decentralization. At AES, each plant acts as an independent business. At Merck, each project is managed as an autonomous project. Decision making is team-driven, allowing management to focus its energies on promoting the divisions or projects that are succeeding.

These six key organizational success factors manifest themselves differently yet apply equally well at AES and Merck. As you watch the video, realize that these success factors will manifest themselves differently at your organization as well. The overall goals, however, are the same – to create an atmosphere of continuous learning in which individuals have a clear understanding of how their work intersects with their co-workers, customers and shareholders.

The ideas expressed in this Action Guide will give you additional insights into teamwork, empowerment and innovation. You may also want to refer to Bob Waterman's book, *What America Does Right*, for more information on these two companies and others that operate in a similar fashion.

As you view this program, be prepared to discuss these key success factors and how they could work in your organization.

Trainer's Notes

This is your guide for use with the video *What America Does Right*. This workbook and these notes should provide you with additional ideas for creating an educational experience that will focus on the key management issues of *What America Does Right*. Each section of the video is paralleled in the workbook, with a recap of the key learning points, more in-depth information on the key concepts and questions for discussion.

Audiences

The accessibility and importance of the message in *What America Does Right* make this program useful in many different organizational settings and situations. While the companies profiled in this program represent the cutting edge in certain management thinking, they can also provide your audience with a wealth of ideas for coping with the new management realities that are emerging in today's business environment. Audiences who will find the video particularly useful include:

Senior Management: The concepts of innovation, cross-functional teams and the learning organization presented in *What America Does Right* are vital to organizational growth. These management principles can help organizations thrive. Merck and AES have realized a great deal of success from their management styles. Senior management needs to be aware of these key management trends, and how to integrate them into their organizations in preparation for the future.

Mid-Level Managers and Frontline Supervisors: Managers at all levels need to have a solid understanding of the teamwork and innovation issues presented in this program. As organizations become flatter (by having fewer layers of management), managers need to change their interaction with employees. Examples from AES and Merck can provide valuable clues on how to approach these new strategies.

Organization wide Training: It is important for each employee to have a solid understanding of the learning organization. As cross-functional teams and task forces become the norm, everyone will need to learn how to work in this new environment.

Public Sector Managers and Employees: The public sector is facing one of the most significant periods of change in decades, including the challenge to provide more services with less resources. These changes will affect each and every employee in the public sector. It is vital for public sector employees to learn new skills in order to meet these new challenges.

How to Use *What America Does Right*

This video and print package includes a number of elements that can help you meet your training goals. The concepts presented in this program are complex and may be challenging for some employees. This program will almost certainly lead to discussion and debate regarding changes in your organization.

The following is a list of action steps you can take in planning and conducting a course using *What America Does Right*. You may want to modify these items depending on your time constraints, intended audiences and training goals.

Advance Preparation

There is a great deal of information presented in the video through the case studies and in Bob Waterman's discussion at the end of the program. View the program in advance of the training session at least once. You may want to obtain a copy of Bob Waterman's book, *What America Does Right*, to further expand your understanding of the cases.

Arrange to have a VHS videocassette player and a monitor available for this training session. If you have more than 20 people attending, be sure to order at least a 25-inch monitor. Test your equipment in advance, and adjust color, sound, etc.

- Have ready one Action Guide (and possibly a copy of Bob Waterman's book) for each participant.
- Encourage participation. The issues on change presented here can trigger strong feelings and concerns as well as good ideas. Getting everyone involved will help build consensus on the issues and ownership of the solutions.
- Bring writing materials for each participant.

Sample Training Session

Pre Screening Preparation. Welcome people to the training session and give them an overview of the program. You may want to discuss the concepts provided in this program in the context of your own organizational goals.

Screening. Show *What America Does Right*. You can watch the program in its entirety, or you may want to start the program and have a discussion following each of the segments.

Post Screening Discussion. Use the following themes from the program as catalysts for discussion.

- Discussing cross functional teams and how they operate.
- Learning new skills by switching jobs.
- Operating in an environment with very little hierarchy.
- Creating an atmosphere of innovation and creative problem solving.

Second Screening. You may find it valuable to rescreen the program after this discussion.

Counter Reference

In order to facilitate the training process, you may want to set the counter on your VCR to be able to move it to specific points in the program. Make sure your tape is rewound and the counter is set to 000. At normal playing speed, or fast forward, run the tape and note the counter readings that correspond to each segment. We suggest that you use the Enterprise Media logo as the starting point.

____ Enterprise Media logo.

____ Introduction by Bob Waterman. In his introduction, Bob Waterman discusses how organization is now the strategic advantage for corporations.

____ Introduction to AES. This segment opens with an introduction of AES through short on-camera comments from employees. Employees and managers recap overall management strategies such as empowerment, managing risk and functioning as a supervisor in this "learning environment."

____ The Investment Task Force - In this segment, we see how the company has decentralized many functions. To highlight this, we profile a frontline team empowered to invest the power plant's debt reserve.

____ Cross Functional Jobs. In this segment, we see how people learn different functions of the plant and build their repertoire of talents.

- _____ The Budget Task Force. In this segment, we see another example of how the people at the front line gain ownership of the organization through involvement in the process of setting the budget for the plant.
- _____ Social Responsibility. In this segment, we see how AES acts on its social responsibility value, empowering Sheryl Sturges to discover a way to offset the CO² emissions of the Thames plant by planting trees in Guatemala.
- _____ The Grain Auger Story. In this story, we see how an employee, using an agricultural implement, solved a problem in the power plant, further reinforcing the company's willingness to take risks and remain open to new ideas.
- _____ Introduction to Merck. Bob Waterman recaps the key points of AES and introduces Merck. In this segment, the viewer learns just how large Merck is and understands the following points:
- Merck's success is derived from its consistent attempts to hire the best people, forging an open, creative atmosphere.
 - Teamwork is also critical to Merck's success. Teams are encouraged to work independently while still meeting overall company goals.
 - If there is a problem or an issue that is of concern, it is vital that it be brought to the forefront and discussed from the beginning.

____ Proscar Story. In this story, we learn about the lengthy process of new drug development. We see how both the managers and scientists work together to ensure product opportunity and focus.

____ Merck Conclusion. At Merck, research is relatively low-cost but development is expensive. The company increases cost controls as a potentially new drug passes each successive test. Great care is taken when choosing drugs for development, as it can take decades for them to reach the market.

____ Bob Waterman's conclusion. Bob Waterman recaps the six strategic management keys to success for these organizations.

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AES

Key Points

Values. AES has four core values that guide the strategic planning decisions made by both corporate management and AES employees at the plant level.

Decentralization. The company is continually experimenting with decentralization. Employees are empowered in many unique ways and take on a proportional amount of responsibility and ownership of the organization.

Learning. People at AES are continually learning new skills and tasks. They cross train on each other's jobs and learn new functions to better meet the needs of all AES constituencies – shareholders, customers and coworkers.

Openness to new ideas. The management at AES is open to new ideas and is willing to experiment – and fail on occasion – in order to create an environment of trust and innovation.

Elimination of we/they. Management is striving to eliminate an environment in which management dictates and employees listen. At AES, there is a conscious effort to work toward mutual ownership of decisions, eliminating the we/they attitude.

Before Roger Sant and Dennis Bakke, the founders of AES, started their company, they worked for the federal government. They were inspired by the idea that government can accomplish a lot of good, but they were frustrated by governmental bureaucracy. When they started their own company, they created an organization with ambitions similar to those of the federal government but without the bureaucracy. Over the years, the company has grown in ways that the founders had never envisioned, yet the company has remained faithful to its founding principles.

At the core of the AES management system, one can find four simple values. These values guide management and employees in their decision making and have proven to be strong principles for forming a successful organization. The values are:

FUN: The fun value at AES, as everyone in the company points out when you ask them, is driven by the desire for people to be challenged and limits stretched by the work they do. Fun does not mean playing games; it means having a job that is challenging and that presents people with new opportunities and experiences.

FAIRNESS: The company strives to treat its people, customers, suppliers, stockholders, and the governments and communities in which it operates, fairly. In its vision statement, it specifically add that any negotiation or transaction will not happen at the expense of others.

INTEGRITY: The company states the following: "We seek to honor our commitments to our employees, customers, suppliers and the community. We try to be honest and reliable. We try to act with integrity, or 'wholeness.'

We live with our agreements even if they might hurt us economically. Our people and our customers can rely on our word.”

SOCIAL RESPONSIBILITY: The people at AES have made a commitment to being socially responsible. This means that they run their plants as efficiently and cleanly as they possibly can. (At the Thames plant, the coal facility consistently operates at much lower pollutant levels than those required by federal and state authorities.) In addition, plant employees continually assess the impact of plant processes on the larger community. This led the company to fund such projects as the planting of trees in Guatemala to offset CO² emissions and the constructing of a new school in Oklahoma to educate children in the town where an AES plant is located.

These values are powerful and have a grab-you-by-the-heart quality that speaks to everyone associated with the company. They drive the strategy at AES and enable everyone involved with the company to become leaders in their own right. The employees are managed proactively and are an integral part of the culture. Moreover, they work to help AES navigate through its problems.

The case studies at AES are simple yet powerful examples of how management can operate in an environment with less hierarchy. The management philosophies expressed at the beginning of this case study are reinforced by specific examples in action at the Thames plant.

- From the Investment Task Force, the cross-functional example and the Budget Task Force, we see the principles of the learning organization at work. People here are continually learning about the business and different aspects of how the company runs. They are being challenged to learn new things all the time. Because management is so hands-off, the people at the front line *have* to learn these skills to manage all the different responsibilities that they take on.
- The story about planting the trees in Guatemala not only points out how AES lives its values, it is also an indication of how it approaches new challenges. Here we don't see management dictating new ideas; we see people taking ownership of a new challenge and coming up with a cost-effective, elegant solution. Sheryl Sturges' innovation was different and exciting, *and* management listened to her and adopted the idea, even though it was different.
- The grain auger story again points out how management is open to new ideas. Even though AES is a technologically-driven energy company, when an employee came up with an idea to address the issue of removing ash, management didn't dismiss it – they said try it and they gave Dale Sinkler the resources to make it happen.

AES is a relatively young company. It is clear that the company will be facing new challenges as it approaches the next century. Many of the management principles at work at AES indicate the direction management is moving in the future. AES has a strong values-driven culture, and with its lean organization and lack of hierarchy, it is moving in the same direction as other organizations. Moreover, the cross-functional teams and learning organization evident in the Thames plant will be directing all operational facilities in the future.

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Questions for Discussion:

1. The Investment Task Force and the Budget Task Force are very powerful examples of how empowerment works. These examples may be somewhat threatening for some organizations at first pass. Use a flowchart to list the key issues that AES had to face when it set up these task forces. What issues are raised for managers in your organization? What specific lessons can you apply to your organization? Which of the issues can you aspire to in the future?
2. AES uses its values to assist management in its decision making at all levels, from staff issues to strategy. Using the AES values, discuss how you would approach some of the management challenges that are facing your organization.
3. AES is a company willing to experiment and fail. It's a company open to ideas and one that encourages people to learn and grow. What are the lessons that you can apply to your organization from the AES example?
4. List each of the five examples from the AES story on a flow chart. The five stories are: The Investment Task Force, The Cross Training Story, The Budget Task Force, Social Responsibility (the Guatemala/trees story), and The Grain Auger Story. List the key management issues that are at work in each of these case studies. Discuss how these management issues might work in your organization.
5. In the Budget Task Force and in the Investment Task Force segments, management acted to empower the team and give them authority. Discuss how your organization approaches its teams and what lessons you can apply from AES.

Merck

Key Points

Being big but acting small. The company is very large but acts small. Each project operates as an independent company under the larger corporate umbrella.

Hire the best and empower them. The company is committed to hiring the best people and giving them the resources and freedom to pursue the corporate goals.

Top notch science. The company is committed to excellence in the science it pursues.

Innovation. The company views research as essentially inexpensive and gives researchers great freedom. It then actively controls the expenses as a drug goes from research into development.

Vision. Drug development is a long-term process requiring a careful vision of the goal and a commitment to results, which can stretch into decades.

Teamwork. While the company commits to basic science, research here is different from the university environment. First, the researchers *typically* work together on cross-functional teams to collaborate on drug development. Second, the teams are ultimately focused on delivering a drug that will ameliorate a disease.

Merck is the largest pharmaceutical company in the world, inventing more new drugs than any of its competitors. From its early days in the 1940s, when the company was involved in the development of vitamins and later penicillin, Merck has been at the forefront of drug development. What makes Merck successful? More importantly, what makes Merck successful when other companies lose their competitive edge as they grow too large?

The key lesson learned can be applied to all kinds of organizations. Merck, like Motorola, Rubbermaid, Hewlett-Packard and other leading companies, has the ability to stay innovative by being big, but acting small. As Dr. Scolnick states in the program, "Teams act like their own small companies within the larger corporation." These teams have the freedom to research in areas that they feel will prove successful with almost total freedom from the corporation. Senior management oversees corporate research goals and helps keep teams focused, but individual research teams retain a great deal of autonomy. This gives the teams freedom to innovate and develop new solutions to problems.

The company exerts more control in the area of drug development. Whereas research is relatively cheap, drug development is expensive. The company manages the costs of drug development very carefully, constantly assessing the progress of a drug as it is tested in thousands of patients in medical centers around the world. In this way, the company has a loose management approach to innovation but a tight management approach to the development process, where the costs rise significantly.

Merck creates an atmosphere of intellectual stimulation in which scientists enjoy working. Researchers are continually challenged, and interactions with their peers create an exciting atmosphere. The company also rewards scientists for developments that lead to new pharmaceuticals, therefore providing many incentives for the best people to work with the company for many years.

Drug development is an extremely expensive proposition. The average drug will cost hundreds of millions of dollars to develop and release and will take over a decade to come to market. These huge costs include the failures that are an everyday part of the process of drug development.

Merck's profitability is driven by its management's ability to create an atmosphere of innovation. Moreover, the company has created an environment in which there is a focus on accomplishing goals and freedom for investigating ways to achieve these goals.

Not every drug Merck develops is successful. In fact, all of the drugs that the company has developed to combat AIDS have proven to be disappointing as they reached the development phase. The company must risk and fail in order to succeed. Risk is a way of life, but the company has enough successes so that it remains confident and focused when faced with failure.

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Questions for Discussion

1. The story of Proscar in the case study of Merck highlights many of the key elements that make Merck successful. Discuss the key learning points at the beginning of this program and how the Proscar story relates to these points.
2. Developing pharmaceuticals is probably one of the most complex forms of new product development. Discuss the lessons from the Merck story that you can apply to your own new product or service releases.
3. Innovation, freedom and focus are key to the company's success. Discuss how you can foster these three elements in your own organization.
4. Long-term vision is vital to Merck's success – it picks its targets carefully and then it commits to them. Discuss some of the projects that you work on. How carefully do you pick your targets? Do you commit to them even when the initial results can be disappointing?
- 5) Merck allows its scientists the freedom to innovate, exerting more control as the project reaches development and the costs rise. In this way, Merck is somewhat like 3M and other innovative companies. How much freedom do you give people to pursue ideas and innovations? How does management react to failures? How can you apply the lessons of Merck to your organization?

6) Cross-functional teams are key to Merck's (and AES's) success. Do you use cross-functional teams to solve problems? Discuss how cross-functional teams could assist in addressing problems or in working on projects in your organization.

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