

Notes and Nuggets From
Chief of Naval Operations' Recommended Reading List

Confronting Reality
Doing What Matters to Get Things Right

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October 2004

Introduction – Breaking with the Past

- Focus is on the “Business Model”

- **Confronting reality** is to recognize the world as it is, not as you wish it to be, and have the courage to do what must be done, not what you would like to do.
- **Business savvy** is the art of understanding the fundamentals driving your business and the connections among them.

Part I/Why Confront Reality

- Though people like to think of themselves as realists, the fact is that wishful thinking, denial and other forms of avoiding reality are deeply embedded in most cultures.

- DO NOT violate the “**First Law of Holes**” – when you are in one, stop digging.

- DO NOT fight yesterday’s war.

- The six habits of highly unrealistic leaders
 - 1) Filtered information
 - miss critical facts
 - need to get differing points of view
 - try to get info from its original source
 - 2) Selective hearing
 - try to eliminate preconceived notions or past experience
 - try to confront problems even when you can see the solution
 - 3) Wishful thinking
 - self explanatory
 - 4) Fear
 - may be embarrassment over saying the wrong thing
 - may exist where bosses punish for differing views
 - 5) Emotional overinvestment
 - may cause blindness to weaknesses
 - 6) Unrealistic expectations of capital markets

- Exercising the power of realism requires an open and inquisitive mind, intense curiosity, the intellectual ability to sort out complexity, the ability to persuade others, and – under girding it all – the courage of inner strength.

- **Cyclical and structural change**
 - **Cyclical changes** are part of business life’s normal ups and downs
 - any competent executive can deal with them
 - **Structural changes** are fundamental, long-term alterations

- hard to differentiate from cyclical changes in their early stages
- 3 **structural changes** are driving today's explosion in worldwide competition
 - 1) increasing integration of business activity across borders
 - 2) worldwide overinvestment
 - 3) global buyer's market which has shifted power from the product producers to the product consumers

- Leadership in this new environment requires unprecedented awareness of a greater range of external realities than ever before.

- Challenges to your business model, your strategies and the very existence of your organization arise in improbably quarters.

- Take information gathering to the next level by looking around corners (explained in greater detail a bit later).

- Consider that you may already be in a structurally defective industry.

- Every age of **structural change** redefines management theory and practice.

- Four mantras dominated management thinking during the 1990s;

- 1) innovation in business practices
- 2) productivity
- 3) speed
- 4) creation of shareholder value

- We are now in a new era of **structural change**

- it demands fundamental changes in the way leaders run their businesses

- **Fundamental value** is a combination of:

- real profit
- real return on investment
- appropriate cash generation
- sustainable growth

- Your ability to create **fundamental value** rests on how good you are at finding the right balance between your external and internal realities and your financial aspirations: in other words, how skillfully you develop and use your business model.

- **Confronting reality** requires business savvy and an unquenchable thirst to know, including the willingness to seek diverse viewpoints and unorthodox ideas.

Part II/Confronting Reality With The Business Model

How does a business model work?

- The model starts with a logical breakdown of the many elements that make up a business, from its markets to its income statement to its leadership development programs.

- These group into the model's three components:
 - 1) Environment
 - 2) Financial targets
 - 3) Activities of the business
- **Iteration** is the process of harmonizing the three components by repeatedly reviewing them as you add new information, and analyzing the subsequent changes in relationships among them.

Assessing the External Realities

- There are four elements of making a realistic assessment of your **external reality**:
 - 1) the broad business environment
 - 2) the financial history of your industry and its players
 - 3) your customer base
 - 4) root cause analysis
- (1) Assessing the broad business environment means looking at:
 - existing and potential competitors
 - economic, demographic and technological trends
 - regulatory issues
 - cyclical and structural changes
- This assessment is a rich mixture of quantitative analysis and subjective judgment. Searching for both threats and opportunities, you are examining the factors such as:
 - government regulations
 - technological advances
 - global influences
 - new competitors

(2) Financial history - *This part really didn't have application to the Navy so I have foregone adding the notes.*

- (3) Customer base
 - Your customer base is arguably your most precious asset.
 - Trouble usually comes from a loss in your differentiation.
- (4) Root cause analysis
 - What are the underlying causes of the trends and issues identified?
 - Why do some players do better than others?

Iterating the Business Model

- The business model is dynamic
 - You must regularly revise it as circumstances change
- **Iteration** is how you put the different pieces into the mix and keep searching until you get the solutions that harmonize the model.
- The iteration process is where you make trade-offs

- Part of this iterative process may involve:
 - getting the right kind of people
 - reshaping the organization
 - developing stronger organizational processes

Part III/What To Change And What Not To Change

- Businesses will increasingly find themselves dealing with external forces they did not foresee. To seize opportunities or defend themselves, they'll have to change faster and more often.

- Some common lessons in the change process:

- 1) In time of crisis, it's absolutely essential to understand the environment as it has become and is likely to be, rather than what it has been.
- 2) You need to refresh your understanding of your customer base
- 3) Ruthlessly assess your organization
- 4) Be rigorous in measuring the progress of your turnaround, keeping an eye out for any sign of slippage from the chosen path
- 5) Above all, approach any crisis without preconceptions; this is the time when relying on the past or conventional wisdom can lead you rapidly to disaster.

Innovating for Growth

- There are seven distinct steps for innovating growth:

- 1) idea generation
- 2) concept development
- 3) feasibility analysis
- 4) product development
- 5) scale up
- 6) launch
- 7) post launch analysis

These steps are not explained further in the book.

Part IV/How To Prepare For Change

- Succeeding in today's business world requires skills and abilities that haven't been given much weight in the past. Acute radar is one of them: you need to **"look around corners"** and specifically discern the parts of the **external environment** that will affect the future of your business. Leaders who have learned to look at their businesses from the outside in, including working backwards from the end user of their products and services, have a head start in confronting reality.

- Gathering information from the outside is not a onetime or yearly event. It has to be a real time process: a social mechanism with frequency and consistency.
- The ability to look around corners and anticipate what is coming is part mental and part procedural.

- the mental part comes from the determination to get to the bottom of things
 - the procedural part goes back to the beginning of the book and involves eliminating the barriers to reality: filtered information, selective hearing, wishful thinking, fear, emotional overinvestment, and unrealistic expectations.
- Creating a culture of reality moves to one of the top places on any leader's agenda.
- The **external environment** has always thrown challenges at even the best business models.
- Today the increasing speed and scale of change means that new threats and opportunities arise faster and more often.
- In an organization, you sharpen the outside-in view from two different directions. You work down from a broad view of the external environment to your particular circumstances, and at the same time, you work up from your knowledge of the customer and end user.
- Of all the information you gather, knowledge of the customer is the most specific and valuable in assessing your business model or developing new strategies.
- **Differential advantage or competitive differentiation** is explained as that thing your company does which makes your product superior to your competitor's. *My opinion: Because of lack of competitive differentiation some Cryptologic Technician ratings merged with other Navy ratings. We couldn't offer the Navy better service efficiency with our CT ratings, so the Navy merged them with theirs.*
- The **corporate culture** consists of operations, people and organizational processes.
- The Navy won't put a ship to sea until its officers and crew have practiced and drilled their responses to an attack. Your organization needs similar conditioning before sailing into battle. There's a readily available tool that achieves the same results: **the initiative**.
- An **initiative** is a specific high-impact project that requires cooperation across the entire organization.
- Real results do not come from making bold pronouncements about how the organization will change. They come from thoughtful, committed leaders who understand details of an initiative, anticipate its consequences for the organization, make sure people can achieve it, put their personal weight behind it, and communicate its urgency to everyone.
- The quality of leadership itself is a critical component of a culture-changing initiative.

How to Lead an Initiative

- There are four imperatives for the leader launching an initiative:
 - 1) Learn the guts of it

- 2) Invest your time and energy
- 3) Pick the right people to initiate it
- 4) Be courageous

- Only leaders who have the capacity to recognize reality for what it is have a good chance to succeed in the new environment.

- Some leadership qualities will always be essential:

- 1) Discipline
- 2) Integrity
- 3) Maturity
- 4) Ego containment

- Two leadership qualities have become absolutely indispensable today:

- 1) Business acumen/savvy
- 2) A refusal to take anything for granted and an insatiable curiosity about what is new and different.
 - This is a relentless quest for the critical one percent of information that can make all the difference to your organization
 - It's the desire to see to the horizon and to see what might lie beyond

- Several traditional leadership qualities are more critical now than before:

- 1) intellectual honesty
- 2) comfort with ambiguity
- 3) self-confidence
- 4) courage

- The leaders who have the stomach for tough action have inner strength. These leaders visualize the probabilities and move to take advantage of them.

- A leader can't confront reality if her organization as a whole doesn't. It is basic human behavior to deny reality and embrace unreality, when the reality is more than they can bear.

- One of the great leadership arts is reducing complexity to its simplest expression without being simplistic.