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Learning Byte 254 Managing by Commitments



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MANAGING BY COMMITMENTS

“The actions you take today can pave the way to success tomorrow. Or they can lock you into a doomed business model. The best managers know when to make commitments and when to break them.”

“Successful managers all excel in the making, honoring, and remaking of commitments.

Managerial commitments take many forms, but each commitment exerts both immediate and enduring influence on a company. Over time and in combination, a leader's commitments shape a business's identity, define its strengths and weaknesses, establish its opportunities and limitations, and set its direction.”

Commitments are extraordinarily powerful and executives can all too easily lose sight of. Caught up in the present, managers often take actions that, while beneficial in the near term, impose lasting constraints on their operations and organizations.

When market or competitive conditions change, they can find themselves unable to respond effectively even though they may see a threat clearly and know they must take action. They find themselves caught in a web of commitments that they (or their predecessors) have spun.

Managers in established enterprises can reinforce past commitments that are still benefiting the company, and they can learn to recognize when past commitments have become roadblocks to needed changes and replace them with new, rejuvenating commitments.

Double-Edged Swords

Commitments are, in short, double-edged swords, and their dual nature is apparent throughout a company's life cycle

Commitments are:

- Any actions taken in the present that bind an organization to a future course of action.
- Actions that restrict a company's future options in a way that would be costly to reverse.
- Essential to management.
- The means by which a company secures the resources necessary for its survival.
- Powerful tools, if used wisely, to help a company beat the competition.
- Tools used to induce potential partners and investors to play ball
- Important in benefitting inside an organization as well.
- Tools to give employees a clear sense of focus and help them prioritize and coordinate their actions.
- Also motivational. They can create excitement and energy in difficult times, inspiring employees to persevere despite hardships and setbacks.
- Costly. Because commitments prescribe certain future actions and preclude others, they limit a company's flexibility.

The gains in efficiency and focus that commitments provide may outweigh the costs of inflexibility for a long time, but when conditions change, a company may find itself locked into outdated patterns of operation and competition. A commitment's advantages may turn into liabilities.

As the business matures, managers reinforce that identity through new commitments involving strategy, finance, personnel, and operations. At some point in the company's evolution, the original identity may prove insufficient or even counterproductive, requiring managers to transform the business through a set of new commitments that contradict the earlier ones.



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Commitments That Define

Defining commitments are early actions shape an organization going forward.

- They establish assumptions and routines that become hard to break.
- During formative years, a company's founders and managers can take many kinds of actions that shape its future.
- **The most enduring commitments tend to fall into five categories.**
 - **Strategic frames**
 - Are shared mental models that influence how managers and employees see the world.
 - Prevent the employees (and the entrepreneurs) from dissipating their focus and energy by pursuing too many opportunities.
 - They rule out many business options.
 - **Resources**
 - Include both hard assets (land and machinery), and soft assets (brands and technology).
 - Resources that are durable, tailored to a specific strategy, and hard to buy and sell can be a substantial competitive advantage.
 - They can also lock a firm into a future trajectory.
 - **Processes**
 - Recurrent procedures that companies employ to get work done.
 - They include operating procedures (logistics or production), and managerial ones (decision making and resource allocation).
 - Establishing formal processes increases efficiency, enables a company to scale up its operations, and facilitates coordination among different parts of an organization.
 - Also reduce organizational adaptability.
 - **Relationships**
 - The associations an entrepreneur forges with external individuals and organisations who provide resources critical to the company's success.
 - **Values**
 - The shared norms that unite and inspire employees. They are established through both statements and actions.

Commitments That Reinforce

- Managers continue to make commitments well after an organisation's formative years.
- They make investments, issue public statements, hire and fire employees, establish partnerships, etc.
- These later actions no longer define the organisation.
- They are **reinforcing commitments**.
- Reinforcing commitments are essential to building an efficient and disciplined company.
- They establish a clear corporate focus.
- They decrease costs
- They inevitably make organizations more rigid and less adaptable.
- Problems arise when the environment shifts, when economic or trade conditions change, when a powerful new technology emerges, or when a new regulatory regime is imposed.
- Suddenly, the old route is no longer the best route.
- The reinforcing commitments that enabled you to flawlessly execute your business model now trap you in that model. (explained in detail in **"Why Good Companies Go Bad,"** HBR July/August 1999.)

Commitments That Transform

- The pressure to persist in making reinforcing commitments is great.
- It must be resisted.
- To change a company, managers have to deliberately take bold actions to break and remake their old commitments
- They have to make new **transforming commitments** that force their organizations out of the status quo.
- Reinforcing commitments are comfortable and familiar;
- Commitments that transform are anything but.
 - **Select an anchor** - mark a clear break from the past.
 - **Secure the anchor** - to overcome the forces of organizational inertia

Effective transforming commitments share three characteristics.

- First, they are clear.
- Second, they are credible.
- Finally, they are courageous.
- **Align the organization.** Once the anchor is set and secure, all of the organization's other frames, processes, resources, relationships, and values must be reconfigured to support it.

Getting Personal

- A commitment is a highly visible action, promise, statement, or decision made by an individual and closely associated with that person.
- To succeed, it must be consistent with the manager's ethos.
- Consistency between what managers commit to and who they are confers several benefits.
 - It helps ensure that managers have an intuitive understanding of their business and its markets
 - It gives a manager credibility
 - It can imbue an executive with the passion necessary to get others on board and persist in the face of setbacks.
- Changing an organization can be very difficult, but changing a person's ethos is nearly impossible.
- Commitments define individuals just as they do organizations.
- They enable and constrain.
- They provide continuity over time.
- They make us what we are.
- Understanding the link between personal ethos and professional commitment is, in the end, what allows good managers to become great leaders.

This is a précis of an article by Donald N. Sull, Harvard Business Review, June 2003

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