Structure and Blueprint

Most companies are not built to last. Is yours?

Companies experience constant disruption and change. New trends, technologies, business models, and operational models regularly emerge to produce new market leaders.

Mobile phones—the industry in which I spent the bulk of my career—are a reflection of that constant disruption. The first mobile phones arrived around 1983. They weighed nearly two pounds, were more than one foot long, and would run out of juice in 30 minutes. Despite being brick-sized, they could only make voice calls, and they were not secure. Almost four decades later, the modern mobile phone weighs six or seven ounces (about 20% of the original phones' weight) and fits into your pocket. Modern phones are used to talk, exchange email, text, browse the web, interact via social media, pay bills, navigate, take pictures, provide entertainment, and even remotely control your house and appliances. These phones last a whole day (and longer) on a relatively small battery.

As mobile phones have become more powerful and sophisticated, numerous companies have emerged as industry leaders. In the early 1990s, Ericsson and Motorola were the leaders outside of Japan. By the end of the 1990s, Nokia emerged as the undisputed leader. A decade later, Samsung and Apple took the lead.

Why do companies shoot to the top and then fall back to earth? Could this loss of leadership be due to complacency caused by the comfort of success, bad habits, dogmas, and bad decisions? In an excellent *Harvard Business Review* article titled "Why Good Companies Go Bad," Donald Sull described these aspects as *active inertia*, "an organization's tendency to follow established patterns of behavior—even in response to dramatic environmental shifts."[1]

"In trying to dig themselves out of a hole, they just deepen it," Sull wrote.

Companies can fail if they do not take necessary action—they can get stuck in a mode known as "analysis paralysis," frozen like a deer caught in the headlights and incapable of making a move. And they can also fail if they take the wrong action.

Such was the case with the newspaper industry, in which publications continued to soldier on without solutions to the rise of online classified ads, such as Craigslist, and declining print circulation. Facing continual cutbacks and reduced revenues, many publications remained committed to doing the same thing and hoping against hope for a different outcome.

I do not know of a formula for leadership immortality, but I believe there is a method to building a company's longevity. You only have to look at great companies that have been around for over 100 years across a swath of industries—Boeing (aerospace), Coca-Cola (beverages), Colgate (dental hygiene), Ericsson (telecom), Ford (automobiles), Harper (books), Harley-Davidson (motorcycles), Johnson & Johnson (pharmaceuticals and medical), John Deere (farm equipment), Lloyds (insurance), Siemens (industrial), UPS (shipping and receiving), and Whirlpool (home appliances),

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[1] Donald Sull, "Why Good Companies Go Bad," *Harvard Business Review* (July–August 1999), https://hbr.org/1999/07/why-good-companies-go-bad.

to name just a few. How have these and other companies survived two world wars, depressions, recessions, and a host of other disruptions?

Yet for every enduring company, there is a slew of companies that fail and disappear. The U.S. Bureau of Labor Statistics states that approximately 20% of new businesses fail in their first two years, 45% in five years, and 65% in their first 10 years.[2]

Through my research, experiences, and lessons from my mentors, I have developed a framework with which companies can fortify themselves to withstand storms and attacks—both those visible far in the distance and those that arrive by surprise, both internal or external. A sturdy company, like a castle, exudes strength.

But it is not enough for companies to simply guard against threats. They also need to be proactive and vigilant, to look ahead and stay one step in front of competitors and disruptive trends. They need to be constantly considering threats and opportunities, strengths and weaknesses. Running a successful company means being in a state of constant evolution, construction, and repair.

In the ensuing chapters, I describe a framework of eight elements that contribute to the growth, evolution, and longevity of a business. Whenever my teams and I implemented this framework, we realized amazing results in far shorter periods than anyone predicted.

In their best-selling book *Built to Last*, Jim Collins and Jerry Porras analyzed 18 visionary companies, serving as a control group, to identify principles and patterns that made these companies successful and proposed key concepts to build a great company.[3] I address the same topic with a different approach—focusing on building the structural elements of every business to contribute to its success.

A Framework That Builds a Company

My team needed to make the ultimate turnaround, and fast.

It was 2003, and I was in Sweden, tasked with guiding the turnaround of Ericsson Mobile Platforms (EMP), a business division of Ericsson that built semiconductor chips and software for mobile phones.

EMP was bleeding cash and had microscopic market share, falling to the rear of the supplier pack. Some of EMP's competitors were spending 10 times its operating budget. Customers were nervously anticipating that EMP would fail. The company owners were contemplating strategic options, while EMP tried to subsist from one quarter to the next and stem waves of negative publicity.

It was a great opportunity to put my framework to the test.

When the head of EMP's board met me and offered me the position, I took it because EMP had incredible talent and technology, and I felt confident we could turn things around. The board wanted to know what I would do to save the firm. I got the feeling that they had mixed emotions about me. I was known as a technologist and not a general manager. I understood products—but did I

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[2] Michael T. Deane, "Top 6 Reasons New Businesses Fail," Investopedia, February 28, 2020, https://www.investopedia.com/financial-edge/1010/top-6-reasons-new-businesses-fail.aspx#.

[3] Jim Collins and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies* (New York, NY: Harper Business, 2011).

understand finance, strategy, sales, and building stakeholder value? I also had to relocate from the United States to Sweden, and there was the question of whether I would be a cultural fit. I got the job thanks in part to strong endorsements from EMP's largest customer and the chairman of its board.

I was ready for the challenge. While many people in the industry consider me deeply technical, my track record shows me to be more adept at managing businesses for growth and profitability. It took 12 years of watching and learning on the job, aided by excellent mentors, before I had a framework for how to manage a business, but when EMP needed me, I had the experience to tackle the problem.

Along this 12-year journey, I learned finance from a practical viewpoint, in addition to learning the operational ingredients that are essential for any strong company. I also learned three critical rules for deploying one's "fix it" framework.

First, even though your framework may have all the ingredients, it may not be fully baked. Go ahead and implement it and refine it with time. Do not wait for it to be perfect. To bake a simple cake, you need flour, baking powder, sugar, salt, milk, eggs, and butter. These ingredients need to be mixed in the right proportions and baked at the right temperature for the right amount of time to produce a good cake. Likewise, I had all the ingredients for my turnaround framework, but it was not well-baked. I had to refine my framework over time through the process of trying and testing it at EMP and afterward. Each experience made the framework incrementally better.

Second, build your management team with those who know the organization and technology and teach them how to fix problems in their own company versus bringing people in from outside. These people who have deep knowledge of the company also have a shorter learning curve.

Third, responsibility and authority must go hand in hand. In my earlier jobs, I had all the responsibility with loose authority. That is, I called some of the plays, but I did not call many *important* plays. This led to some serious setbacks and frustrations earlier in my career. I told myself that if I ever ran a company or a business, then I would pair authority with responsibility to get things done.

At EMP, the challenges—and thus, opportunities—were clear.

The second-generation, or 2G, cellular technology had stalled out, and the world was anxiously awaiting the launch of 3G cellular technology. If EMP could be first to launch 3G cellular technology, the payoffs would be immense.

The challenges were to launch our 3G cellular technology in cellphones, make the business grow profitably, and reverse the negative sentiment held by customers and investors. The board did not set a specific timeline for the turnaround, but I felt we had less than a year before it would be too late. With this ominous timeline, I laid out a simple plan to turn EMP around.

My plan had three goals:

- **Establish viability:** Turn profitable in one year.
- **Get noticed:** Be first in the world to launch our third-generation cellular technology (platform).
- **Build momentum:** Sell 100 million platforms, which translated to a six-times increase in sales, in three years.

The board and my team accepted this plan. The next step was to create a framework to achieve these goals.

My framework began with creating a vision for the company based on a comprehensive view of the market and its trends. This vision led to the formulation of a winning **strategy**.

The strategy created the right **products** for its addressable market. Even the best products do not just sell themselves and must be marketed and distributed through **channels.**

Execution of the strategy reflects operational excellence and is achieved through discipline. To execute the strategy, the **culture** of the organization had to be aligned—if culture and strategy clash, culture invariably wins. And if you cannot align the culture with the strategy, you will not win.

Finally, stakeholders—investors, customers, and employees—must have **confidence** in the company. That confidence is reflected in their investment in the company. Waning stakeholder confidence is the fire alarm that something is amiss.

Finally, the company must have sustained financial health and a sound business model, which lays the **financial foundation** to pay for all the above elements to be realized and fund evolution, as none of the elements is static.

The terms highlighted in bold above comprise eight essential elements of building a sustainable business, which I like to visualize in the form of an impenetrable castle, symbolized in Figure 1.

Castles represent longevity. Castles are built to last. As history buffs, my family and I have traveled extensively across Europe and India to see magnificent castles. Many of these structures have been around for hundreds of years and have weathered nature's elements and many attacks.

Castles, which served as homes to the nobility and their citizens, have varying sizes, shapes, and appearances to them—each castle, like each business, is unique. But they all have a few similar elements. The castle's elements are interlinked and must work together to maintain the integrity of the structure, or the castle will not stand the test of time.

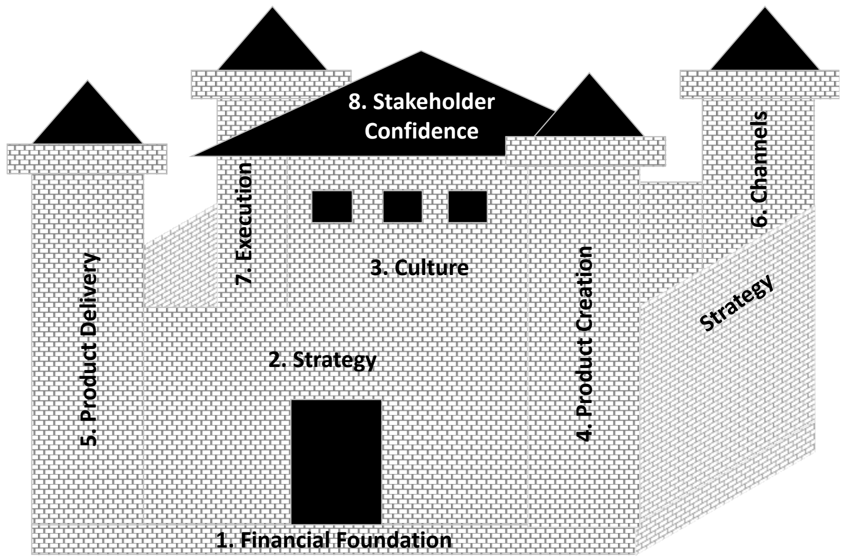

Figure 1: Framework of the Elements of Your Castle

The business elements and their analogies to castle structures can be categorized as follows.

Foundation

1. Financial Fitness: The cash and operational steps needed to create more cash that enable the company to grow.

Perimeter Wall

2. **Strategy: This frames the entire business and determines how the company will be built, in order to arm it with advantages.**

Keep or Donjon

3. Culture: The heart of a company, and a freestanding structure that serves as the last line of defense.

Towers

There are four towers connected by the perimeter wall, and together they help protect the business:

4. Product Creation.
5. Product Delivery.
6. Sales Channels.
7. Execution.

Roof

8. Stakeholder Confidence: This is the trust and belief that a company must build with its investors, customers, and employees that is essential for a company's longevity.

The castle's construction begins with the foundation upon which the rest of the castle is built. It can take a long time to build a castle or company, and renovations and improvements are a constant process. But without a strong foundation, it is unlikely that a castle or business can reach true magnificence. The work you do to ensure that your company's financial foundation is sturdy—which I explain in the first two chapters of this book—may seem tedious, dry, even banal, and it largely remains hidden from view, but it is vital to ensuring your company's success and should not be overlooked.

Before building the castle, we need to assess if the foundation can bear the weight of the grand structure we plan to build upon it. The outline of this structure is the perimeter wall—the strategy that frames the company's direction and progress. At the center of this structure is the keep—the culture and beating heart of the company. And enclosing the whole, the towers—product creation, product delivery, sales channels, and execution—connected by the perimeter wall protect the castle against enemy attacks.

The roof provides shelter against nature's elements. This takes the form of stakeholder confidence. Stakeholder confidence occurs when investors drive up the company's market capitalization through demand for shares, customers buy its products and fill its sales pipeline, and current and prospective employees want to work for the company and give it their best.

It is important to make sure all eight elements work to reinforce each other to contribute to a balanced and successful business. When one or more elements of the company are weak or stressed, it is more likely to collapse, allowing attackers to infiltrate the castle walls. Consider a company with great products but weak sales channels or one that is a market segment leader but disconnected from its stakeholders. Such companies are likely to lose share to a competitor.

When each of the elements is equally strong, the castle has a higher chance of withstanding the winds of change and attack. The castle's location (position) and structure should be built to see, well in advance, any approaching threats so the company can proactively prepare. Reacting after the fact would be like changing the drive belt or fan belt on a moving car—it is too late to make a change.

While castles are essentially defensive structures, they represent a home base. The castle's armies might launch attacks and capture other territories. In doing so, it is important to build new castles to guard that new land. Defensive tactics need to align with offensive tactics.

The Design of This Book

My personal journey began in India. After receiving my bachelor's degree in engineering and a management diploma, I went to Canada on a fellowship to pursue a master's. During the 1980s, while studying for my MS in Canada, I read about mobile phones and the work at Bell Laboratories. I was captivated and came to the U.S. to pursue a PhD in this area.

After my PhD, I joined General Electric Corporate Research and Development, where I built a research team that worked on emerging mobile radio systems. Ericsson funded our research work for a few years and ultimately bought out my group. Seven years later, I became the CTO of Ericsson Mobile Phones, then the CTO of Sony-Ericsson, and I went on to be president of Ericsson Mobile Platforms. I held executive roles at a few well-known semiconductor and software companies before turning to management consulting and helping exciting start-ups grow.

During this fulfilling career, I was privileged to lead innovation, build products, and run wireless, semiconductor, and software businesses. My teams pioneered and built many amazing products, including three generations of cellular phones and technology (2G, 3G, and 4G), Bluetooth, semiconductor chips for consumer and medical electronics, and safety-critical software used in cars, nuclear power plants, high-speed rail, and medical appliances. I could not have wished for a richer experience.

Along this journey, I kept getting picked by management to fix difficult business problems and was fortunate to repeatedly deliver results, thanks to my incredible teams. Maybe this is why a journalist at the *Economic Times* gave me the moniker “Dr. Fix.”

Companies I’ve worked with experienced the highest of highs—as well as some disappointing lows. Analyzing what they did right to rise and what went wrong to lead them to fall is experience in itself. On this journey, I’ve found that reflection on failure is as valuable as celebration of success.

As a management consultant for multinationals, start-ups, and investment firms, I’ve gained a wider view on the problems companies face and an *outside-in* look at company operations. This perspective has been useful—when you are too close to the trees, you cannot see the forest.

With this perspective, I have written this book primarily for those who aspire to be business leaders and are in the process of learning to build and run different elements of a business. MBA students and those who want to get an executive MBA will find the book useful, as it ties business theory to business practice. Investment professionals looking at companies to back can gain an *inside-out look* into the various facets of a company that drive long-term growth and profitability. I liken assessing a company from just its financial statements, models, and management commentary to the assessment of an iceberg without sonar. It is hard to verify something that is not visible to the naked eye. Hopefully, the contents of this book will serve as the sonar. Consulting companies will also be able to use the principles and models outlined in the book to analyze companies and assist their clients.

This book was designed to be read from front to back, but each chapter represents a self-contained topic that can also stand on its own. As you read the book, I hope you will recognize the links between the key elements of a business, which reinforce one another.

The principles contained in this book are more applicable to established businesses, which are also the ones most likely to experience *active inertia* due to new technologies, challengers, and radically new business models. Further, this book is about principles and does not attempt to provide solutions, as each solution must pertain to a company’s situation. However, the principles described in this book can help you formulate the right solution for your company.

This book also focuses on for-profit companies. Nonprofit companies, which provide many needed and valuable contributions to our world, operate differently and often rely on donations and government funding instead of maximizing cash flow.

Throughout this book, I interchangeably use the words “firm,” “business,” and “company.” Treat them as the same. I also use italics for words that have a specific meaning and share stories from my career as illustrations—in these stories, I have masked names and some aspects to protect privacy and confidentiality.

Many of the examples in the book pull from my experiences in the technology industry—primarily with cellphones, electronics, semiconductors, and software. It is what I know and can relate to and state with authenticity. While this is a limited lens through which to address a very broad variety of businesses, the lessons from these experiences in technology are applicable to other business fields.

I hope my framework will inspire you to build successful business structures, just as I was fortunate enough to, and more importantly, I hope it will guide you to build your company like a sturdy castle, to stand tall and last.