

## Orchids & Steam Shovels - Part Two

By: Ronald A. Norelli

*“...we have taken hold of the job... There are [great ninety-five ton] steam shovels...scooping huge masses of rock...eating steadily into the mountain...cutting it down and down... With intense energy men and machines do their task...an epic feat... [Panama] is a real tropical forest, palms and bananas, bread fruit trees...gorgeous butterflies and brilliant colored birds fluttering among the orchids...”*

-THEODORE ROOSEVELT,  
NOVEMBER 1906

### OCTOBER-DECEMBER 2006: A RHAPSODY ON A THEME

When Panamanian voters overwhelmingly approved the Canal’s expansion on October 22, 2006, it had been 100 years since TR’s insight that the total significance of Panama in 1906 stretched beyond the engineering and logistical feat underway. The whole meaning of the scene had to encompass what he’d witnessed on Panama’s other side: the serenity and natural beauty, the self-sustaining order and wonder of the jungle. Part One of *Orchids & Steam Shovels* left off posing the question of which skills are likely to be more critical to a company’s future economic success, those symbolized by the “steam shovels,” or those by the “orchids.”

The same theme was attracting attention from elsewhere:

- *The Economist* featured the global “war for talent” positing that highly creative and innovative people will be more critical than ever...and in decreasing supply.
- Former labor secretary Robert Reich<sup>1</sup> declared globalization to be an advanced reality, driving the forces of commoditization. Future strategic battles will be won by brand development and differentiation. He, too, warned of diminishing supply of talent.
- Author Daniel Pink challenged another audience<sup>2</sup>; to understand that “right-brain” talents must rise to equal status with “left-brain” skills for tomorrow’s businesses to prosper. Design, creativity, big picture vision and the ability to articulate significance will be just as critical as traditional quantitative, analytical and sequential thinking capabilities.
- *Fortune’s* “The Future of Design” issue drove home the view that exceptional design is “the must-have differentiator” in a “relentlessly commoditized world.”
- CEOs at Procter & Gamble and GE warned that organic growth must accelerate, requiring human attributes not traditionally at the forefront. Innovation, design, creativity and risk tolerance must coexist beside cost control, productivity improvement and management discipline. One coined the term “ambidextrous leadership.”

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<sup>1</sup> At the 2006 Annual Meeting of the Turnaround Management Association.

<sup>2</sup> At the 2006 Annual Meeting of the Family Firm Institute.

Part One of *Orchids & Steam Shovels* examined companies' strategic effectiveness using the Corporate Energy/Entropy Matrix™. Specific attributes defining Corporate Energy and Entropy are shown in Exhibit 1. A collective analysis of each dimension allows one to assess a business's strategic positioning in a fast-paced environment (Exhibits 2 and 3). Companies should strive for maximum Corporate Energy and balanced

Corporate Entropy, so as to avoid (a) wasted energy, distraction and squandered opportunity on one extreme, and (b) complacency, inertia, lost vitality and extinction on the other.

Corporate Energy attributes tend to mirror more the “steam shovel.” “Orchid” imagery transcends both Corporate Energy and Entropy.

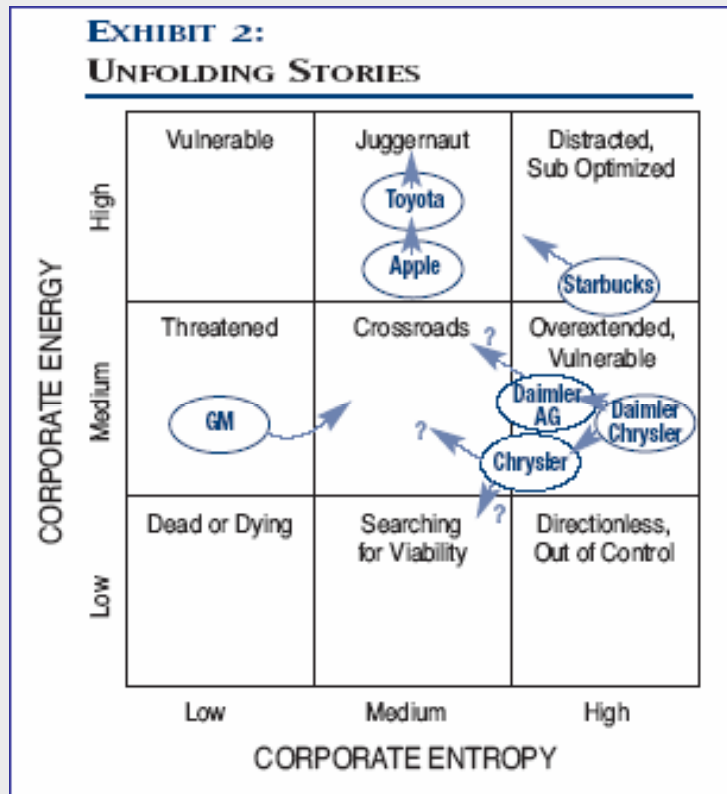
## UNFOLDING STORIES

A company's position on the Corporate Energy/Entropy Matrix™ is subject to continuous change, the best kind being driven by execution of a proper strategy (Exhibit 2).

- From its earlier triumph in retailing to the announcement of the iPhone, Apple demonstrates “design” at a level that changes peoples' expectations. Essential to success are its clarity of vision, intense focus and design simplicity.
- Labeled “America's Best Car Company” by *Fortune*,

**EXHIBIT 1:**  
**THE CORPORATE ENERGY/ENTROPY PROFILE**

ATTRIBUTES OF ENERGY:	ATTRIBUTES OF ENTROPY:
<ul style="list-style-type: none"> <li>• Size, physical mass, scalability</li> <li>• Speed, intensity of effort</li> <li>• Infrastructure, technology</li> <li>• Brands, market position and power</li> <li>• Special or dominant core competencies</li> <li>• Management depth, focus</li> <li>• Disciplined and exceptional human resource development</li> <li>• Financial strength, access to capital</li> </ul>	<ul style="list-style-type: none"> <li>• Propensity to change quickly and/or in great leaps</li> <li>• High risk tolerance</li> <li>• Tendency toward random, fluid structure</li> <li>• Undisciplined style, susceptibility to distractions</li> <li>• Contrariness, out-of-the-box thinking</li> <li>• Exceptional creativity</li> <li>• Broad, perhaps unrelated, product and business unit diversity</li> </ul>



Toyota's corporate energy marches on (US manufacturing expansion, relentless performance improvement, flawless execution). Not so outwardly obvious are more orchid-like advances in product redesigns, psychographic research and a masterful PR machine.

- Symbolized by the internal email from Chairman Schultz about the company's displacement (by Dunkin' Donuts) as #1 in its category for customer loyalty, Starbucks sounds an alarm. Perhaps the orchids had fallen victim to the steam shovels?
- Rejecting the Kerkorian/Nissan/Renault distraction General Motors stays its course. Better international coordination, Bob Lutz's resurrection of GM's historical design emphasis ("...more right-brain—(we're in) the 'art business'"<sup>3</sup>) and advances in China spring new hope for survival and perhaps more.
- Though the *Wall Street Journal's* "1A-above-the-fold" headline is all Cerberus and Chrysler, there is perhaps more lasting significance buried inside. New opportunities for the soon-to-be-renamed Daimler AG would span revitalizing its Mercedes brand and renewed focus on new product and technology leadership.

## AUDACITY IN GREEN

Among human attributes Pink<sup>4</sup> articulates as essential to tomorrow's success are abilities to (1) design and communicate about products in ways that attach "significance" beyond utility, and (2) embrace a sense of meaning in whatever one does.

Consider two illustrations of these attributes at work in seizing opportunities in "green business."

- Over two centuries many might have considered DuPont a quintessential "steam shovel." Yet this high Corporate Energy company is out front of an eco-consciousness and sustainability movement. Its "audacious transformation"<sup>5</sup> including bioscience-based core products, reduced energy usage and lowering carbon emissions is resonating worldwide.<sup>6</sup> The orchid is alive in DuPont's Board room.
- Significance and meaning have anchored Patagonia throughout its thirty-five-year existence. This iconic company has thrived amidst large competitors with a niche strategy driven by environmentally "sustainable" products, produced and sold by extremely loyal and intelligent employees to customers who would go nowhere else. In what may seem a cruel irony, Patagonia now looks ahead to its most difficult transition period ever due to the threat it perceives in global warming. With its historic mountain-sports business at risk, Patagonia has launched an "Ocean Initiative" requiring new materials R&D, new products

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<sup>3</sup> GM Vice Chairman Bob Lutz, quoted from *The New York Times* on page 53 of Daniel Pink's book [A Whole New Mind](#).

<sup>4</sup> Daniel Pink, [A Whole New Mind](#).

<sup>5</sup> Nicholas Varchaver, "Chemical Reaction," *FORTUNE* 2 April 2007: 53.

<sup>6</sup> And, DuPont has not flinched despite temporarily reduced revenues and depressed stock price.

and new customer segments. This disciplined and committed team is willing to push its Corporate Entropy to the limits.

### **NORTHWEST CATHODIC: EXCESS ENTROPY**

Northwest Cathodic (“NWC”) had been a niche process development enterprise renowned for proprietary expertise on the boundary of electrical engineering with inorganic chemistry. Customers were large companies in the process industries, including energy, natural resources, environmental and water treatment.

Regulatory change in one industry was fueling increasing demand for core Northwest technology, leading the company to a bold strategic leap: forward integration into actual operations of a new plant to be designed and built by NWC.

The strategy would prove ill-fated. Overly optimistic assumptions and lack of management depth and overall expertise produced delays, cost overruns and strained customer relationships. A liquidity squeeze and the bank’s workout group soon followed. And, sadly, the distraction had brought several other promising opportunities, better matched to Northwest’s competencies, to a halt.

A skilled Board reasserted itself, narrowing its choices to two: (1) immediately strengthen management while cutting the initiatives on NWC’s plate, or (2) find a strategic buyer with the resources to capitalize on the yet unfinished initiative and realize its potential value.

Corporate Entropy had outstripped the company’s underlying capability (Exhibit 3), leaving no real choice but to sell. The Board acted in time, and shareholders received attractive value.

### **NORTH SEA TECHNOLOGIES: A BOLD REVIVAL?**

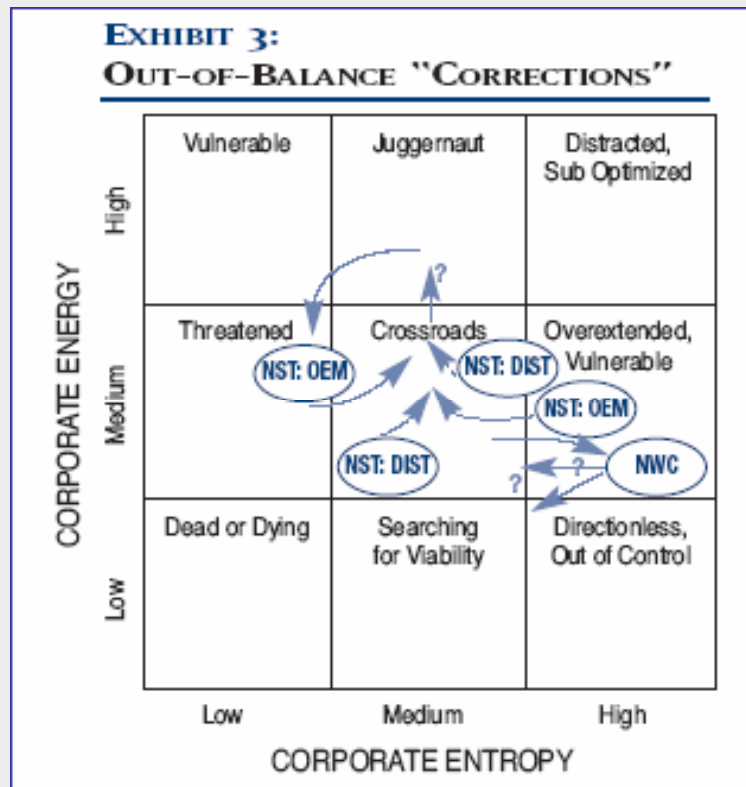
North Sea Technologies (“NST”), a “Juggernaut” for a decade, would certainly have elicited a “steam shovel” image. Both OEM divisions dominated certain markets. It had enhanced its distribution business by two successful acquisitions. Masters at plant and logistics management, cost discipline and sales force effectiveness, NST had consistently delivered on its commitments.

But the commitments, priorities (and incentives) had always been stacked toward the short term. And, despite some talented product development and engineering individuals, the company had not accomplished a consistent pattern of organic growth.

Then came globalization and a maturing core end-user market. Uncharacteristically, NST and its culture were shaken by two consecutive “down” years.

Conceptually, North Sea Technologies (and its corporate parent) knew that if its future was to exceed its past, the company would have to rise to another level in terms of innovation management and new business development, while resisting the natural instincts to revert to past formulas (e.g., manufacturing improvements, capacity reduction, eliminating small customers and products).

The bold new model called for some “radical” steps: bringing divisions together, elevating innovation to a strategy, selectively infusing new talent, and elevating the mission and role of a “quirky” outlying facility that, despite limited resources (and “respect”), had accomplished some noteworthy new product successes (Exhibit 3).



Everyone acknowledged what was at stake. Time would tell if the steam shovel could really move over for the orchid.

### **AMBIDEXTEROUS LEADERSHIP**

In 1900 Vice Presidential candidate Theodore Roosevelt spoke of a “young giant...clasping an ocean in either hand,” challenging America to seize an internationalist destiny. Six years later came his letter to a son, marveling at one manifestation of this vision, an undertaking which TR had almost single-handedly made possible by a stunning application of executive leadership.

While in Panama, the little boy still inside him had reveled sitting atop and operating bulldozers and other heavy equipment. Better than most, he could appreciate through his own adult experiences the complexity in accomplishing the monumental construction task.

But then his mind turned a cartwheel as his perspective, even tone, seemed to shift. Perhaps the “Rough Rider” was satisfied deep down that no matter how difficult the physical task, the hand-picked team on the ground would get it done. The more reflective thoughts arose from the conservationist and environmental steward, able to sense the awe in the extended scene...lasting characteristics not unlike those sought after by Apple or DuPont, Toyota or Starbucks, GE and

P&G, and Patagonia. Adaptability, power of restoration or regeneration, natural order transcending specific individuals. The orchids and surroundings in the Panamanian jungle.

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*Norelli & Company designed the exhibits to illustrate concepts. Placement of corporate names on Exhibits 2 and 3 were at Norelli & Company discretion for illustrative purposes only. Northwest Cathodic and Noth Sea Technologies represent disguised adaptations of real situations.*

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