

# ORCHIDS & STEAM SHOVELS – PART ONE

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*“...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

Writing to his sons while returning from Panama, TR marveled at an excavation underway, at 25% completion already the largest cavern ever dug, amidst noise and human activity never before experienced anywhere. His mood then shifted from the awesome force and technical ingenuity he had witnessed to the delicate beauty juxtaposed in the jungle. The President saw no conflict between the serenity and exquisite splendors on one hand and the immense power and physical exertion on the other, between the orchids and the steam shovels. He grasped the larger significance of the “great sight of Panama,” knowing it included both.<sup>1</sup>

## STRENGTH, CREATIVITY AND CHANGE

The Corporate Energy/Entropy Matrix<sup>TM</sup> illustrates the factors driving (or dissipating) strategic effectiveness in business situations.<sup>2</sup> The “Energy” component represents strength, power and the ability to marshal considerable resources to achieve exceptional results.

But “Corporate Energy” by itself will not ensure lasting, even consistent, success. An organization must connect these resources and capabilities to something else: “Corporate Entropy,” representing the human and organizational capacity to be creative and successfully implement change.

Specific attributes defining Corporate Energy and Entropy are shown in Exhibit 1.

### EXHIBIT 1:

#### THE ENERGY/ENTROPY PROFILE

##### ATTRIBUTES OF ENERGY:

- Size, physical mass, scalability
- Intensity, unified purpose
- Infrastructure, technology
- Brands, market position, power
- Dominant competencies
- Human resource depth
- Discipline, accountability
- Financial resources

##### ATTRIBUTES OF ENTROPY:

- Propensity to change quickly and/or in great leaps
- High risk tolerance
- Random, fluid structure
- “Undisciplined” style
- Contrariness, irreverence
- Exceptionally creative, able to deal with ambiguity
- Broad business unit diversity

<sup>1</sup> See David McCullough, The Paths Between the Seas (New York: Simon and Schuster, 1977): 498-99.

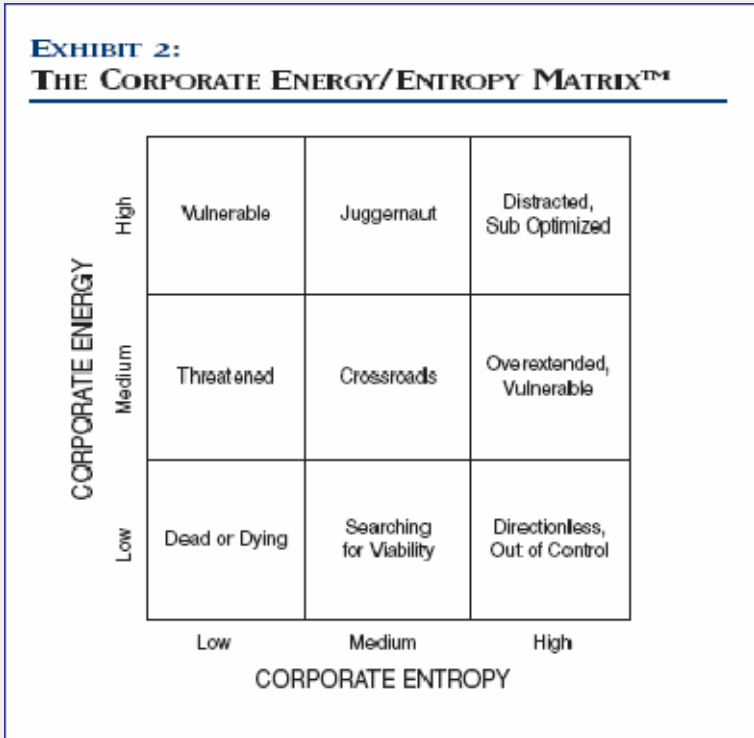
<sup>2</sup> See “Entropy”, Norelli & Company, Strategy *FOCUS*, Vol. XVI – Number 1, 2002.

A collective assessment on each dimension allows one to place a business on the Matrix (Exhibit 2).

Companies should strive for the upper middle placement: maximum Corporate Energy and balanced Corporate Entropy, the right entropy mix to avoid (a) wasted energy, distraction and squandered opportunity on one extreme, and (b) complacency, lost vitality and risk of extinction on the other.

Being proactive and constantly vigilant towards strategy development can produce the desired movement

towards “Juggernaut” status. Otherwise, mediocrity combined with neglect or inaction inevitably results in strategic decline.



## FIXING WHAT’S NOT BROKEN

High profile executives have been acting accordingly:

- Burberry’s Rose Marie Bravo, noting the difficulty in sustaining a successful turnaround, emphasizes customer focus, brand reinvention, never relying on just one success formula and exceptional teamwork.
- Leveraging his reputation for irreverence, Time Warner COO Jeff Bewkes preaches listening, doing, monitoring, connecting—“always moving, always deciding, adjusting as you go...fast.”
- Fox’s CEO pushes the company to the boundary where the best of Hollywood creativity meets 21<sup>st</sup> century broadband technology, creating a “world of infinite choice.” Demanding exciting, bold content coupled with flawless execution, Peter Chernin also understands a critical strategic linkage...fiscal conservatism is a prerequisite to driving “creative recklessness.”

- Returning Apple to the top, Steve Jobs proves a genius at provoking “competitive disruption” through great digital products that customers love. This obsession begins at home, as Apple pushes to obsolete its own products before someone else does.
- Sensitive to keeping the orchid ahead of the steam shovel, Sir Howard Stringer masterfully navigates a thorny Sony culture during a difficult turnaround. Mixing symbolism with hard decisions, he strives first to get a sprawling bureaucracy communicating with itself. “Digital differentiation” through great new products is the rallying cry for a Sony regeneration.
- To extend Starbucks’ “Juggernaut” position, founder Howard Schultz focuses on brand-building, people relationships and aggressive product diversification. Mixing the orchid with the steam shovel, he shuttles between coffee growers and in-store employees while overseeing new construction of massive roasting plants.

## **TIME MOVING FORWARD**

The conceptual roots of entropy reveal certain implications: (1) change is constant and unrelenting, and (2) all natural processes are to some degree irreversible. As applied to “Corporate Entropy,” a company and its surroundings cannot both be restored to their original states once change has occurred.<sup>3</sup>

An organization’s position on the Energy/Entropy Matrix is constantly in flux; forces driving movements are continuous. Having faced multiple crises over its life, Apple appreciates that its current strengths will dissipate without constant attention. Sony once would have been considered a “Juggernaut,” with its later decline precipitated by an unwieldy collection of businesses, arrogance and a stubborn resistance to change. Ironically, one icon of Sony’s slide was its lost dominance in digital music players...to Apple.

And, it remains to be seen if the next chapter of Starbucks advances its position of strength, or finds the company in the “Sub Optimized/Distracted” category.

## **GLOBAL DOMINANCE IN AUTOS**

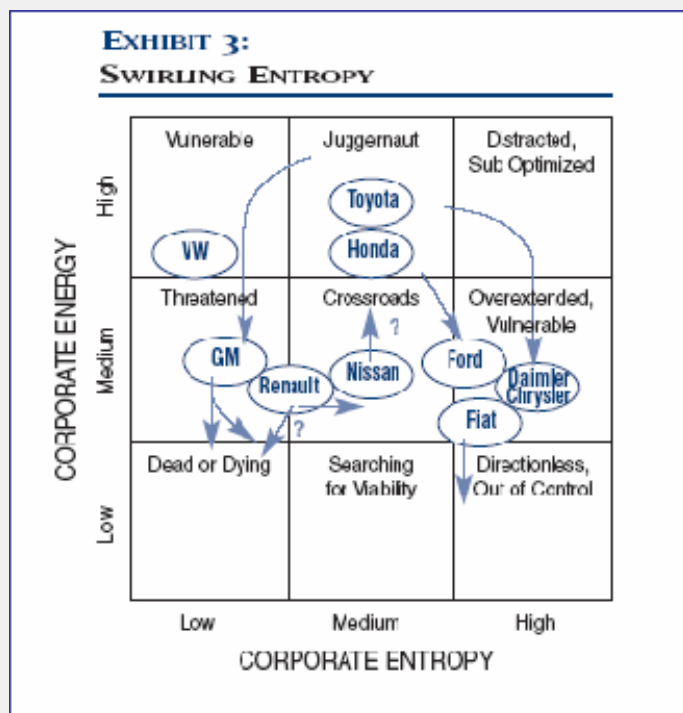
From its historical foundation of excellence in manufacturing and relentless philosophy of continuous improvement, Toyota now enjoys across-the-board strength in every conceivable attrib-

<sup>3</sup>*Ibid.*

ute of Corporate Energy. Near perfection in its legendary *kaizen* system is now augmented by outstanding product innovation, technology development, human resource and leadership development and a never-ending obsession with doing things faster and better. It now could be argued that Toyota's leadership position is all but unassailable from the perspective of its competitors. Yet CEO Fujio Cho constantly warns against the dangers of complacency and the resultant risks of lost momentum and performance decline.

### SWIRLING ENTROPY

As Toyota marches onward and upward, advancing a standard that perhaps it alone can meet, others in its industry (including those once-great) swirl about in clockwise and counterclockwise motion around the edges searching for a formula to create sustainable business models before it's too late (Exhibit 3). Though not without considerable Corporate Energy, they languish from either too little or too much Corporate Entropy...from denial, resistance to change, wrong or undistinguished products, creativity gaps and institutional/regulatory inertia to strategic misfires, global mediocrity, or complexity-driven delay. All are life-threatening.



The real dilemmas facing the likes of Ford and GM are about where everything ends up once the “fixes” are in place. Considerable energy will have been lost in the fixing processes themselves through ongoing distraction, talent defections, fatigue, deteriorating morale, and the inherent difficulty of just getting a restructuring right, especially on the third or fourth try. Can one person (Nissan's Ghosn) really turn around Renault (and perhaps even GM) without Nissan suffering along the way? And there's the simple fact of elapsed time, during which the global environment will not have stood still. Change will have been moving faster, having produced a raised performance bar and less forgiving expectations. And that's without even considering other strong companies (e.g., Honda, Hyundai) or the consequences of lower-priced cars arriving from China.

## AGING STEAM SHOVELS, BLOOMING ORCHIDS

Exhibit 4 depicts five marquee firms in the throws of strategic change. Two “orchids,” Apple and Google, appear solidly in the dominant class. Apple, not satisfied with its own triumphs, anticipates a new era with its sister “orchid,” Pixar, now part of Disney. Google’s artistry so far is that of technological brilliance, creative brand-building and “thinking big” combined with mastering the art of managing organizational entropy on the edge.

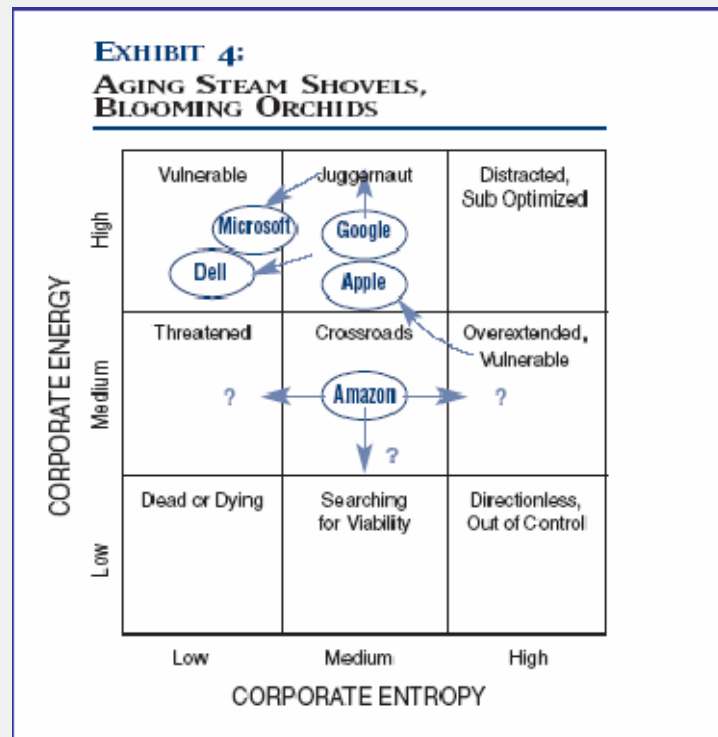
Microsoft and Dell seem classic examples of maturing powerhouses, each feeling the impact of competitive attacks, creeping organizational inertia, and cracking within their historical value propositions. Microsoft may be seeing some of its strengths starting to morph from orchid to steam shovel. Dell, always more a steam shovel, must now build a new competency more akin to the orchid (marketing, product differentiation).

Amazon’s challenges are more daunting. From its less dominant starting position, any misstep (too little focus, too much complexity) will further confuse stakeholders as to its identity, setting the stage for a costly period of vulnerability to come.

## ORCHIDS & STEAM SHOVELS TRANSFORMED

In 1906 TR’s steam shovel reference probably stood for the obvious: mass, ruggedness, physical strength and expending of energy, a brilliantly designed engineering, logistics and construction project of great complexity on a then- incomprehensible scale, and marvelous management discipline. Factors more left-side of Exhibit 1 than right.

The “orchid” reference perhaps had deeper significance: finesse, elegance and beauty, nature’s order plus regenerative and adaptive powers, the sense of creativity. Attributes that transcend



the entirety of Exhibit 1. So, two kinds of wonders were shaping the “mission impossible,” the successful outcome of which would transform the world, catapulting TR’s America to center-stage.

The boundary dividing steam shovels and orchids which seemed fairly clear to TR in 1906, has become more intertwined with the passage of a century. In today’s world of instant communications, disappearing distances and knowledge-based competencies, one may ask if attributes symbolized by the orchid are increasing in importance relative to the steam shovel. Answers may depend on the specifics of the situation and particular goal to be achieved. Part Two of “Orchids and Steam Shovels” (March 2007) will explore this further.

## **EPILOGUE: OCTOBER 22, 2006**

The advent of huge ships and booming tonnage growth (mostly from Asia) threatened the Panama Canal with obsolescence, positioning it on the boundary of “Vulnerable” and “Threatened” (Exhibit 2). Modernizing and expanding this treasure would require another major undertaking. On October 22, 2006, almost 100 years to the day that Theodore Roosevelt began his voyage home, Panamanians voted in a national referendum to authorize the Canal’s expansion at a projected cost of \$5.25 billion, a large sum for a tiny country.

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