

# *The Competitive Edge: Extraordinary Results with Ordinary People in a “Flat World”*

*Peter W. Schutz*

*The world of business and business management has become more competitive. There is little question that competitive intensity will continue to increase. This will impact the priorities of business leadership.*

*When my three children were infants, my wife and I decided to teach them to “think for themselves.” It was successful, and when they grew up, they did. On occasion this was a problem. Where did they get some of these “crazy ideas?” Well, we taught them to think for themselves, and then we had to deal with the consequences.*

After World War II, the United States embarked on a sort of “crusade” to teach the world how to do business U.S.A. style, as opposed to communism, socialism etc. Much as my children did, the world learned, and the result is a “Global Economy.” In a number of instances, the world is beginning to take many facets of U.S. style business to a whole new level.

Years ago, leadership was a friendly occupation. A handshake was a “contract.” Leadership was based on relationships, and a rural type work ethic was common.

Then somebody “invented” business administration. In its day, business administration was such an incredible leap forward in efficiency, that unless a manager became a competent administrator, success became elusive. Around this development a whole new establishment called a “Business School” was created. Administration was taught; the MBA degree was created.

The invention of the computer was a turning point in business administration. The early computers were large, expensive industrial installations, and highly trained, highly-paid people were needed to program business administration into these machines.

This development turned out to be particularly effective in what can be termed a “commodity business” – here defined as a business that supplies a product or service that can be sourced from a number of

alternate sources. In such a business, the customer will set the price. A *commodity business cannot set a price for what it offers.*

Unable to control price, this kind of business results in a “cost war.” The success of a commodity business depends on controlling and minimizing costs. A consequence of this was that these ventures were particularly effective if they were large, so that the high cost of computerized administrative systems could be spread over large operating volume.

This business development took a large toll on small businesses that lacked the administrative capability of the large competitors. Competition in a commodity business became hopeless for many small, traditional organizations. The subsequent development and availability of small, affordable and very capable computer hardware, along with extensive availability of adaptable software, enabled smaller businesses to once again operate administrative systems that allowed them to compete.

*As a result, the playing field for a commodity business is now basically level. The era of administrative capability as a competitive edge in a commodity business is over. Profit margins in this situation are characteristically small. Unless a manager loves cost control and bulletproof administration, this may not be an exciting business opportunity.*

If administrative excellence will no longer be

a competitive edge in a commodity business, is it an essential instrument for success in a differentiated, non-commodity business?

I have spent my career avoiding a commodity business. In my years with Caterpillar and Cummins, technical product differentiation and marketing ingenuity were effective in differentiating the business from competition. Even then, such differentiation was usually fleeting and fickle. In today’s global economy, the time span for a typical differentiation of this nature is shrinking steadily. If it is an effective differentiation, the competition will “climb on your bandwagon,” and nullify the competitive edge.

The only competitive edge of a lasting nature that I have ever enjoyed in these circumstances is to *achieve extraordinary results with ordinary people.*

Why ordinary people and not superstars? It is because most people, including most managers and leaders, are ordinary people.

Why not recruit only Superstars? First of all, they are rare.

In my years as CEO of Porsche, I was blessed with a number of superstars. My Chief Engineer, Helmut Bott, was a technical giant in the automotive industry during the last quarter of the 20th Century. I had racing drivers like Alan Prost, Jacky Ickx and Derek Bell who were outstanding in their field. I learned that these superstars did not

need me and my abilities as a manager. They knew what they were capable of, and understood their destiny.

***My role as a leader was to back them with a supporting organization of ordinary people whose enthusiasm and passion inspired them to outperform their counterparts with the competition.***

***Beyond that, I was responsible for supplying them with an administrative system that allowed all of us to measure performance. Failing to excel in these basic elements makes innovative leadership and outstanding performance risky.***

***If superstars ever become convinced, or even suspect, that this support is not forthcoming, they jump ship. They are not willing to waste their careers without the support they know is indispensable. I learned that the most effective way to attract truly outstanding people is to put this support in place.***

How did I learn to build a supporting cast of ordinary people that performed at the level necessary?

In his book, *Good to Great*, Jim Collins mentions that: "A leader must get the right people on the bus"! I have not heard it put better. The challenge is: How can we know if someone is "right" when we are recruiting people?

I have learned that if we do not define what is "right" we will not recognize "right" when we encounter it. I believe that "right" is primarily a question of culture or character.

*Always hire character and teach skills, never the other way around!* Skills can be learned, but character can rarely be successfully modified by a business manager!

What constitutes the culture of an organization?

The value system or culture of an organization is most frequently that of the founder. People like Sam Walton of Wal-mart and Steven Jobs of Apple Computer are examples. In my career, it was Professor Ferdinand Porsche of Porsche AG. I have found that the Founder is an invaluable

source to define an organization's values and culture.

I have not invented anything new. My favorite philosopher is Yogi Berra, the Hall of Fame New York Yankee catcher. Yogi once said: "You can observe a lot if you just watch."

In my career I have tried to observe what was going on around me – watching for things that achieved results, and noting those that did not. The key to achieving outstanding performance from a group of people is good leadership and management. I have come to believe that *managers have pretty much the organizations they deserve!*

Management hires people, trains them, and creates the operating environment in which these people have become whatever they are. If a higher level of performance is desired, it is up to management. Leaders must become more proficient and professional at how they perform their function.

Management is a very complicated activity. Yet, many managers receive about as much training to prepare for management as I did for becoming a parent – *None!* My management training consisted of a promotion! I was promoted to a management position, and told to "go at it."

Being a good manager turned out to be a very complicated, multifaceted activity. On

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any given day, a typical manager is expected to be an accountant to deal with budgets, a lawyer to deal with complex regulations, a nurturing parent to develop people, and all of this with the general attitude of a cheerleader. As a rather ordinary engineer, I found this task to be overwhelming.

I found that in order to understand this very complicated job, it is useful to concentrate on two fundamental activities:

*1. Formulate plans that are timely, and have quality*

*2. Having developed a plan, implement it well*

The difficult part of this is implementation. Planning turned out to be the fun part of this job. And yet, only what is well-implemented can be "taken to the bank."

*Does making a good plan guarantee good implementation?*

Exactly the opposite turns out to be true. The best plans we make, or are a part of, turn out to be the most difficult to implement. *Plans that have that incredible ingredient of innovation or invention; plans that are so brilliant that they carry with them a real probability of re-defining an entire industry, or our part of it, are the most difficult plans to implement.*

As a young manager I was taught: Do not get in a hurry when planning. Do your homework, avail yourself of every possible source of information, and don't rush to judgment. After the plan is complete, take all the time necessary to explain the plan to those who are expected to implement it.

I have found this to be a waste of time. No amount of explanation of a truly great, innovative plan can communicate the anticipated result – no matter how experienced and competent are those that are expected to implement it.

My friend Roger Frock, the first Chief Operating Officer of Federal Express, has written a book entitled *Changing How the World Does Business*, the story of how he and Fred Smith invented the concept that has become FedEx.

The plan envisioned airplanes to pick up packages and letters, fly them to Memphis, Tennessee, unload them, re-load them into the airplane that had just arrived from the location to which packages were destined, and deliver them. The plan was great! Both Roger and Fred were pilots and all this fly-

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ing was exciting. And then it became clear that a huge warehouse would have to be built at the Memphis airport, and an administrative tracking system developed to handle all the unloading and re-loading. This was not exciting.

On Page 57 of his book, Roger describes a meeting with top management of United Parcel Service (UPS). The question was put to UPS management: Would they be interested in building and operating the required warehouse at the Memphis Airport?

UPS management turned the opportunity down. *The entire concept was ridiculous!* No amount of explaining could get UPS to see the brilliance of the Fed EX plan! No matter how bright, experienced and intelligent people are, it is frequently impossible to explain a truly innovative plan so that it will be implemented well.

Few plans, particularly those that "break new ground," will ever be implemented flawlessly. When things do not go exactly as envisioned by "the plan," people charged with implementation are likely to improvise. Failing to fully understand the plan can lead to implementation problems at best, and disaster at worst.

I have learned that implementation is a time to *do*, not to *talk*! This became clear to me when I served as CEO of Porsche AG in Germany during the 1980's. The fun part of the job was when we went racing automobiles. During such a race, the cars will periodically pull into the "racing pit" to be refueled, have the tires changed, and such. At

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these races I would spend the entire race in the pit area. I did not have a job to do, I was only there as a "cheerleader."

Every member of such a pit crew seemed to know exactly what to do. In a matter of seconds, jobs were completed, correctly, and the car would return to competition.

If something went wrong during such a pit stop, there was one person in charge, and

that was *not* me. I was only the CEO of the company. It would not be Helmut Bott, our Chief Engineer. In charge, at a time like that, was a Crew Chief, who was just one of the mechanics that the other mechanics had accepted as their leader for this activity. When a crisis occurred, the crew chief might scream at me: "Hey you". (Imagine – I, the CEO, was "hey you"). He might point at some heavy-looking device in the back of the pit and command: "get that thing over here!" I would run over, pick that "thing" up, and bring it exactly to where he wanted it.

The mode of operation during implementation was a brutal Dictatorship!

***Implementation in a competitive environment requires dictatorial implementation.***

And yet, if people are expected to really understand the activity, and perform at their best, they must be given an opportunity to participate intellectually in the management process. *If this cannot be accomplished during implementation, the only other opportunity to participate is during the planning process!*

***I have learned that a manager must formulate plans like a Democracy, and implement them like a Dictatorship.***

Early in my career I got this process backwards. I made plans like a Dictator. I had the authority, and it was fun. However, I found that much of the time I ended up with Democratic implementation. People would improvise during implementation, because

they did not adequately understand the plan and the desired result.

What sorts of business plans have produced the best results for me in my career?

I have learned that the most valuable asset in any business is the customer.

Satisfied customers bring wealth into a business. Let me cite one such example in my career that illustrates this concept in the

re-building of Porsche into a remarkably successful organization with some basic premises with which we re-defined the Porsche culture:

***1. Never engage in any activity that does not earn money! If it cannot earn money, it is not business!***

***2. Build the business activity(s) around what the organization does best!***

One of the things that Porsche had done best in its history was to win automobile races. In my book, *The Driving Force*, I describe how in the rebuilding of Porsche in the early 1980's, (among other things) effort was focused on winning the 1981 Le Mans 24 hour race. How was the winning of this race going to earn money? Not being a Car Guy, (I was a diesel engineer) I did not buy into the old slogan: "win on Sunday, sell on Monday."

How did Porsche earn money by winning automobile races? By selling competitive racing cars to customers who wanted to be competitive racers!

Porsche sells turn-key competitive racing cars. This became a very profitable business. Customers can buy racing cars that are competitive without modifications for an "affordable price" (Racing is not inexpensive).

I would like to describe an incident that illustrates the effectiveness of this activity:

During the 1980's, a 1000 Kilometer sports car race was held at the Fuji racetrack in Japan every year. In 1984, a privateer by the name of John Fitzpatrick took his Porsche 962 racing car and entire crew to this event. The weather was very hot during the week of qualifications preceding the race, giving rise to numerous tire failures. One such failure resulted in John's team totally destroying their Porsche 962.

John called my office in Stuttgart and explained his problem. He was in Japan with his entire team, and had no car for the upcoming race. Could I help him?

This was Tuesday afternoon, and the race was scheduled for that Saturday. There was no way that I could ship a replacement car to Japan. I told John to give me a few

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hours to see what I might arrange to solve his dilemma.

In Japan, at the time, lived a man by the name of Matsuda. Mr. Matsuda was wealthy; he had earned his fortune in Tokyo real estate after World War II. Among other things, he had built a Porsche Museum in Tokyo. In the prior year, Mr. Matsuda had contacted me and purchased a Porsche 962 for exhibit in his Museum.

I contacted Mr. Matsuda, explained John Fitzpatrick's problem, and asked if he would consider "renting" the 962 in his Museum to John for the race. His reply was, "Have John call me". John called Mr. Matsuda, and arranged to "rent" the 962 for the race.

It was shipped to Fuji from Tokyo on Wednesday, qualified on Thursday, and finished third behind the two factory 962s on Saturday. Mr. Matsuda attended the race, and immediately impounded his car after that great finish. "No one touches this car!" Just as it finished the race, every bit of rubber that covered such a car after a race,

### To build the competitive edge:

1. Build a bulletproof administrative system to keep score
2. Get the "right people" on the bus. It is about enthusiasm and passion. Hire character and teach skills, never the reverse!!
3. Formulate plans like a Democracy
4. Implement plans like a Dictatorship
5. Never do anything that cannot earn money
6. Do things that others cannot or will not do

every bit of dirt and grease was to be left fully intact. Untouched, the car was returned to its place in the Museum, and a racing pit scene was built around it.

Never in the history of the automotive indus-

try has a customer been able to buy a ready-to-race racing car that is fully competitive "as delivered." Porsche sold these cars for about a million dollars a copy for over a ten-year period. In total, over 30 such cars were sold. Today, many of them are still on display, active, and used in vintage races. They are viewed as "art," restored and more beautiful than they ever were as active racing cars.

Selling competitive racing cars was, and still is, a profitable business for Porsche.

Customers for such objects may stop going on vacations, or "eating out," but they will not give up their vintage Porsches! ***In my experience there is no substitute for designing a business around the passion(s) of a customer.*** ■

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## About the Author:



**Peter W. Schutz** ([drivingschutz@comcast.net](mailto:drivingschutz@comcast.net)) served as CEO of Porsche A.G., the automobile company, from 1981 through 1987. During his tenure Porsche worldwide sales grew from 28,000 units to over 53,000 units, revenues grew from DM 850 million to DM 3.7 billion, and profits after tax grew from DM 12 million to over DM 125 million. Prior to his tenure at Porsche, Mr. Schutz served 11 years at Cummins Engine Company, the last eight as Vice President responsible for sales and service of truck engines in the U.S. and Canada, with revenues of over \$850 million.

Mr. Schutz holds a BS degree in Mechanical Engineering from the Illinois Institute of Technology. In 1987, IIT honored him with the Outstanding Achievement Award and the Henry Townley Heald Award, awarded for business ethics that have impacted an industry. He is the author of *The Driving Force, Extraordinary Results with Ordinary People*, 2003.

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