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The journal of
high-performance business

Leading by imitation

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More and more businesses are grabbing great ideas wherever they can get them—elsewhere in their industries or beyond. But the true high performers are actively creating systemic competitive advantage by elevating their imitation game. Here's how.

Alan Mulally has absolutely no problem with borrowing a good idea when he sees one—and that should stand him in good stead as Ford Motor Company's new president and CEO. In his former job as head of Boeing's commercial aircraft business, he drove the company to adopt the lean production techniques that had been used to such good effect in the automotive industry.

Imitation is catching on these days. New research by Accenture shows that leading banks, by copying techniques from the manufacturing sector, are simultaneously cutting costs and boosting growth (see sidebar, pages 7–8). Executives from car dealerships are attending classes on customer service given by up-market hotel chains. Hospitals are learning lessons in safety and efficiency from airlines and the US Navy. Shipping lines are looking to aircraft-engine makers for better

propulsion technology. And several blue-chip companies—including Bayer, BP, IBM and General Electric Company—have recently teamed up in a consortium called the Global Leadership and Technology Exchange to formally share best practices. Their rationale? Big, foundation technologies such as fuel cells can benefit them all—and research is not getting any cheaper.

Market forces are rapidly converging to make it more practical—and more profitable—to adopt the best new ideas, processes, technologies and systems from outside a company's own boardroom or design department. Outsourcing initiatives, coupled with a willingness by management teams to redefine their organizations' core competencies, are augmenting the intake of intellectual capital as companies increasingly learn from their outsourcing partners. The “open innovation” phenomenon—

brought to light in 2003 by Henry Chesbrough, an adjunct professor at the Institute of Management, Innovation & Organization at the Haas School of Business at the University of California, Berkeley—has helped popularize open loop systems in which concepts are assigned values and traded across corporate boundaries.

Today, however, such innovation through imitation is moving to a higher level of competitive importance. Accenture has found that high-performance businesses do much more than examine open innovation theories or occasionally send delegations to visit companies that have made the “best-in-class” lists. They actively *lead by imitation*—first identifying the business processes that they know will change the game in their markets; then seeking out examples of those processes done right, wherever they are used; and finally adopting selected processes as rapidly as possible.

In effect, those organizations are institutionalizing the concept of distinctive capabilities, one of the three building blocks of high performance, on another strategic plane: They use their recognition of the processes that give them an enduring edge as a tool to gain further systemic advantage through leadership by imitation. While they may keep the specifics of what they imitate close to the corporate vest, their route to leadership—and, ultimately, to high performance—in this way is plain to see.

Not top-down

So what do organizations get out of imitating? Is this the right way to go about acquiring distinctive capabilities quickly? Interestingly, the answers do not come out of strategy. They are not driven from the top down. Instead, they emerge from everyday operational challenges—the painful experiences that send managers scurrying for solutions in a hurry. In other words, necessity is the mother of imitation.

A decade ago, when Boeing was losing its dogfight with commercial aircraft rival Airbus, Alan Mulally and other senior Boeing executives knew they had to break with the traditional costly and inflexible ways of building aircraft in one fixed factory location. By consulting with automakers such as Toyota Motor Corporation and Ford, Boeing learned better ways to manage the assembly lines that produced its enormous aircraft. As a result of moving aircraft during assembly, Boeing can now adjust its production rate more quickly to accommodate fluctuations in orders. The total time spent assembling one 777 aircraft is expected to drop from 20 days to 16 days by mid-2007, and eventually to as little as 12 days.

Similarly, hospitals are now studying airlines, nuclear power plants, European railroads and even the US Navy in search of techniques for improving patient safety and operating efficiency. At some hospitals, surgery is now preceded by what is called “the pause for the cause.” In this approach, drawn from standard practice on aircraft carrier flight decks, the surgeon and the support team review both the patient’s history and the procedure they are about to perform. If any team member expresses a major concern, the procedure is delayed until the issue is resolved satisfactorily. Elsewhere, using a backup system check that is standard practice in the nuclear power sector, nurses are providing their analyses of patients’ conditions before doctors begin treatment.

In those situations, core operating concerns are the catalyst. In other scenarios, a borrowed idea is seen as a way to establish a quick competitive advantage. For example, Marriott International, the hospitality chain, took a page from the airlines’ playbook when it launched its frequent-travel program, one of the first in the lodging industry. Some 20 years later, the program has nearly 24 million members and accounts for \$6 billion

to \$7 billion a year in revenue, according to Marriott (see “Why Marriott shareholders sleep well at night,” *Outlook*, May 2006).

Sustainable innovation

The more pressing point, of course, is *how* leading organizations imitate successfully. Following the cost-cutting emphasis of the first years of this decade, innovation is now viewed as the capability that can make the greatest contribution to growth. The real challenge is to make it the greatest *sustainable* contributor

to expanding markets and revenues. It is not that organizations are necessarily short of bright ideas or that they don't know where to find them; the challenge lies more with their ability to systematize innovation.

High-performance businesses have found ways to build innovation systems from the outside in. Our research and observations in the field, working with clients, have demonstrated that those who lead by imitation have mastered three interrelated activities.

1. Pinpointing the capabilities that matter most

Toyota knows exactly where its competitive differentiators lie. That is why the company has retained control of the design and manufacture of its engines while outsourcing the production, but not the design, of its transmissions. At the same time, it has elected to source both the design and production of electronics from outside. Similarly, Apple Computer designs its iPods but has contract manufacturers make them. The content—the songs or images—is outsourced entirely (unlike Apple's consumer electronics competitors, whose moves into the movie and music businesses have been less than successful).

Both Toyota and Apple are crystal clear about the risks of outsourcing—and about the distinctions between outsourcing for capacity and outsourcing for knowledge. Toyota willingly bears the risks and complexities of managing engine production while simply exercising control over subassemblies—such as electronics—that provide little or no competitive differentiation.

In much the same way, car dealerships now know that first-class customer service is at least as important to ongoing revenues as having the latest models on the lot. And hospi-

tals understand the importance of applying fail-safe operating practices in the billing office as well as in the emergency room. Both of these insights have affected where companies in these industries have opted to invest internally and where they have opted to partner, as well as the choice of which industries their executives feel they can learn from.

Unless a company's leaders are clear about which of its processes and attributes provide its most distinctive capabilities—and which are least valuable—they will struggle for differentiation in the marketplace. The first step in defining distinctive capabilities is to know—*deeply* know—what customers want. Because the range of consumer desires is virtually unlimited, only consistent, detailed and unfiltered feedback from customers will provide the insights needed to isolate the capabilities that matter most.

A good case in point: One large automobile insurance company learned that what the majority of policyholders value—and the main factor in customer retention—is fast claims payment. As a result, the insurer leveraged new technologies to link a number of processes so that most customers who have had an accident

receive the settlement check on the spot—immediately after the claims adjustor has inspected the damage, not weeks later. Result: dramatic business growth and an actual reduction in the ratio of costs to claims.

High-quality data-mining tools and techniques are vital for uncovering customer insights. In general, these analytical tools are necessary to identify market and customer behavior patterns, and to roll up the findings to “executive dashboards” for faster decision making.

Interestingly, according to new Accenture research, the use of

analytics turns out to be one of the strongest and most consistent differences between low and top performers. For example, just 23 percent of low performers in our survey universe indicate they have significant decision support or real-time analytical capabilities, compared with 65 percent of top performers. Only 8 percent of low performers say they value analytical insights “to a very large extent,” compared with 36 percent of top performers. The top performers are also more likely to have business intelligence or data warehousing software modules installed as part of their enterprise systems.

2. Identifying who's managing those capabilities best

Seven years ago, a blistering Institute of Medicine report, “To Err Is Human: Building a Safer Health System,” convinced hospital managers that their operations required fundamental change. The report claimed that in the United States, hospital mistakes annually caused the deaths of at least 44,000 patients—more people each year than died in automobile accidents.

The clear message: To err may be human, but errors can and must be prevented. The report rejected claims that the unique nature of health care meant that practices and processes prevalent in other industries were not transferable. Health care, the authors pointed out, is a decade or more behind aviation and other high-risk industries when it comes to ensuring basic safety. Noting that aviation safety had been improving steadily over recent decades, the report said that “although health care may never achieve aviation’s impressive record, there is clearly room for improvement.”

Since the publication of the Institute of Medicine report, many hospitals

have, in fact, made significant changes, replicating business processes used in high-risk industries such as chemicals and materials manufacturing and in the defense sector. One Minnesota children’s hospital used the type of redundancies that prevent accidents in nuclear power facilities as a model for a new dosage technology: The system sounds an alarm and stops administering medication when it reaches the applicable dosage for a patient’s size. At Park Nicollet Health Services clinics in Minnesota, administrators are aggressively applying Toyota’s production processes in an effort to see more patients, provide them with more punctual test results and keep them healthier. The hospital claimed \$7.5 million in savings in 2004 as a result, as well as lower infection rates and more surgical capacity.

Similarly, many business leaders have targeted hospitality-industry exemplars to improve their customer service. The Ritz-Carlton hotel chain, to name one, even runs its own leadership center, offering half-day and full-day customer-service courses. One of the most popular sessions: “Legendary Service at The Ritz-Carlton.”

3. Copying and deploying those capabilities quickly

High-performance businesses also excel in their rapid adoption of what they can leverage from other organizations or other industries. They understand the power of combining cherry-picked ideas with first-mover advantage.

These companies act with more than just a sense of urgency. In incorporating concepts from outside their four walls, they design and deploy business systems that are built using modular processes. It follows that the top performers look for ideas that can be replicated quickly. If the ideas are not modular in nature, it helps if they can be easily modularized.

Automobile manufacturers are past masters of modularity. Indeed, early carmakers made use of standardized components and subsystems built by others, including starter motors and tires. Today, companies such as Volkswagen, DaimlerChrysler and Toyota are pushing modularity to new levels, at times doing little more than establishing the architecture of the production process and the interfaces between production steps, and setting the quality standards that all suppliers must meet.

Or take Cisco Systems. Technology commentators John Hagel and John Seely Brown observe that the networking technology company has created a “global process network” comprising thousands of loosely coupled channel partners that provide everything from basic fulfillment to highly specialized consulting or engineering services. The network works because Cisco has developed standardized ways of specifying capabilities and performance requirements, write Hagel and Seely Brown, and it familiarizes each partner with its standardized vocabulary: “This approach to defining standardized

‘interfaces’ for each module of activity makes it possible for Cisco to quickly assemble the right modules and ensure that the best qualified partner is assigned to each module.”¹

For many leading practitioners, the effective use of modularity is becoming a distinctive capability in its own right. They understand how, by using different companies working independently on modules of a system, they can greatly boost the rate of innovation. These top performers also see that a modular approach allows for easier and faster product upgrades. Accumulated knowledge can be transferred across successive generations of new products, resulting in longevity of the platform and a wider variety of models.

Research has shown that customers find the adjustment to modular innovations easier than dealing with radical systemic changes. That’s how Apple Computer has rolled out its stream of new iPod model releases. The core system design and format stay much the same, but the latest iPod, for example, is reconfigured with video capability.

Yet for all its advantages, modularity has not been easy to embrace. Writing in *Harvard Business Review*, Carliss Baldwin and Kim Clark pointed out that the designers of modular systems face tough challenges: They must know enough about how the whole system works to be able to develop the design rules and interfaces so the modules can be assembled easily and function together as a whole. When applied to services—where the concept is just as effective—the complexities of modular design are increased by the difficulties of defining business processes as opposed to tangible products.²

¹ John Hagel and John Seely Brown, “The Joy of Flex,” *CIO*, September 2005.

² C.Y. Baldwin and K.B. Clark, “Managing in an age of modularity,” *Harvard Business Review*, September 1997.

One recent technology development is helping here: service-oriented architecture. Many more elements of enterprise IT systems, for example, are themselves reusable. With an SOA, business applications are constructed of independent, reusable, interoperable services that can be reconfigured without much technical labor. Don Rippert, Accenture's chief technology officer, has put it this way: "Soon it will be common—especially among high-performance organizations—for business managers to assemble technology services, drawing upon reusable components developed by their counterparts in IT."³

A cohesive program

Mastering the three activities we have described is essential to the innovation success of any company that seeks to lead by imitation. But these elements cannot be adopted piecemeal—they must be tied together in a cohesive program.

That means there must be committed and consistent program ownership at a high level along with tools and metrics to gauge and value the synergy among the three elements. The program's contributions have to be measured, documented and well understood so that they mesh effectively with other innovation initiatives across the organization—and so that programs of this kind can be resourced appropriately in the future.

It's also important to note that these activities are not simply an alternative to the innovation networks discussed earlier. Forums such as the new Global Leadership and Technology Exchange must be viewed as pre-requisites for leading by imitation—fertile ground for identifying new ideas and for sharing insights, but no substitute for *doing*.

It is instructive to read of the burgeoning innovation networks hosted by growth-minded companies such as Procter & Gamble. More than one-third of P&G's new products today have elements that originated outside the company, up from 15 percent in 2000.

But P&G is way out in front. For most companies, innovation by imitation is not yet a core skill. Surveys show that most chief executives concede that their companies use less than a quarter of their innovation capability. What's needed most is a systematic, embedded, non-stop approach to capturing and replicating the best ideas, processes and systems—wherever they are found. The good news is that more and more companies are coming round to that way of thinking. The bad news (for them) is that the top performers in their industries are likely already acting on it.

And Ford's new president and CEO? Alan Mulally is already looking at what the carmaker can learn from the aircraft makers. *Touché*.

³ Don Rippert, "Rich Internet applications: Enabling the next-generation web," *Outlook*, September 2006.

What banks are imitating—and why

Banks are constantly looking for how they can best differentiate themselves from their competitors—be it through a better service proposition, a superior sales and marketing focus or a superior product.

But with their successive waves of new offerings—from online banking to mortgage offset accounts—have come staggering levels of complexity. A typical bank now offers about 350 products; just six of those products account for 90 percent of the typical salesperson's business. It's no different in the back offices. In a typical example, one global bank has more than 50 processing centers (compared with its target of 5) with significant duplication of capability, multiple process handoffs and inefficiencies. The result: frustration among both staff and customers.

Top-performing banks are working their way out of the problem, simplifying their internal operations while creating greater capacity for competitive differentiation in the marketplace. In effect, these banks are adopting approaches used by successful manufacturers—a strategy Accenture has labeled "industrialization."

We recently completed extensive research gauging the progress the banks are making. Interviews with more than 100 senior banking executives in North America, Europe and the Asia Pacific region revealed a steady shift worldwide toward the adoption of the core concepts of standardized operating platforms used in the automotive industry.

What's driving this best practice by both banks and carmakers is the critical need to differentiate on the outside while reducing costs and complexity by simplifying on the inside. For their part, banks want to tailor or bundle products for selected customer segments to drive differentiation; more than 84 percent of those surveyed are investing in gaining a better understanding of their customers and in finding new ways to serve them.

At the same time, bankers are tightly managing their execution capability. More than three-quarters of the industrialized banking programs identified in our research are being managed by the CEO or just a small group of executives; 57 percent are being conducted on an enterprisewide basis.

Hopes are high. More than half the banking executives surveyed expect to see at least a 10 percent revenue benefit through differentiation. One-third expect simplification to result in enterprisewide cost reductions of more than 10 percent. Based on our experience at a major European bank (see chart, opposite) and with more than 50 other industrialization projects over the past two years, banks are starting to deliver on the expectations of industrialization.

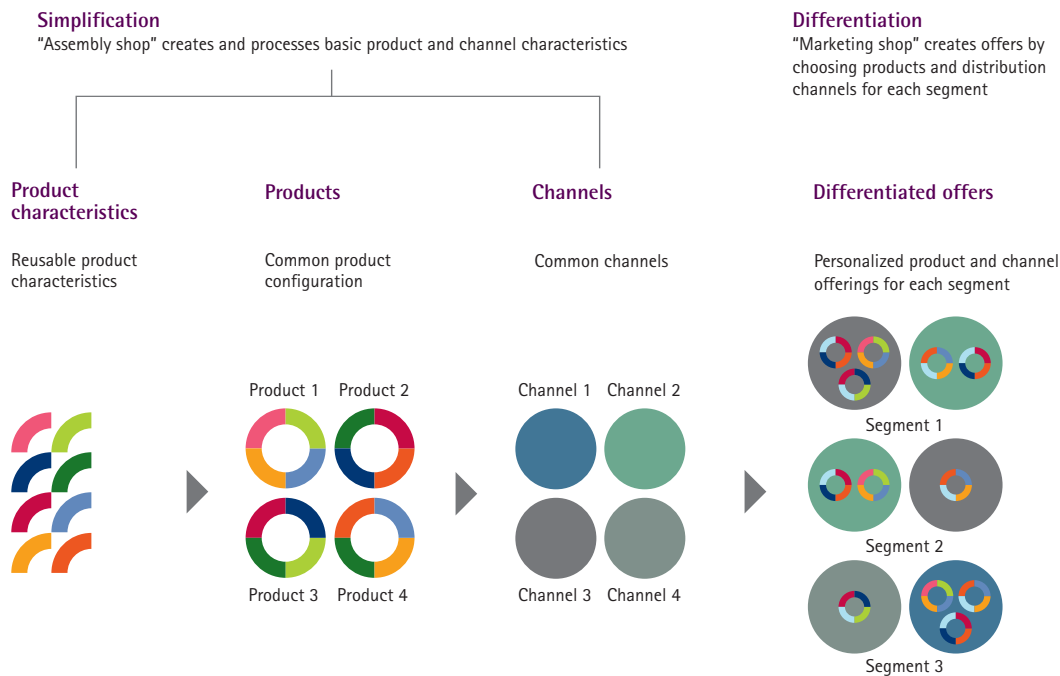
Case in point: Groupe Crédit du Nord. Looking to improve customer service and reduce costs without diminishing its customer relationship excellence, the French bank launched an initiative to differentiate front-office capabilities and processes throughout its 712-branch network and to simplify (and outsource) non-differentiating areas of its business such as securities and credit-card management.

To support this strategy, the company needed a new IT system that would meet these stringent requirements. Its workstation had to support reengineered contract subscription and mortgage instruction processes, and its architecture had to enable multichannel customer service and information sharing with external producers. By unbundling its customer-facing IT systems from back-end product support services, the bank could improve efficiencies and productivity throughout its value chain.

Crédit du Nord successfully implemented its new system across its entire branch network and achieved its strategic goal of separating distribution and production activities. Now the bank can focus its investments on its critical customer-facing activities, outsource non-differentiating functions and still maintain tight communications with third-party providers. Equally important, the new workstation and IT architecture enable branch users to reduce the time spent on administrative tasks and dramatically increase productivity.

Blueprint for an industrialized bank

By imitating approaches used by successful manufacturers, top-performing banks (like the European bank depicted in the illustration below) are simplifying their internal operations while creating greater capacity for competitive differentiation in the marketplace.



Source: Accenture, client case study

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