



High-Performance Business

The right place, the right time

By Tim Breene, David Mann and Paul F. Nunes

High performers excel at consistently making the critical decisions that give them the right strategic direction and a winning market focus and position.

High-performance businesses have remarkable clarity when it comes to setting strategic direction, especially regarding big decisions. They always seem to be in the right place at the right time. When one market matures, they're ready with the next big thing; when buying trends send customers in a different direction, they're waiting at the end of the path; when they acquire new businesses, they do so wisely and tend to them well. Add it all up and it means that high performers excel when it comes to their *market focus and position*—the “where and how to compete” aspects of business strategy and one of the three building blocks of high performance.

Behind those big decisions, however, is an acquired excellence in making smaller component decisions. In a sense, business executives are like emergency room physicians, who must make high-quality, near-instantaneous decisions all the time: Is the patient's abdominal pain due to kidney stones or appendicitis? Is the patient suffering from severe gastric distress or having a heart attack? Yet behind each major decision lie numerous smaller ones, both conscious and unconscious. In our ER example, they might involve judgments about heart rate, for instance, or about respiration, temperature and a host of other factors.

In business, good decision making about market focus and position is likewise made up of good component decisions. Our ongoing research into high-performance business reveals that market focus and position are optimized when companies concentrate first on getting the right answers in three critical areas of strategic decision making.

- **How to manage for today and tomorrow.** For high performers, good choices are rooted not only in their present capabilities but also in those they can readily

develop. The ability to make the right decisions in this dimension is also based on a company's skill at managing, often simultaneously, across near-, medium- and long-term time horizons.

- **How to best “parent” the businesses they operate.** High performers choose highly distinctive value-added activities for their corporate cores, and then build or acquire a set of businesses uniquely able to benefit from the core and the other business units.
- **How to compete through organization design.** The best companies develop unique designs and leadership structures that reinforce their chosen sources of competitive advantage, rather than follow a formulaic design process from a textbook.

In short, through their market focus and position, high performers achieve a kind of strategic decision-making capability that enables them to compete in the best markets and maximize growth opportunities, without reaching or scaling beyond their limits; to select and manage the optimal portfolio of businesses; and to use organization design as a competitive weapon.

Behind every brilliant strategic decision that gives a company the right market focus and position lies a series of smaller decisions along each of these three dimensions.

Managing for today and tomorrow

High-performance businesses, by definition, achieve success over the long term. They balance the energy needed to succeed under today's market conditions with the energy needed to identify and forcefully enter new markets. Mergers and acquisitions are still part of many companies' strategic toolkits, but achieving high performance solely through acquisitions is a rare occurrence. Our research has shown that many companies mistakenly presume that scale is the means to enhance their long-term performance. Not so. High performers maintain a constant emphasis on organic growth, at every level of scale and industry maturity (see "Is bigger always better?" *Outlook*, October 2004).

Maintaining organic growth over time, however, is not easy. Deciding to broaden a company's scope into new businesses, or to increase its reach into related markets or new geographies, must be based on intelligent assessments of numerous factors. Yet in high performers, we see a characteristic wisdom to filter their opportunities—before making a decision—constantly and carefully through two important screens: the limits of their capabilities, and a perspective of multiple horizons of strategy.

Frontiers of "doability"

Every high performer is driven by a winning vision. We have nonetheless observed these organizations to be what we might call "realistic dreamers." They push themselves

to the limits of their capabilities, but not beyond.

Every organization has a sort of frontier of "doability" in its strategy and visioning, and high performers have an intuitive sense of where that frontier lies. For example, Toyota Motor Corporation, once known mostly for its compact sedans, successfully extended its frontier and now enjoys great success with its Lexus luxury brand.

Microsoft Corporation is one high performer that has been among the most adept at taking visionary strategic positions that are also, upon inspection, highly actionable because they leverage real existing capabilities.

Take Microsoft's Xbox. Moving into the gaming arena was a daring move when the company introduced its game console in 2001, a year after Sony's PlayStation 2 hit the market. But Microsoft believed it had the marketing and distribution strengths as well as the brand awareness to enable it to win in this market. Though the Xbox still has only a fraction of PlayStation 2's installed base, it did manage to outsell PlayStation 2 for the first time during the last quarter of 2004, signaling that Microsoft did not overshoot its capabilities in this space.

Microsoft has leveraged its capabilities in other ways. It has exploited its desktop dominance to move aggressively in the Internet browser and portal space, and it has used its software development capabilities and business-to-business sales channels to accelerate its activities in enterprise and server applications.

This is not to say high-performance businesses are passive when it comes to the innate capabilities that drive their vision. Today's frontier of



doability does not have to be tomorrow's. High performers are always looking to build their competencies in ways that can propel them forward to new and higher ground.

Johnson & Johnson, for example, grew the capabilities of its core business in contact lenses over time. First it acquired a small contact-lens manufacturer, then improved production processes and efficiencies by licensing new technologies and by effectively using vendors to cut costs. With that capability-building process behind it, Johnson & Johnson could then more confidently commit the resources to a new business, disposable contact lenses, which has become a very profitable part of its portfolio.

Multiple strategic horizons

Some of the hardest decisions executives make are about entering markets or creating businesses aimed at one day replacing or augmenting their existing businesses or capabilities. But that is exactly what high performers do to avoid being overtaken by competitors and disruptive technologies.

In their book *The Alchemy of Growth*, Merhdad Baghai and his coauthors introduced the concept of the “multiple time horizons” companies must manage to ensure long-term success. Horizon 1 refers to core businesses that most observers would say define the company, while Horizon 2 refers to emerging growth businesses that first feed off of and then eventually replace Horizon 1 businesses as their sales and profits dwindle. Horizon 3 businesses are speculative and visionary—businesses that may not pay off for 5 to 10 years, or longer.

High performers make decisions that actively implement an overall strategy across all three horizons, even when those decisions require enormous additional investments that

threaten to cannibalize their existing businesses. The secret of high performers is funding new businesses from the profits of cash cows when they are richest, not waiting until such funds have dried up.

Microsoft, for example, has been effectively managing to multiple horizons by using the cash flow from its core operating systems business to build a leadership position in desktop applications, and has done so with offerings like Office and Internet Explorer, as well as with related ventures like Xbox, MSN and server applications. The company's strategy also includes funding a wide array of Horizon 3-type activities, from knowledge management and knowledge work support to educational software to collaboration support to mobility and mobile devices.

The key to capitalizing on all types of horizon opportunities is recognizing that each horizon requires a different style of decision making. Businesses on different horizons may require different organizational structures, for example. Companies cannot try to force-fit a design that works at a mature Horizon 1 company into a speculative Horizon 3 company, which may require looser reins and more entrepreneurial, risk-embracing leadership. High performers know how to balance and move forward with a complex array of different types of leaders, rewards, measurements, reviews and investment levels, depending on which horizon they are managing.

What appears most critical in making Horizon 3 decisions, however, is having the ability to effectively target a moving object. High performers aim at where the money is going to be, not where it is at the moment; they anticipate market moves and demographic trends, and create what

customers will want in the future, not just what they want now.

For example, Procter & Gamble's consumer research enabled the company to get a jump in what is now a \$19 billion global market in disposable diapers. The product had actually been around for years as a high-cost item for occasional use. Research convinced P&G that if it could bring the cost of production down, people would make disposables their everyday diapers. When consumers reached the point where they were comfortable with disposability, P&G was waiting for them.

It wasn't just a lucky guess. P&G's track record of successfully predicting market needs and desires demonstrates the company's well-developed system of decision making. The most recent example is the way P&G has led mass-market consumer behavior in oral care with its category-defining products Crest Whitestrips and Crest SpinBrush, each with a majority share in a market now worth nearly a billion dollars.

When making a bet on the future, however, companies must be wary of two traps. The first—assuming your company is the only one to see an opportunity five or more years out—can lead to disaster. For example, so many companies saw the growing demographics-driven opportunity in senior housing that many of the successful early entrants eventually were driven into bankruptcy by a slew of competitors right on their heels. High performers base decisions about new markets not only on consumer and product trends but on competitor trends as well. They decide whether they truly have the appetite to see the game through and do whatever it takes to win, and they maintain a viable exit strategy in case their position irrevocably weakens.

High performers filter their opportunities through two important screens: the limits of their capabilities, and a perspective of multiple horizons of strategy.

A second trap involves riding a strong horse for too long. Following along with a market segment as it ages can lead companies to a dead end. General Motors Corporation's Oldsmobile brand, for example, turned out to be heavy on the "old." By making a car that was continuously successful only with its core customer segment, the company drove the brand into obsolescence.

Being a good parent

Observe a healthy tree and you'll notice that not only does it have a strong trunk that supports its branches, but the branches are positioned in a manner that maximizes the absorption of the energy the tree needs to grow. High-performance businesses achieve success through an analogous parenting-and-synergy capability.

They make good decisions that optimize their resources based on the unique qualities of both parent and child. First, they carefully choose the right businesses for their portfolio. Next, they select the right parent resources with distinctive strengths, and then leverage those strengths all through the organization. Procter & Gamble, for example, shares leadership capabilities, a strong brand, marketing expertise, a shared distribution network and deep skills in new product development throughout the company, to the benefit of all units. 3M has a distinctive capability in research and development that it spreads across its business units.

High performers know how to balance and move forward with a complex array of different leaders, rewards, measurements, reviews and investment levels.

The strengths parent companies choose to leverage with their business units are not always tangible ones, however. Johnson & Johnson, parent to more than 200 operating companies, has built its success in part on sharing a strong culture—delivering distinctive and hard-to-imitate advantages that are based on its core belief system. In fact, one of the component decisions J&J makes when contemplating an acquisition concerns the likelihood of the new entity adopting this distinctive culture. As a result, J&J enjoys a success rate for new acquisitions that is greater than the industry average.

General Electric Company also adds value to its companies by infusing them with its culture and philosophy of business management. Yet part of what makes both these high performers so successful at parenting is that these “soft” components of value are not in fact entirely intangible. They are made highly visible in corporate programs like GE’s workout and Six Sigma, in training centers and in the very public and frequent internal messages of its leaders.

Good parenting is serious business for high performers. They don’t take a “bare minimum” or perfunctory approach that says parenting is only about supervision or shared services. Their executives are active leaders and drivers of change. Unlike average companies, high performers derive significant real competitive advantages from their corporate centers, and do so by design.

High performers also recognize, however, that the role of the corporate center is not fixed but must evolve over time. Jack Welch may have become justifiably famous for his management of GE, but the real badge of accomplishment came from

the fact that he actually tended the company through a number of distinct eras of management, successfully achieving different corporate agendas in each era. And Welch’s last directive to successor Jeffrey Immelt is alleged to have been “Blow it up!”—the same advice he had received from his predecessor 20 years earlier.

High performers know that what their businesses need from a parent changes with the maturity of the business and its industry lifecycle, the changing structure and nature of the portfolio, and external events and disruptive technologies. Because of constant changes in competitive circumstances, the acid test of parenting for high performers is not whether the core is adding value but whether it is still adding more value than an alternative parent company could. Many mega-mergers were touted as mergers of equals before they imploded, highlighting how the failure to appreciate the important value of parenting to the success of merged companies can lead to disaster.

We observe that high performers are as good at correcting mistakes as they are at avoiding them. As a consequence of inevitable merger mismatches, high performers know when to “cut bait” and move on. Jack Welch’s famous dictum that the company would be only No. 1 or No. 2 in its markets is, in fact, an admission that not every business in a corporate portfolio is destined for greatness. If it isn’t, high performers divest and move on.

Competing through organization design

High performers have a distinctive attitude when it comes to organization design: They know that a

design should reflect already-existing strengths and energies of people in the business, and they use a deep knowledge of their people to create the design that's right for their company. They know what the textbooks say, but they also know that following someone else's standard of organization design can limit a company's ability to compete in a differentiated way. The organization design of a high-performance business avoids rigidity, and it actively serves the needs of its businesses on multiple horizons.

How different can organization design choices be between businesses in the same industry? As part of our research, we compared the organization designs and operating models of the major players in a number of

industries, including consumer goods (see chart below).

What we found is a wealth of diversity in successful organization design. There were no "right" answers to questions regarding whether, for example, procurement should be managed globally or regionally, or whether functions like HR and finance should be controlled at the local or regional level. L'Oréal and Procter & Gamble, for example, manage manufacturing globally; Unilever, Colgate-Palmolive Company and Johnson & Johnson have put in place regional manufacturing management.

High performers know their strengths lies not in the labels on the organization chart but in the unique ways

Is there an ideal organization design?

No. A comparison of organization designs and operating models among major players in the consumer goods industry (below) reveals a wealth of diversity. There is no "right" answer about whether, for example, procurement should be managed globally or regionally, or whether a function like HR should be controlled at the local or regional level.

	Unilever	Procter & Gamble	L'Oréal	Colgate-Palmolive	Johnson & Johnson
Global	Procurement	Consumer demand Procurement Manufacturing New product development	Consumer demand Procurement Manufacturing New product development	Consumer demand	New product development Consumer demand Trade demand (global customer)
Regional	Manufacturing New product development Consumer demand	Trade demand HR/finance/administration	HR/finance/administration Trade demand	New product development Procurement Manufacturing	New product development Regional consumer demand Trade demand (regional customer) Manufacturing
Local	Trade demand HR/finance/administration	Trade demand	HR/finance/administration	Trade demand HR/finance/administration	New product development Local consumer demand Trade demand (local customer) Manufacturing Procurement

their organizations are able to execute that design.

High performers do not create differences just for difference's sake, however. One particular way these companies differentiate their organization design is by creating what business school professors Lynda Gratton and Sumantra Ghoshal have called "signature processes." Unlike best-practice processes, signature processes create distinctive advantage because they have grown as the company has grown, and are intimately connected to the passions of the executive team.

Nokia provides an example of how a company can dominate its market through a signature organization design. Because Nokia's heritage is as a software technology company, the doctrines of standardization and reusability were deeply ingrained in its culture. Development is faster, and costs are lower, when software development occurs "modularly": Programmers build high-quality systems by reconfiguring previously developed successful software modules.

That modular philosophy eventually found its way into Nokia's organization structure: In the company architecture, business units and functions are comprised of modular teams of people with common competencies and skills.

In the end, however, the real advantage of Nokia's approach, as high performers know, is the capacity for change—the increased organizational flexibility and agility such an approach allows. Organization design can remain a competitive advantage only if it evolves with the business and its environment—by freeing imprisoned resources through continual reorganization and by breaking orthodoxies and

mindsets that become rigid in the absence of change. Many once-great businesses are in trouble today—in the retail and airline industries, to name just two—not because their organization design wasn't once great but because the design was not a living one. It did not change when the environment did.

High performers recognize, however, that organization design must support the company's ability to successfully operate businesses aimed at all three strategic horizons. Units at different stages of industry and business maturity require significantly different levels and types of resources and incentives. As a result, high-performance businesses tend to have organization designs with multiple parts to support those distinct businesses and their distinct needs.

Still, there is no one right way to design an organization. The Industrial Research Institute recently studied 12 large multinationals to understand their approach and success in developing a competency in radical innovation: the discovery, incubation and acceleration of Horizon 3 businesses. The study shows that while each company was committed to the same organizational goal, their solutions varied significantly, driven by differences in each organization's history and culture.

The ability of high-performance businesses to ride their decision making to better market focus and position does not mean they are infallible. Even champion sports teams may have lost 40 percent of their games, like baseball's World Series champs, and even companies with the most respected new product development capabilities have flops.

However, the ability of high-performance businesses to achieve the right market focus and position means they will be successful more often than their competitors.

High performance is attained not through luck but through hard work; it may be part instinct, but it's not magic. High performers maintain their focus on consistently making good strategic component decisions.

Above all, constancy and diligence set high performers apart. A single success is significant only if it takes place in a context of structures and capabilities that increase the likelihood of the next success . . . and the next. Successful companies recognize that their decision making is only as good as the most recent decision. In 1956, the highly successful Decca Record Company looked golden when it took a chance on an unknown singer from Lubbock, Texas—Buddy Holly—who went on to become the latest sensation in

the new world of rock and roll. Six years later, though, Decca turned down the chance to sign another group of musicians, saying, "Guitar music is on the way out." The group? The Beatles.

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