





■ Mastery

State of the art

By Julie A. Sokol and Robert J. Thomas

Given the level of financial resources and attention required to achieve mastery, high-performance businesses need to be selective and channel their resources to the places where they will produce the greatest benefit.

■ Any high performer will tell you that mastery means more than being merely good or competent. This is just as true in business as in golf or music or chess. Competence certainly is required to enter and then stay in the game. But mastery—the goal to strive for once a company has achieved competence in a given function or process—is what distinguishes the high performer.

No company achieves mastery in all areas of its business, of course; nor should it aim to, especially because basic competence in most areas often is sufficient. But mastery in strategically important business functions makes it possible for a company to consistently outperform its competitors over time—across business cycles, industry disruptions and changes in CEO leadership. Masters frequently are innovators too: They execute reliably and tend to be resolute in their conviction that advancing the state of the art will provide a sustainable competitive advantage.

Accenture's framework for thinking about mastery operates in two dimensions simultaneously. The first is a horizontal dimension, which characterizes a company's *degree of mastery*—from basic to pioneering—within a given process or function. The second, a vertical dimension, defines whether a company is pursuing mastery through a single function or process, or through *linkages across functions* (see chart, page 19).

Within or across?

Thus far, Accenture's research in this field has focused on five areas of functional mastery: information technology; human and organizational performance; marketing; finance and performance management; and supply chain management. This research strongly suggests that mastery *within* any one of these functions pays off

in creating growth and competitive differentiation within an industry.

For instance, a joint Accenture-INSEAD study showed that relentless practice and focus enables pioneering masters in the field of supply chain management to grow their market capitalization faster than their competitors: 26 percent faster than the industry average from 1994 to 1997, and 7 percent faster from 1997 to 2000. (For more information, see "Supply chain and the bottom line," *Outlook*, February 2004.) Similarly, findings from Accenture's research on human capital development, a key aspect of human and organizational performance, suggest that mastery in that area makes it possible to grow revenue through innovation. (For more information, see Accenture Institute for High Performance Business Research Note, February 2004.)

Moreover, mastery within a given function can be both a source of differentiation in one market and a means of penetrating others, as Dell has demonstrated in extending its supply chain mastery to a broader array of consumer electronics.

Mastery *across functions* is a more complicated undertaking. However, a preliminary analysis shows that many high-performance companies exploit mastery across functions to create new sources of competitive differentiation and innovation.

For instance, Amazon.com's ascent to profitability is directly traceable to its mastery in supply chain management, and the company is betting its future on achieving mastery across functions. In contrast to other dot-com-era businesses, Amazon.com's management recognized that supply chain mastery was essential both to its credibility with investors and to its ability to attract and retain customers.

By cranking up its inventory turns to 20 a year (nearly three times as many as Wal-Mart) and slicing the cost of running its distribution centers in half over the past four years, Amazon.com has been able to offer customers free shipping and reliable delivery—keys to profitable performance. Now, however, the company is striving to integrate mastery in distribution and customer management with investments in software development, which will enable it to build a web services platform for locating, buying and selling an extraordinary assortment of products.

Mastery scales

Accenture, as part of its High Performance Business research program, has put considerable effort into developing and testing mastery scales to guide companies as they explore how and where to concentrate their resources. These scales use a common set of distinctions—basic, progressive and pioneering—that allow Accenture’s researchers

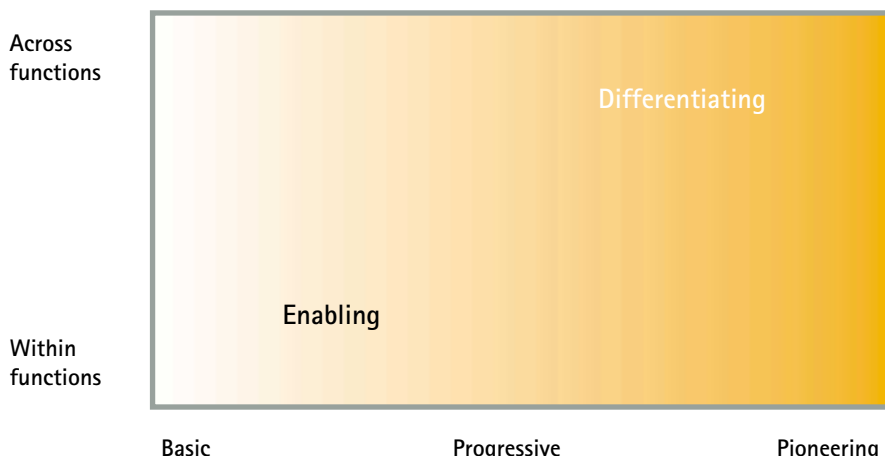
to compare the maturity or sophistication of different companies. However, the distinctions are most useful when applied in the context of a given company and industry.

To take one example, consider how mastery in human capital development can play out across the three levels.

Basic mastery is the threshold for competitiveness. A company at this level of mastery won’t be held back by its capabilities, but it won’t race to the head of the pack either. For instance, companies with a basic mastery in human capital development will informally identify candidates for leadership positions and may informally—and intermittently—chart out career plans for individuals. But these companies don’t tie business strategy to leadership competencies or actively assess how individuals stack up in areas deemed essential to the organization’s future competitive success. Succession planning tends to be reactive, often in response to a crisis, such as the

In pursuit of mastery

Accenture’s framework for looking at companies’ relative mastery in various functional areas can also be used by individual companies as a guide as they explore how and when to concentrate resources in their pursuit of mastery. As the scale below indicates, *basic* mastery within a single function can enable a company to be competitive. If it has *pioneering* mastery across a number of functions, the company is truly differentiated from its peers.



unscheduled departure of the CEO or an unexpected offer to a key executive from a headhunter.

Progressive mastery is defined as the current best practice at work in an industry. At companies that have achieved this level of mastery in the human capital development function, for example, managers identify a pool of leadership candidates, but candidates are trained and developed at the discretion of their managers, not as part of an integrated company process. Competencies are linked to business strategy in a somewhat ad hoc way—for example, in response to major strategic initiatives—but there are no consistent efforts to measure the out-comes of leadership development or to assess whether the supply of potential leaders meets the anticipated demand.

Pioneering mastery is characterized by reaching for what will be the best in the industry three to five years from now. Striving for pioneer status may be as important as actually reaching it, because the striving itself educates and disciplines the organization.

Pioneers in human capital management create systems for identifying and tracking leadership candidates; make sure that the right people participate in formal mentoring and leadership development programs; establish individual candidate development plans and evaluate candidate progress on a regular basis; and link both individual and group performance to financial performance so that investments in leadership development can be evaluated and adjustments can be made in terms of where resources are allocated in the future.

Research currently under way at the Accenture Institute for High Performance Business strongly suggests that companies that achieve pioneering mastery in human capital development enjoy higher revenue growth than companies that do not. An institute study analyzing data collected by *Science* magazine concludes that the effective management of key human capital areas—leadership, work environment, work-life balance and knowledge sharing—accounts for up to 27 percent of the variation in rev-

Building high performance

Mastery is one of three fundamental building blocks that make up the foundation of every high-performance business.



enue growth rates across pharmaceuticals companies.

Companies that come up with pioneering approaches to human capital development link familiar practices like attracting and retaining talent directly to strategic business objectives. Genentech, a leading biotechnology company in San Francisco has made a positive work environment an essential element of its business strategy, and it provides employees with innovative compensation and career development plans. The company also encourages scientists and technicians to spend a part of their time on their own research.

At Johnson & Johnson, human capital development programs focus on understanding the value of reducing workforce stress levels. Anecdotal evidence strongly suggests that this training contributes significantly to the high degree of employee loyalty enjoyed at the company. (For a detailed example of how mastery scales can be used to evaluate mastery in another key functional area—finance and performance management—see “A seat at the table,” page 24.)

Where to focus

Few companies can afford to pursue mastery in all aspects of their business. Given the level of financial resources and attention required to achieve mastery, high-performance companies need to be selective and channel their resources to the places where they will produce the greatest benefit.

Where to focus depends on the industry. As part of Accenture’s study of the industry-specific characteristics of high performance, we are identifying the current and

future value levers that are most critical to sustained high performance within each of the 18 industries included in the study. When determining where to aim, a company must understand and use these industry-specific attributes to evaluate itself and then consider them in combination with its overall strategy for differentiation. (For related articles on high performance in the banking and utilities industries, see pages 40 and 48, respectively.)

In the consumer packaged-goods industry, Procter & Gamble uses mastery across functions—what we call mastery of linkages—to identify and profit from shifts in consumer value.

In the late 1990s, P&G’s mastery of the linkages between marketing, R&D and technology allowed it to efficiently sense and respond to an emerging trend—the rising consumer preference for whiter teeth. In 1997 P&G researchers developed a simple at-home tooth-whitening solution—a band of clear film with hydrogen peroxide on it. While cosmetic tooth whitening had long been used by about 5 percent of consumers, the \$500 to \$1,000 price tag for professional treatments was prohibitive to most of them. Yet P&G market research indicated that 50 percent of consumers wanted white teeth—a potentially enormous economic opportunity.

But would the product be the right one to effectively capitalize on this emerging shift in consumer value? To address this challenge, the company relied on its IT capability, which already was deeply integrated with R&D and marketing.

P&G had long used IT to automate many of the tasks and processes

needed to speed new products to market. In the case of the beta tooth-whitening product, IT enabled the company to collaborate efficiently across business units—from its Oral Care Division to R&D to marketing—during clinical trials to modify the offering. Next, beginning in 2000, P&G started selling the product, Crest Whitestrips, on its website, instead of in retail stores.

Using its mastery of linkages across R&D, marketing and IT to gather consumer information and further tailor the offering, P&G was able to test and then effectively exploit the economic opportunity. This test run was telling: Crest Whitestrips, which carried a high price point and healthy margins, sold more than 140,000 units and generated more than \$50 million within a year on the market.

Innovation

Like an accomplished pianist whose continual focus on fundamentals allows her to play requests for music from many different genres, masters aren’t caught off guard by changes in the marketplace. Rather, they can nimbly adapt because of disciplined practice in the capabilities that drive differentiation in their industry.

A fascinating case in point is Zara, a Spanish clothing manufacturer and retailer whose supply chain mastery enables it to set industry standards for time to market, costs, order fulfillment and customer satisfaction. Zara’s store managers send customer feedback directly to the company’s in-house designers via handheld devices. This keeps the designers instantly abreast of fast-changing trends and demands. Mastery of supply chain basics and constant process innovation enable

Zara to deliver new fashion styles to customers faster than competitors and in a sliver of the time typically taken by elite fashion designers.

As a result of this functional mastery, Zara has experienced 20 percent sales growth for more than a decade along with consistent, industry-leading 10 percent profit margins. By selecting the competencies that are significant to performance across the industry, Zara is getting the right products to customers faster and at significantly lower cost than its peers—and is on its way to achieving high performance.

Diagnosis and prescription

By understanding what mastery means and taking an industry view, companies can determine where they are, then calibrate where they need to be. The chart below illustrates the way mastery scales can be used both diagnostically and as a planning tool.

Next, companies need to select and follow a process to achieve pioneering mastery. There are several approaches available. Like a novice eager to learn how to play the piano, a company can teach itself

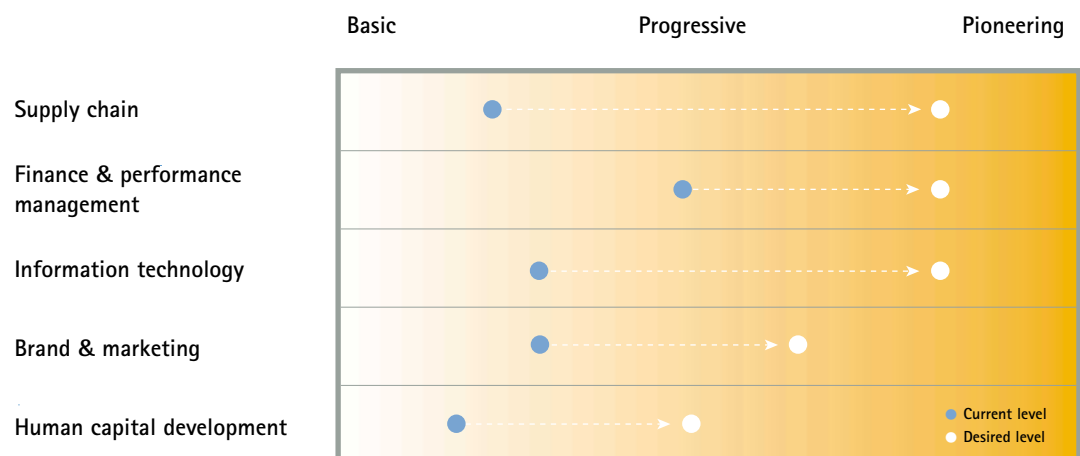
(referred to as the “autodidact approach” in learning theory), it can find a capable coach, or it can partner with a company that already has achieved mastery. Each route has distinct advantages but requires companies to make trade-offs.

Autodidact

General Electric Company’s mastery in developing quality processes demonstrates the autodidact approach. In the early to mid-1980s, many of GE’s businesses had quality control programs in place, but as at most US companies, there was little consistency in practice and no clear methodology for how to achieve sustainable quality improvement. Every day, it seemed, a new book or approach to quality would appear—from Zero-Defect to the Toyota method to Total Quality Management—but none seemed to fit GE’s particular needs or culture.

Against this backdrop, GE’s management elected to devise its own approach and to exercise self-discipline rather than rely on an external coach or partner. Today, GE’s achievements are well known, although as is the case with others that are self-taught, GE’s trial-and-error methodology and its

Charting a course



insistence on self-reliance occasionally led to a “not-invented-here” stance toward other approaches to process improvement.

Coach

Alternatively, a company can seek out a coach, who is usually someone with outstanding skills or a superior reputation for teaching. The advantage of a coach is that she can bring an objective and trained eye to the problem of what a company knows and what it has yet to learn. Even more important, a coach can help cement a learning strategy: an approach to learning that works in the context of a company’s culture, history and strategic objectives.

In Accenture’s research and client work, we have seen dozens of private and public organizations accelerate their progress on the road to mastery in core functions like financial management and supply chain management by working with a coach. For this approach to work effectively, however, the protégé organization must contribute substantial effort to the process, executing the coach’s advice through sustained dedication to practice and learning.

Partnering

Like a singer performing with an accompanist or a chorus, companies can join forces with partners to achieve a level of performance they could not achieve alone. Similarly, in business, strategic alliances, joint ventures and even subcontracting can enable a company to develop mastery more quickly and efficiently in a given activity.

Apple Computer’s technical and marketing wizardry has been aided on numerous occasions by design firms like IDEO. While no one would dispute Apple’s cross-functional mastery in blending customer insight

and new product development, few are aware of how important IDEO has been in creating subtle but powerful appeal to highly profitable products like the iMac and the iPod.

A word of caution, however. Like some Hollywood movie companies that exist for the life of a film and then disband, mastery achieved through a partnership can be more fragile and temporary than mastery achieved using other approaches. Accordingly, companies that seek out and design these partnerships should recognize up front that success really is about intermediate-term innovation, not the creation of a long-term collaborative relationship.

Partnering also includes innovation-focused outsourcing partnerships. For instance, pharmaceuticals firm Eli Lilly and Company uses a holistic innovation outsourcing strategy to guide how it selects and manages partnerships with external innovation providers. At any given time, Lilly is managing more than 140 external partnerships with drug research firms at various stages of the drug development process. According to many analysts, Lilly has the fullest and most productive late-stage pipeline in the industry.

Of course, the choice of which route to mastery is best depends on an organization’s strategy and industry, and acting on that choice requires the company to draw from both its muscle and its mind. But regardless of strategy or industry, all companies must approach mastery with the same set of fundamental questions in mind: Does my organization clearly understand which business functions it needs to master to maximize company value? Has my organization clearly measured the gap between where it is and where it

desires to be? How can my organization secure unparalleled competitive advantage by achieving mastery across functions?

These are questions executives can—and should—begin asking themselves right now. ■

About the authors

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