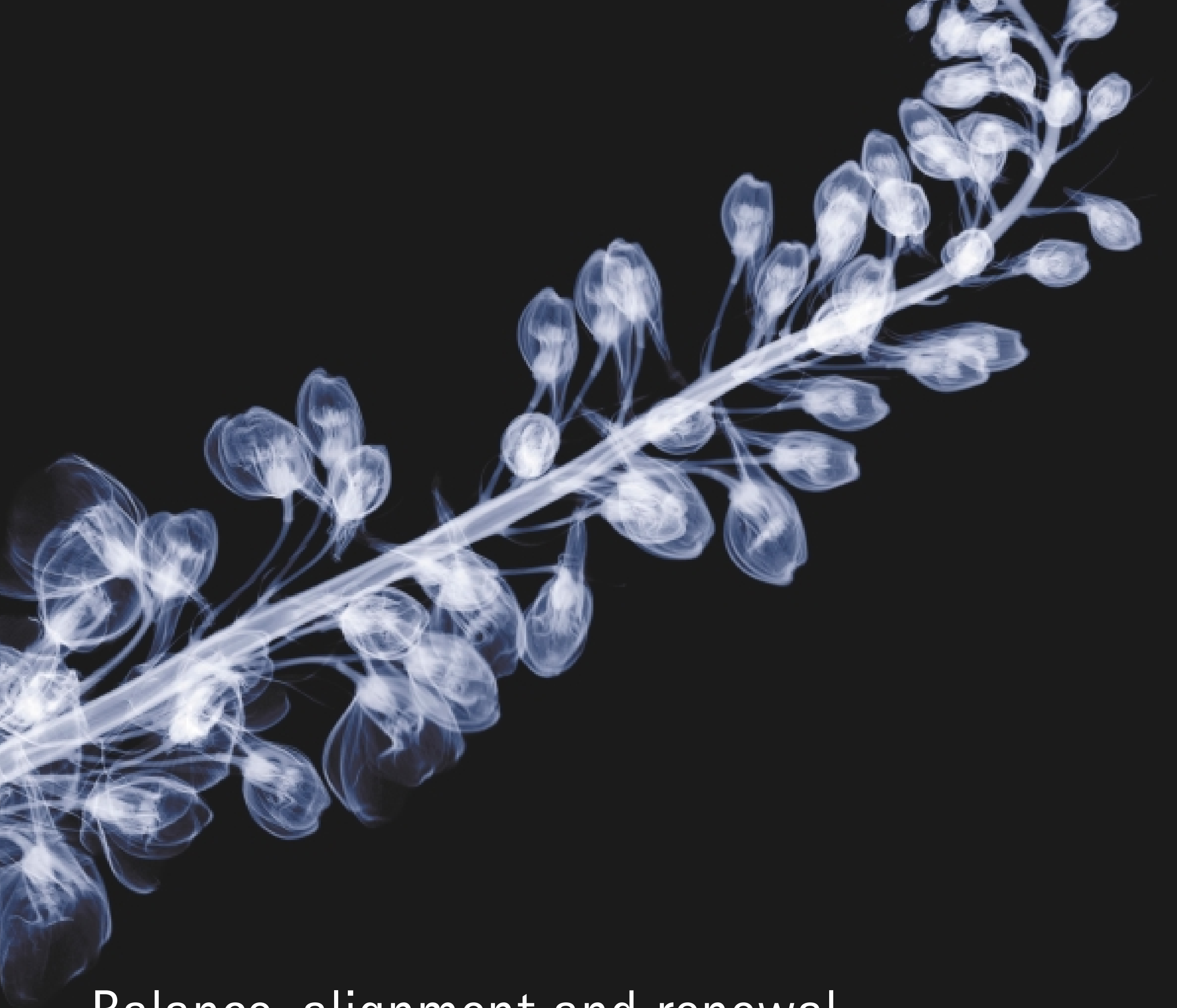


Balance, alignment and renewal

# Understanding competitive essence

By Tim Breene and Paul F. Nunes

Common to every great company is the ability to create and maintain a unique combination of business attributes that enable it to outperform its rivals. This competitive essence comprises both a company's ability to succeed in today's markets and its positioning for the future.

“Happy families are all alike; every unhappy family is unhappy in its own way.”

—Leo Tolstoy, *Anna Karenina*

More than a year ago, when Accenture set out to systematically map high performance, our initial hypothesis was that leading companies—so seemingly different in characteristics and circumstances when compared on their surface—actually share common attributes and behaviors that drive their superior performance.

Our hypothesis held that these attributes were *discoverable*, *measurable* and *replicable*. The notion of *discoverable* attributes was the basis of a comprehensive research program involving peer comparisons within specific industries. These attributes were presumed *measurable* through the application of consistent, transparent, credible financial and alternative performance metrics in the course of our research. (For more on performance measurement, see page 40 and “Measuring high performance,” *Outlook*, February 2004.) And, once identified, these attributes are believed to be *replicable* by translating our findings into practical solutions for would-be high-performance organizations.

**Competitive essence**

This three-pronged framework of inquiry continues to define our ongoing research into high-performance business, and the overall initiative has begun to yield constructive results. After analyzing the performance of literally hundreds of leading organizations, we are now seeing that at the core of every company’s ability to achieve high performance is something we call “competitive essence.” This critical yet intangible quality is the unique combination of all facets of the business that determine a company’s ability to outperform its rivals. It comprises both the company’s ability to succeed in today’s markets and its positioning for the future—its potential for capturing and profiting from new markets going forward.

Our research and our experience with clients demonstrate that what distinguishes high performers from their competitors is the consistent way they construct and maintain this competitive essence. While many companies compete on the basis of a single point of differentiation, the competitive essence of high performers is almost always achieved through the balance, alignment and renewal of what we have identified as the three building blocks of high performance: *market focus and position, distinctive capabilities* and *performance anatomy.*

Companies seeking to improve their competitive essence are most apt to fail when they lose the critical sense of balance required for high performance, favoring one building block to the exclusion of the others. Today, for example, many companies appear to be overemphasizing the importance of scale in their business, which amounts to a dangerous overreliance on competitive advantage enabled through market focus and position.

Organizations also put their competitive essence at risk when they fail to refresh and renew the building blocks—for example, by continuing to rely on capabilities that are no longer distinctive, or by resting on the laurels of a once-celebrated corporate culture long after it has lost its vitality. We have found that high-performance companies continuously balance, align and renew the building blocks, creating their competitive essence through a careful combination of insight and action. Would-be high performers seek to do the same.

## Market focus and position

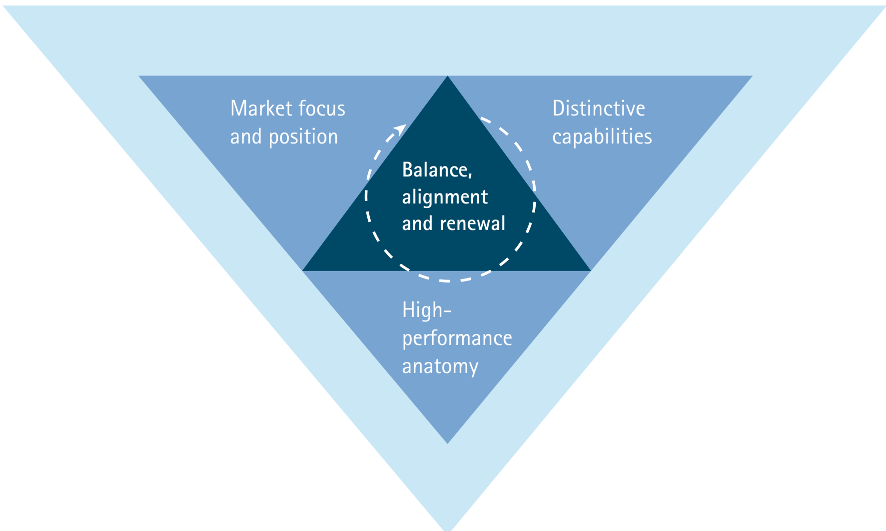
Our first building block reflects a company's capacity for maximizing growth opportunities and structural economic advantages. High performers understand the dynamics of their industries better than their competitors do, and they successfully manage the creation of value through appropriate strategies. Every company has some level of appreciation for the contribution and value of good strategy. But what sets high performers apart is how they perceive the role of strategy, and what they see as the best means for creating it.

Even in today's complex, dynamic world, where deliberate strategy is considered less relevant, high-performance businesses take the art of strategy very seriously. For these companies, it is not an ivory tower concept but a living component of their organization, understood and acted upon at all levels. High performers achieve remarkable clarity when setting strategic direction, especially regarding big decisions. Yet they approach strategy execution as a series of hills to be surmounted, carefully rethinking their strategy at each hilltop, as the view of the battle and unanticipated opportunities, threats and challenges becomes clearer. Enabling these routine adjustments is the high performer's possession of management systems that are geared to producing acute insight.

High performers also maintain a strong capability-based perspective in their strategies, which they demonstrate in their market-maker mindset: They seek not just to

### The elements of competitive essence

The best companies continuously balance, align and renew the three building blocks of high performance through a careful combination of insight and action.




SOURCE: ACCENTURE ANALYSIS

serve markets but to create them. Such strategies ultimately create value by enabling high performers to identify and forcefully enter attractive markets; to build and manage powerful portfolios; to exploit certain advantages of positioning in the value chain; and to achieve optimal scale.

The successful execution of each of these strategies has created powerful advantages for any number of leading companies. However, like a chess grand master who is able to see many moves ahead, high performers recognize not only the advantages of such strategies but also their ultimate limitations.

One of the first lessons to come out of our research and observations was that many of today's companies have been blinded by a lust for scale, mistakenly believing that this strategy, by itself, can enhance their long-term performance. Yet our studies of the relationship between scale and business performance across several sectors, with particular attention to post M&A performance,

## Creating a high-performance competitive essence

Much of Accenture's high-performance business research has focused on identifying the underlying similarities of top performers, drawing our lessons from those enterprises that have already achieved that status (see story). What about organizations not yet there, those that aspire to high performance? Again, while allowing for some circumstantial differences, what we have confirmed is a commonality of challenges for companies interested in creating a high-performing competitive essence.

These common challenges require the balancing of seemingly paradoxical requirements and include:

*Managing for today and tomorrow.* All companies need to manage across multiple time horizons simultaneously, achieving flawless execution in the near term while preparing for the next era of competition. Achieving this critical balance is made difficult by the tremendous pressure companies face to focus on immediate results.

*Achieving enterprise flexibility and organizational clarity.* Companies must find ways to respond swiftly to changing and often unpredictable circumstances, while at the same time creating sufficient certainty around goals and operating principles. This gives employees the kind of confidence and certainty that drives productivity.

*Developing leadership depth.* Today's volatile business environment demands distributed leadership, obliging companies to possess a much deeper bench of talent. Creating this wealth of talent requires developing and retaining leaders at all levels who can perform above their titles. The challenge is to achieve the proper balance of being directive and empowering.

*Creating engagement and workforce alignment.* A company's success is ultimately a matter of people, yet managing employees for superior performance remains more art than science. While most companies see the need for excellence in this arena, they are challenged in their search for systemic ways to bridge the gap between their level of capability and a higher one that leads to greater business value. (For more, see "Harnessing the power of an engaged workforce," on page 54 of this issue, and "Disturbing the system," *Outlook*, June 2004.)

*Deriving strategic advantage from IT investments.* IT today is still too often seen purely as a cost to be managed. IT is, in fact, a strategic asset that can provide the insight that drives business model and product and service innovation, and it can serve as a source of lasting competitive advantage. High performers know they must balance IT as a cost of doing business with appropriately valuing and investing in IT as a strategic asset.

*Managing complexity at scale.* Once a company achieves the scale that allows it to be a top competitor, its sheer size almost always makes effective communication, knowledge sharing and decision making extremely difficult. Companies must foster levels of collaboration and knowledge sharing that go beyond the rules, leveraging informal as well as formal interactions of employees and business units across all boundaries.

With its emphasis on achieving balance, alignment and renewal, a focus on competitive essence and its three component building blocks can help companies to better address each of these challenges.

have shown this is not the case (see "Is bigger always better?" *Outlook*, October 2004).

These studies show that endgame strategies of dominant scale are not the sole drivers of high performance, even if they sometimes appear to be in the short term. And high performers—even large-scale ones—know it, bringing more to the table than just good market strategies. Their advantage is almost always based on a well balanced competitive essence they began to shape when they were much smaller.

In the interest of maintaining this balance and protecting their competitive essence from disruption, high performers are much more likely to pursue small and midsized deals than mega-mergers. This is one reason high performers like Cisco Systems and Johnson & Johnson place such value on a series of manageable acquisitions made over the long term.

In addition, we have seen in high performers a constant emphasis on organic growth, at every level of scale and industry maturity, as we found in automotive industry leaders BMW and Honda Motor Co., for example (see "Life in the fast lane," *Outlook*, October 2004). Many of the high performers across industries outperform their competitors in organic growth even as they create substantial additional growth through acquisition.

## Distinctive capabilities

The desire to understand this unflagging ability to generate sustained organic growth led us to the second of our building blocks. We have observed that high performers balance their focus on market strategy with a commitment to creating and exploiting a set of distinctive, hard-to-replicate capabilities that deliver the promised customer experience, while simultaneously driving the most efficient utilization of assets.

For capabilities to be truly distinctive, these two objectives must be synchronized. While many companies have mastered either the customer experience or excellent asset utilization, high performers create capabilities that are totally aligned with, and that most efficiently serve, a clearly defined customer experience. High-performance businesses understand the need to build such distinctive capabilities—ones that are demonstrably better than their competitors' and, in the short term at least, inimitable.

They also know how to manage those capabilities effectively over time, first by rapidly driving them down the learning curve, and later by transferring them into new areas. Microsoft Corporation, for example, has been highly successful at applying across eras its distinctive capabilities in the creation and mass merchandising of software, moving from operating systems to office products to Internet browsers and services to online gaming. In each shift, the company made a significant investment early, ensuring rapid attainment of world-class knowledge and capability in the area.

Distinctiveness, as we define it, arises not through excellence in a single functional silo but through the combination of mastery in a large number of individual capabilities.

Accenture recently created a number of diagnostic tools to measure capability mastery in five areas: information technology; human and organizational development; marketing; finance and performance

management; and supply chain management. Our early research results show that high performers have attained mastery in a large number and broad range of capabilities in each of these areas. We have found that many high performers, for their part, consider a portfolio of mastered capabilities the cost of entry; their sights are already set on an even higher mark, the mastery of a unique cluster of capabilities around which they can build a distinctive capability and business model. (For a related article, see "The art and practice of mastery," *Outlook*, June 2004.)

Dell is perhaps the best example of how a broad set of capabilities can be tied to a differentiated customer experience to create a distinctive capability. Generic component suppliers, limited yet differentiating configuration options and a world-

## In search of value creation

From the beginning, the Accenture High Performance Business initiative was framed around enterprise value creation. We were not interested in insight for insight's sake but in discoveries that could be applied to improving business results for interested organizations in ways that are relevant to their stakeholders. Because of this, our definition of "high performance"—the enduring or sustained outperformance of peers, across business and economic cycles, often across generations of leadership, and as measured by widely accepted financial metrics—is a sound one.

Our concentration on sustained outperformance is critical, and its importance has been borne out in our research. Many companies can appear to be high-performance businesses in the short run—by riding favorable market conditions, for example, or by being fortunate with a single product or market position—only to decline quickly when business conditions turn against them. To be a true high performer, a company must survive, and thrive, across discontinuities, requiring leadership that consciously manages for today and tomorrow.

We recognize that this requirement for sustained superior performance constitutes a high standard; as we have stated, fewer than 1 in 10 public companies meets this mark. But our discussions with executives across many industries have confirmed that this is the standard they, too, feel is the right one for their organizations.

Our field experience has also confirmed that while our original focus on three-, five- and seven-year average total return to shareholders has served us well as a starting point in gaining rapid insight into company performance, a better understanding of performance is enabled by the use not of a single measure but of a set of measures. Each measure should define a core and distinct aspect of performance, and together they should portray a comprehensive, if not complete, picture of business performance. Currently, we are building newly designed performance scorecards to report on six critical factors.

While each measure has one or more core metrics associated with it, such as five-year total return to shareholders, the unique characteristics of individual industries can require adding more metrics to the measures, to ensure a proper understanding of that measure within that industry. Our six measures are:

- *Growth,* as measured by revenue expansion.
- *Profitability,* as measured by the spread between the return on and cost of capital.
- *Positioning for the future,* represented by the portion of share price that cannot be explained by current earnings, and on the portion of the industry total each company's "future value" represents. Future value is more critical today than ever, as its portion of the market's total capitalization has increased dramatically in recent years.
- *Longevity,* as measured by the duration or track record of outperformance in total return to shareholders, which is important to our requirement of sustained value creation over time.
- *Predictability,* as measured by the volatility or the dispersion of that performance over time.
- *Peer competitiveness,* which is the composite of the relative scores of the first five factors. It showcases the high performers, but it also highlights that all performance is relative—an important lesson. Change the peer set, for example by rejecting some competitors because they are too small or too big, and you almost inevitably change the performance, because you have changed the expectations. Fortunately, the best of the high performers tend to be obvious: Their performance stands up to comparisons with a wide range of possible peers, including those from other industries.

class order-to-delivery service are combined in Dell with the company's distinct direct-to-customer business model. Together they create a "negative cash-to-cash cycle time": Dell pays its suppliers for components only after customers have purchased those components through Dell, so the company has no inventory carrying costs. This is the kind of asset utilization advantage, tied to the customer experience, that makes a capability distinctive, and that competitors find very hard to beat. Dell's distinctive capabilities not only enable it to achieve sustained leadership in the personal computer market, but the same set of capabilities also enable the company to enter new markets, as it has done recently, with innovation that disrupts the incumbents.

## Performance anatomy

The third essential building block of competitive essence is a focus on the creation of a high-performance anatomy. Distinct from culture and organization design, high-performance anatomy comprises a set of organizational "mindsets." These mindsets drive important differences in behavior—by individual employees on up to those of the company itself—that lead to better business outcomes. Significantly, these mindsets are immediately actionable by an organization's leadership. We believe it is these mindsets that empower companies in their goal of out-executing the competition.

Our research indicates that the following mindsets are crucial to creating a high-performance anatomy.

- Execution excellence and successful market creation must be balanced.

- IT is viewed as a strategic asset.

- Talent and its impact can be multiplied, making workforce productivity a key execution differentiator.

- Performance measurement must be broadly inclusive yet highly selective in its focus and metrics.

- Continuous renewal is a real and permanent necessity within a high-performance business.

Whether or not these mindsets are pervasive within a company has a profound impact on its performance. Take, for instance, Wilmington, Delaware-based MBNA Corporation, which today issues credit cards to more than 50 million customers and manages assets worth more than $100 billion. From the beginning, the company set out to target upscale customers as part of "affinity groups" like dentists or alumni association members, and to provide them with a superior customer service experience. The company's entire performance anatomy supports this mission and is driven into every detail of how MBNA does business.

The company's talent multiplier mindset can be seen in its careful recruiting of people who like people, which it accomplishes through an intensive process that includes peer interviews to ensure fit, both within the organization and during customer interactions. The mindset is further evidenced by the company's generous benefits and by its selection by *Fortune* magazine for five years in a row as one of the best companies to work for.

MBNA's continuous renewal mindset is driven by its requirement that all employees spend at least four hours per month "customer listening," which ensures the company is

**In high performers, a set of organizational "mindsets" drive important differences in behavior—from individual employees on up to the company itself—that lead to better business outcomes.**

High performers master the art of integrating acquired companies without diluting competitive advantages.

informed at every level about what it needs to be successful. Customer satisfaction scores are posted daily, and individual incentives are built around customer satisfaction, keeping the focus on ongoing, value-creating change. Even employee pay stubs are inscribed with the words "Brought to you by the customer."

Successfully establishing all of these mindsets requires alignment, both across the various mindsets as well as across the other building blocks. How do high performers achieve this elevated degree of alignment?

We've observed at least three successful approaches. Sometimes companies create alignment through the force of a strong and capable leader. But high performers also achieve it through longtime collaboration within a core leadership team, such as those at Nokia and Walgreen Co. Alignment can also be created by infusing the organization with a shared sense of purpose—not by creating largely abstract mission and vision statements but through leaders training leaders; active stewardship on the part of all levels of management, including interaction with and accessibility to frontline employees; and the obligation that all employees personify the company's values in their daily work.

Just as important, high performers tenaciously defend the alignment they have achieved. One way they do this is by mastering the art of integrating acquired companies without diluting competitive advantages. Think here of the much-trumpeted "mergers of equals" of recent years and the serious challenges they have encountered. Contrast this with BP's successful integration of its Amoco acquisition, which bore out BP CEO Lord John Browne's early pledge that Amoco would be run the BP way. (For a related article, see "In search of performance anatomy," *Outlook*, October 2004.)

## Intellectual journey

Earlier, we touched on three concepts that, taken together, form the philosophical framework for Accenture's High Performance Business initiative. "Discoverability" and "measurability" have been the launching points for several in-depth studies, which have helped us refine or even revise our thinking, an intellectual journey that has been chronicled in the pages of *Outlook*.

We entered this past year, for example, knowing that industry specificity was important; we have amply substantiated that premise but have learned in the meantime that industry lifecycle is also an important determinant of high performance. We knew innovation—both breakthrough and continuous—was important to high-performing companies but have come to appreciate the increasingly important role of "open innovation" as a high-performance model.

Now we have a new set of questions, informed by our emerging understanding of competitive essence, that will constitute the basis of further specialized inquiries. These investigations will be additions to our basic High Performance Business initiative. We will continue to roll out a program of follow-on research for each of the 18 industries in our high-performance business universe. (For our latest Industry Reports, see pages 8, 18 and 26 in this issue.) We will refine our metrics and analytics, particularly those that support the analysis of a company's future growth value; that is, the portion of its value not explained by today's earnings and book value.

Most of all, our operating groups and industry teams will continue to develop and launch methodologies, applications tools and infrastructure solutions that make high performance an operational reality in companies not currently among the ranks of high performers. To that end, we will continue to strive to determine precisely how high performance can be made replicable. This, after all, is our journey's ultimate end. ■

## About the authors

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