



## InnoVision Business Review

### In Search of Excellence

This article is a review of a book based on a study commissioned by McKinsey and Company on what was excellent in American corporations and what others could learn from them.

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# In Search of Excellence



## In Search of Excellence

"**In Search of Excellence**", an incisive book on organisational effectiveness published in 1982 was the outcome of a study commissioned by McKinsey and Company in 1977. The study sought to find what was excellent in American corporations, then under pressure to emulate Japanese management systems. The authors Thomas Peters and Robert Waterman argued that excellence was present in American corporations as well and their best practices could lead to business success. The eight findings reported in the book are:

**A Bias for Action:** Successful companies are focused on a succession of actions aimed at improving their functioning, experimenting continuously, taking small steps, and learning from them.

**Close to the Customer:** Excellent companies have a strong customer focus. They understand their customers' needs and preferences and strive to meet or exceed customer expectations.

**Autonomy and Entrepreneurship:** Companies that excel encourage autonomy and entrepreneurship among their employees. They give individuals the freedom to take initiatives and be creative in their work and provide the needed support and encouragement.

**Productivity through People:** People are considered the most valuable asset in excellent companies. They invest in their employees through training, development, recognition, rewards, and creating a positive work environment.

**Hands-On, Value-Driven:** Successful organizations have well-defined core values and these values are evident in the decisions made by all leaders and rank-and-file managers.

**Stick to the Knitting:** Excellent companies focus on what they do best. They concentrate on their core competencies and avoid unnecessary diversification.

**Simple Form, Lean Staff:** Companies that excel have simple organizational structures and lean staff. This allows for quick communication, efficient decision-making, and a more agile response to changes.

**Simultaneous Loose-Tight Properties:** Successful organizations have well-defined values from which relatively few rules are derived. Mistakes can be overlooked as long as the fundamental rules are not violated. But if the fundamental rules are violated, the employee must leave.

The findings appear to be intuitive. Except for the fact that the beliefs on which the principles are based are at variance with those held by many business leaders. To name a few:

- I. **The Cost Analytics Mindset:** Cutting down on customer service and employee benefits would produce cost savings *now* vis-a-vis investing in customer service and employee benefits which may pay off in the long run. Many managers would prefer to see the gains now as opposed to hoping for returns later.
- II. **The Control Mindset:** Giving autonomy, letting many people experiment and act, loose-tight properties and lean staff make several managers feel that their authority is getting eroded. Many would prefer control over freedom to act.
- III. **The Standardisation Mindset:** Many managers believe that there is one best way of doing things and every unit must follow that method. This mindset acts against the principles of autonomy, loose-tight, and lean staff.

The authors have addressed this concern referring to it as '*The Rational Model*'. I quote: '*Professionalism in management is regularly equated with hard-headed rationality... It seeks detached analytical justifications for all decisions. It is right enough to be dangerously wrong, and it has arguably led us seriously astray. It doesn't tell us what the excellent companies have apparently learned. It doesn't teach us to love the customers. It doesn't instruct our leaders in the rock-bottom importance of making the average Joe a hero and a consistent winner. It doesn't show how strongly workers can identify with work they do if we give them a little say-so. It doesn't tell us why self generated quality control is more effective than inspector-generated quality control. It doesn't tell us to nourish product champions like the first buds in springtime. It doesn't command that we overspend on quality, overkill on service and make products that last and work. It doesn't show that good managers make meanings for people, as well as money.*'

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The lessons from the book continue to be relevant and hence this article.

## A Bias for Action

### **Small Task Forces at Texas Instruments, Hewlett Packard, 3M, McDonald's, Exxon, Emerson Electric:**

Small task forces are created to accomplish a task with well-defined outcomes and timelines. The members are those directly involved with implementation even if they are senior executives. There are no proxy members. The teams meet face-to-face at regular intervals and ensure that progress takes place. The team is disbanded on expiry of the time assigned. A report at the end was not an acceptable outcome. Results are expected. The teams are not bureaucratically formed. They are highly functional based on need to participate. The small groups are the most visible organisational unit, not departments and organisational divisions.

### **Try things out, Experiment.**

**Proctor and Gamble:** P&G tests and tests, products for launch, marketing messages, target markets... till they are sure that the launch will be a success.

**Texas Instruments:** TI's ability to learn quickly, to get something out in the field, helped them beat large companies like Bell Labs, RCA, GE.

**Bechtel:** Have a fine feel for the doable.

**Hewlett Packard:** Product prototypes are tried out by several people including top executives who regularly walk around the product development labs.

**3M:** Our approach is to make a little, sell a little, make a little more.

**McDonald's:** McDonald's constantly experiments with menu items, store formats, pricing plans.

**Ogilvy Advertising:** Pretest your product with consumers, pretest your advertising, test your headlines, your illustrations, your commercials, your copy points, your message.

## Close to the customer

**IBM:** If a problem occurs at the client site, the IBM hordes descend, from everywhere. Experts are called in, till the issue is resolved. Client complaints have to be addressed within 24 hours. At IBM, getting the order is the easy part. After-sales service is the key.

**IBM:** A top management group made a presentation to Mr. Thomas Watson, IBM founder on problems classified as Engineering problems, Manufacturing problems, Service problems, etc. Mr. Watson said at the end of the presentation, 'There is only one problem, some of us are not paying attention to the customer.' At IBM employee attitude surveys are made every 90 days. Customer service is central to employee attitude surveys.

**IBM:** The IBM salesperson will sell the most cost-effective product, not the expensive one with higher margins. Senior officers from all departments make sales calls, not just sales people.

**Frito Lay:** Frito Lay makes potato chips, a commodity. It commands 70 percent market share and maintains high profits. Customer service is the key. Frito maintains a 99.5 percent service level, regardless of difficulty levels and financials of servicing. Stories abound of the Frito salesperson delivering a box of chips while braving extraordinary weather. The Frito salesman will help even if a sale is not involved. Like cleaning up after a hurricane. The Frito salesman is a friend in need, not a chips supplier.

**American Airlines, Disney Productions, McDonald's, Westin, Hertz, IBM:** Customer service is the primary revenue builder. They engage in dramatic service delivery gestures to increase visibility to customers. Each employee *is* the company. Customer relations are backed by Employee Relations. Service incentives mirror customer service.

**Disney World:** It takes four days to train a ticket counter salesperson. The ticket counter salesperson needs to know when the parade starts, where the restrooms are, and what bus to take to get back to the campgrounds. Most importantly, every hire needs to know the Disney philosophy, the operating principles. Senior executives regularly perform roles like selling popcorn and tickets, loading rides, parking cars, driving the monorail and taking on onstage jobs that make the entertainment park come



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alive. Called Cross Utilisation, every Disney employee needs to experience front-line customer service roles.

**Caterpillar Tractor:** Caterpillar dealers are like family. The dealer is an extension of the company. And if a part is required anywhere in the world, it will be available within 48 hours.

**McDonald's:** Selling ordinary products, McDonald's maintains leadership by focusing on Quality, Service, Cleanliness, and Value. McDonald's uses the best ingredients. If the fries are overdone, they throw them out. If a hole is punched inadvertently in a bun, it is not used.

**Maytag:** Producer of commodity products like washing machines, Maytag commands a 15 percent price premium. Because a Maytag washing machine will give you ten years trouble-free operation.

**Hewlett Packard:** The HP 3000 ranked at the top of all quality surveys when it launched a major new quality program. Reason? If we don't keep up the quality momentum, the Japanese will leapfrog our position.

### Autonomy and Entrepreneurship

Excellent companies give autonomy to those who want to take the initiative, the 'Champions'.

**Proctor and Gamble:** The Brand Manager has the autonomy to steer the brand. P&G's record of building great brands like Ivory, Tide, Venus, Crest, Pampers, Braun to name a few is the result. P&G's Neil McElroy is credited with having conceptualised brand management as the brand manager of Camay. McElroy rose to become President of P&G.

Excellent companies create champions by nurturing and empowering talent, supporting them and creating role models for others to emulate. The boundaries of autonomy are defined and within reason the champion is allowed to act independently.

**3M:** 3M has a record of launching more products than any other comparable company. 3M forms Venture Teams comprising of sales, technical, manufacturing, and finance members, largely volunteers. Once the team is formed it is mentored by an experienced 'Executive Champion'. Within this framework, the Venture Teams have significant autonomy.

**IBM:** An initiative called 'Performance Shootouts' where teams came up with innovative projects. The IBM 650 was a notable result.

**GE:** GE encouraged experimentation with new products. GE Plastics was a notable outcome.

### Productivity through People

**IBM:** In his book 'A Business and its Beliefs', Thomas J. Watson, Jr. says that IBM's management philosophy can be summed up in three beliefs, the first of which is respect for the individual. Mr. Watson, Sr. started the \$1 a year Country Club, introduced lifetime employment, internal promotions, daycare centres, intense training, and monthly opinion surveys for enhancing working conditions.

**Hewlett Packard:** Bill Hewlett said that the tradition of treating every individual with consideration and respect, recognising personal achievements is an important part of the HP Way.

**Wal-Mart:** At the insistence of 'Mr. Sam', all Wal-Mart managers wear a button that says 'We care about our people'. Mr. Sam is known for finding out what the Associates (not employees) needed and providing the facilities. Wal Mart managers lead local cheerleading squads, there are honor roll stores every week, good work is recognised, everyone feels like a winner.

**Delta Airlines:** Staffers can see the President if they wish. There is no screening. Delta takes pains to check out the employee's side of the story.

**McDonald's:** McDonald's has set up Hamburger University to ensure that the staff has the right skills.

### Hands On, Value Driven



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**IBM:** In his book 'A Business and its Beliefs', Thomas Watson, Jr. said 'I firmly believe that any organisation, in order to succeed must have a sound set of beliefs on which it premises all its policies and actions.'

**Caterpillar:** Caterpillar has a clear set of values. Offer unbeatable quality, reliability and service. Nurture your dealer network. Make parts available anywhere in the world within 48 hours. Caterpillar has been the leader in its industry for over 70 years in spite of formidable Japanese competition.

**Delta Airlines:** The relationship between the management and staff is the core value of the company and is responsible for its competitiveness.

**Johnson & Johnson:** J&J started by providing first aid kits to railroad employees. The kits showed that J&J cared. Care is still at the core of the company. In the childcare category, J&J has no rivals.

The values that govern these companies are demonstrated by day to day actions of rank-and-file managers. Not conforming to these values in day-to-day decision-making is not acceptable. Hence, Hands-On, Value Driven.

### Stick to the knitting

In the age of conglomerates and unrelated diversification, this rule seems counterintuitive. But several great companies have stuck to this rule of doing what they do best. To name a few:

**Boeing:** Aircraft

**Proctor & Gamble:** Consumer Products

**Hewlett and Packard:** Computers and Peripherals

**Caterpillar:** Earth Moving Equipment

**John Deere:** Farm Equipment

**3M:** Adhesives, Abrasives.

**Exxon:** Oil

**Xerox:** Copiers

**McDonald's:** Hamburgers and fries

**IBM:** Information Technology

**Wal-Mart:** Discount Stores

### Simple Form, Lean Staff

**Johnson and Johnson:** Organised into several small divisions, each having its management board.

**Proctor & Gamble:** Brands organised into business divisions, managed autonomously, with little involvement of central staff.

**Emerson Electric:** When it had 54,000 employees, its corporate headquarters had fewer than 100 staffers.

**Dana Corporation:** When it had 35,000 employees, its headquarters had around 100 staff members.

**Intel:** When Intel was a \$1 Billion corporation, it had almost no corporate office staff.

### Simultaneous Loose Tight Properties

The excellent companies give a great deal of autonomy to their people. The rules are derived from the company's values and they are few. But if anyone were to violate the few rules, they must leave.

The non-negotiable values are known to all.

**IBM:** People, Service, Excellence

**Hewlett Packard:** Quality, Functionality

**Proctor and Gamble:** Quality, Customer Service

**JW Marriott:** Cleanliness, Customer Service

**McDonald's:** Quality, Service, Cleanliness, Value

**Caterpillar:** Parts Delivery, Quality, Reliability, Dealer Support

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According to the authors of the book, it is not good enough to think of these principles as good to have. These principles must be central to the functioning of the company.

*(Written by Dr. Amit Bhadra, Management Practitioner and Professor of Marketing, Operations & Strategy)*