

Going the distance

How the world's best companies achieve high performance

By Tim Breene and Paul F. Nunes

After three years of original research, industry analysis and rigorous testing, Accenture has developed a compelling set of practical insights for companies that aspire to uncommon business success.



What does high performance mean, and how can organizations increase their chances of becoming high-performance businesses?

These have been the driving questions behind an ongoing Accenture program of original research that is now entering its fourth year. This effort has been important, not only in terms of our ability to help our clients achieve success but also in the context of the larger marketplace of ideas: A recent *Harvard Business Review* survey recognized Accenture's High Performance Business research program as one of the 10 most notable initiatives in the field during the past quarter century.¹ Among the results produced by our research to date is a rich collection of published work, including more than 30 articles on high performance that have appeared in *Outlook* since October 2003.

Having established the broad principles of high performance, we are now building on this foundation by conducting a more detailed analysis of the practical steps to achieving business success. As we prepare to immerse ourselves in this next logical phase of our program, it seems appropriate to summarize, refine and integrate what we have learned in a single article—and to highlight a few of the latest insights we've gained from observing and working with a number of high-performance businesses during the past three years.

Methods and means

As Julia Kirby notes in her *Harvard Business Review* article, several recent and well-known attempts to define business success have used criteria that, on closer inspection, begin to look suspiciously like popularity contests. For example, it has not been uncommon for researchers to identify successful companies by simply polling influential busi-

ness executives, and then building a list of high-profile, often iconic corporations. Only then, after the high performers have been identified, do the researchers delve into the details to make the case for why these companies were chosen. At Accenture, we have come to believe instead that business success must be defined both

¹ Julia Kirby, "Toward a Theory of High Performance," *Harvard Business Review*, July-August 2005.

qualitatively and quantitatively: What determines whether an organization is a high performer is not only reputation and stature but also data and metrics.

Another distinction that sets our research apart from similar exercises is the sheer scale of the undertaking. Thus far we have carefully analyzed more than 6,000 companies, including more than 500 high performers. The effort has involved the active participation of hundreds of Accenture's top managers and senior executives from across the company, representing a broad spectrum of functional and industry expertise.

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 results for organizations, in the public as well as the private sector, in ways that are relevant to their stakeholders.

A high standard

The definition of "high performance" we settled on—the enduring or sustained out-performance of peers, across business and economic cycles, often across generations of leadership, and as measured by widely accepted financial metrics—sets a high standard, to be sure. Many companies can appear to be high performers 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, on the other hand, a company must survive and thrive across economic and

market disruptions. Fewer than 10 percent of public companies meet this mark. But our discussions with executives across many industries have confirmed that they believe this standard is what defines organizations as high performers.

Our field experience enabled us to refine our selection method for high performance. Our original benchmark—a focus on three-, five- and seven-year average total return to shareholders—served us well as a starting point. But a better understanding of performance, we found, is enabled by the use, not of a single measure but of a set of measures. To this end, we now regard performance over five key dimensions, grading each on a curve against competitors in a carefully considered peer set. The five dimensions are:

- **Growth**, as measured by revenue expansion.
- **Profitability**, as measured by the spread between the return on capital and the cost of capital.
- **Positioning for the future**, as represented by the portion of share price that cannot be explained by current earnings (what we call "future value") and by the portion of the industry total each company's future value represents.
- **Longevity**, as measured by the duration of out-performance in total return to shareholders.
- **Consistency**, as measured by the number of years out of seven the peer set median in profitability, growth and positioning for the future was beaten.

The delicate balance when it comes to metrics is that one must always weigh simplicity against completeness. For example, it became clear from our research that using simple cutoffs to pick the high performers—



like “top quartile” or “top five” companies—yielded inconsistent results. Companies with nearly identical performance ended up with different rankings because of such arbitrary metrics. Yet such capricious cutoffs have been used for decades as a means of selecting top performers. A key contribution of our research program has been the addition of “grading on a curve”—that is, looking for statistical outliers. In our updated methodology, each measure of performance now has one or more core metrics associated with it, such as five-year total return to shareholders.

To be sure, any measures of high performance must be sensitive to the unique characteristics of individual industries, a consideration that required us to make minor adjustments to the metrics, to ensure a proper understanding of a particular measure within a particular industry. But the five dimensions of performance themselves remain unchanged and at the heart of our approach.

We also have grouped all five metrics under something we call “peer competitiveness,” which is the composite of the relative scores of the five measures and which ultimately showcases the high performers. Peer competitiveness, however, also clearly demonstrates an important lesson: All performance is relative within an industry. If the peer set is changed—for example, by rejecting some competitors because they are too small or too big—performance almost inevitably changes as well, because the expectations will have changed.

After developing the peer sets and evaluating relative performance, we identified companies that met our strict definition of a high-performance business. If some of these companies were obvious, others surprised us. Having made that identification, it was necessary to determine what accounted for the differences in relative performance within each peer set. This exercise has proceeded along two tracks: industry analyses and functional analyses.

Industry analyses of high performance

Accenture’s industry teams have conducted months of research using combinations of a wide range of approaches—from broad-based, in-depth executive surveys to multivariate regression analyses—to determine the core drivers of performance within each industry peer set. (Individual reports on 10 industries have appeared to date in *Outlook*.)

This critical nexus of functional mastery studies and industry analysis is one of the hallmarks of Accenture’s research into high performance. While each industry has its own unique competitive characteristics, and while each business function must

be understood in the context of the business it supports, it is possible to look across the drivers of performance in industries as well as business functions and glean insights into consistent themes and sets of emphases.

After analyzing the performance leading companies, there emerged a sense of the commonality of high performance—the attributes of excellence that can transcend and unite otherwise disparate organizations. We called this common ground “competitive essence,” which, in turn, is comprised of the three “building blocks” of high performance: market focus and

position; distinctive capabilities; and performance anatomy (see sidebar, page 14).

The three building blocks have provided an essential means of organizing our insights into high performance, and each of the three has been the subject of its own extended treatment in *Outlook*. (For a complete list of all *Outlook* articles on high-performance business, see page 17.) Along the way, however, the industry and functional research has continuously enriched our understanding of the nature of these components of high performance.

For example, extensive research within three very different industries has yielded important insights into how companies achieve the right market focus and position. Our study of high performance among health care providers highlighted how companies in this sector need to rethink markets to achieve high performance. One way the industry's high performers distinguished themselves was by recognizing and exploiting growth opportunities in preventive health care and health maintenance; this reinforced our belief that agility in markets and a view to multiple strategic horizons are key elements of the right market focus and position.

Our study of high performers among independent oil companies helped cement our conviction that although scale was not a sure determinant of success in this industry subset, the right scale, achieved through effective and strategic mergers, acquisitions and divestitures, is essential to an effective market focus and position.

Seeking to understand business performance in the turbulent and variously regulated utilities industry illustrated for us the importance of

aligning organization and business model design with market conditions to achieve near-perfect market focus and position. RWE in Germany, with more than 200 energy and utility interests in its portfolio, is just one example of a company that has leveraged a new, multinational, integrated portfolio model to improve its performance. And because the intersection of ownership model and market openness has proven to be such a strong determinant of performance in this dynamic industry, we came to recognize that achieving the right market focus and position is not a single choice but rather a series of choices that must be constantly kept in balance.

Other industry research has provided a deeper understanding of the role of distinctive capabilities. In the automotive industry, our study of high performance has demonstrated the importance of being able to simultaneously offer innovative, differentiated products and services while reducing the cost and complexity that has traditionally been associated with innovation. German automaker Volkswagen, for example, builds its Golf, SEAT Toledo and Audi TT models on top of the same platform, reducing the number of component parts it must manage. Coupled with similar insights from a range of other industry peer sets, including airlines and banking, what we characterize as "differentiation on the outside and simplification on the inside" has become an important new element in our understanding of the distinctive capabilities building block.

Innovation as an essential capability in achieving high performance is a lesson we also learned from our study of the consumer packaged goods industry, and one that helped to round out our thinking about how companies create and sustain distinc-



The building blocks of high performance: What we've learned

Market focus and position

Market focus and position are the “where and how to compete” aspects of business strategy. High-performance businesses have remarkable clarity when it comes to setting strategic direction. They are always found where the market action is. When one market matures, they're ready with the next big thing.

Over the course of our research, as we began to understand the importance of market focus and position, we were struck first by the lingering misconceptions about the importance of scale to business success. Some of our earliest published findings strongly suggested that scale by itself rarely leads to high performance: Few of the largest companies in each peer set were high-performance businesses, and few companies managed to maintain out-performance as they scaled their businesses.

Our focus has since expanded to looking at the market factors that lead to out-performance. In fact, later in this issue, we introduce our insights into the importance of effectively managing the many types of customer loyalty (see page 30).

Distinctive capabilities

When our research turned to an examination of truly distinctive capabilities among high performers, we began to understand the critical interplay between capabilities and value creation, a relationship that goes to the heart of our High Performance Business research. We have seen that to create value, each high performer develops a formula for doing business—either at the enterprise or business unit level—that successfully translates a big idea regarding customer needs into a unique set of connected business processes and resources that cost-effectively satisfy those needs. We refer to these customer-centric formulas for value creation as “business algorithms.”

Based on that initial work, we are now expanding our research to cover a number of new areas. We are seeing the critical importance of creating product and service variety to satisfy the demands of today's more sophisticated and global customers, while at the same time managing the inherent complexity this creates. We now refer to this organizational skill as the ability to achieve “differentiation on the outside and simplification on the inside.”

We have also recently invested in creating more powerful tools to support our existing ability to document an organization's capabilities and measure the contribution each is currently making (and could potentially make) to business performance. As we move forward with our research, we will be working with selected clients to apply these tools to an analysis of their business.

Performance anatomy

Long-term business success has a cultural component, to be sure. Spend any amount of time with executives and employees of a high-performance business, and you will get an almost palpable

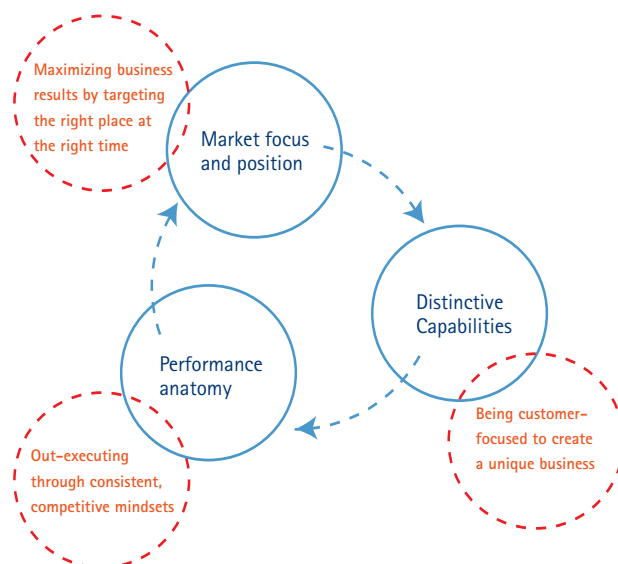
sense of the company as a distinctive community. In the course of our research, however, we found that discussions of corporate culture often end up being less precise and actionable than one might wish.

Accordingly, we developed a concept we called “performance anatomy” as a unique way to approach the core and common business elements related to culture, leadership and the workforce. We identified five core “winning mindsets” at the heart of a high-performance anatomy—essential skills that determine how and how well an organization approaches tasks critical to the execution of its strategy.

We came to believe that performance anatomy embodies a company's unique approach to managing those elements common to every business, and is therefore crucial to long-term effectiveness, the quality and speed of decision making, and the mastery of change and innovation. As a result, we have made a special effort to understand the concept through a series of in-depth case studies that, to date, have explored the performance anatomies of four high performers: Harrah's Entertainment, Constellation Energy Group, Marriott International and, in this issue, UPS (see page 18).

These four case studies illustrate how high-performance businesses acquire winning mindsets and drive them into action and business improvement, and reveal how the executives at these companies created and diffused the mindsets by word and deed. The case studies also explore the specific practices that arose from the mindsets, and they connect those practices to business results—outcomes that, in a virtuous cycle, reinforced the mindsets that began the process.

To achieve high performance, organizations need to get three things right.



tive capabilities. One particularly strong example of this is the dramatic business performance improvement of Clorox, driven by the company's recent commitment to the regular introduction of what it calls "game-changer" innovations.

Our research in the industrial products sector revealed that one of the six drivers of high performance is talent management—a key component of the performance anatomy building block. Indeed, our study of this industry provides an example of the sort of high performer that less rigorous attempts to define business success might not turn up. Although perhaps not a household name, the sure-footed Danaher Corporation, an innovative and diversified industrial equipment

maker, is a high performer in no small part because of its investment in training and leadership development.

An important byproduct of our broad industry research has been insights into the commonalities of high performance *across* industries. By giving executives in one industry access to relevant lessons from others, these insights encourage a steady stream of fresh thinking and innovation. We have seen lean manufacturing practices in the automotive industry inspire so-called industrial banking in financial services, for example, and the openness of innovation processes in the pharmaceuticals industry inform the new-product practices of consumer goods companies.

Functional analyses of high performance

Along a track parallel to the industry analyses, Accenture's global service lines—our groups of professionals organized internally along functional lines (including Supply Chain Management; Human Performance; Customer Relationship Management; Finance & Performance Management; and Strategy)—as well as cross-functional groups (including Information Technology), took up the challenge of understanding the contribution that capability mastery in key functional areas makes to high-performance business.

Each of these groups conducted extensive, detailed studies of the requisite set of capabilities within its domain. In CRM, for example, these capabilities included brand management skills and customer segmentation abilities. In Finance & Performance Management, they included finance operations, capital

stewardship and enterprise risk management, while in IT they included detailed capabilities in infrastructure building and systems integration.

The goal of the functional analyses was to identify the contribution those capabilities make—alone and in groups—to business performance. As part of this research, Accenture's function-oriented teams conducted surveys across thousands of companies, resulting in the creation of a number of unparalleled benchmarking data sets from which the capabilities in each of these functional areas in an individual company can be analyzed for their level of excellence and contribution to business performance.

The critical insight that has come out of our functional mastery studies is that high-performance businesses are generally characterized

by world-class mastery of capabilities across nearly all functions. Yet while this mastery is in most instances a prerequisite for high performance, it is not enough to guarantee high performance.

The high-performance businesses we observed also demonstrate a higher level of capability excellence. High performers achieve world-class excellence in a highly select set of capabilities that we now define as a distinctive capability: Their unparalleled excellence in this particular set of capabilities is their unique business formula for competitive advantage. Low performers, on the other hand, consistently lack the level of capabilities mastery needed across a range of functions to give them the day-to-day operational excellence that we have come to recognize as the price of admission to even above-average performance.

Where we go from here

Our understanding of high-performance business has grown and evolved, at least in part, because of the size and ambitiousness of the research effort Accenture has committed to. But we also must acknowledge the energy and enthusiasm of the people throughout our global practice, whose dedication to this research and commitment to continuous discovery have been remarkable. We also applaud the contributions of our clients, who share our passion for achieving and sustaining high performance. We believe such wide-ranging participation legitimizes the research and makes it more broadly relevant.

We now have our sights set on better understanding the paths businesses can and should take to arrive at high performance. We have already begun exploring these paths at the individual company level; our series of case studies exploring the performance anatomy building block is just one example of how our research is expanding, and how we intend to extend our research going forward.

In the coming months, you will see and hear much more about how companies recognize the need to change their approach to business performance—the triggers of transformation—how they become committed to achieving high performance, how they set their course toward it and how they traverse one of the many possible paths to successful comple-

tion. We will also describe the many pitfalls that can and do arise—obstacles to high performance that we are already observing as a result of our ongoing research on this topic.

We have begun a much deeper mining of our database of peer-set competitor metrics. We also recently completed a cross-industry analysis of high-performance businesses versus their less successful peers, uncovering five misconceptions about the nature of high performance.

We will be publishing these findings in an upcoming Special Edition of *Outlook*, where we will also be reporting on the importance of enterprise systems in achieving high performance, as well as reporting on early findings about the nature of transformation in high-performance businesses. Over time, we will continue to report broadly on the impact of information technology and we will continue to explore the very nature of the building blocks themselves.

We began this journey three years ago with the stated belief that high-performance businesses are not only born—they can be made. The years since have only deepened this conviction, as our research has produced the evidence that companies really can, through sheer force of will, propel themselves along the paths to high performance. We remain committed to identifying both the “what” and the “how” of high-perfor-

mance businesses. That commitment will, in the coming months, deepen and expand our journey of discovery, moving toward illuminating the paths to high performance.

About the authors

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For further reading . . .

Unless otherwise noted, the following articles have all appeared in *Outlook* journal and are available online and as PDFs at www.accenture.com/Outlook

Industry studies

Reports

Automotive: "Life the fast lane," by John E. Cunningham, Umar Riaz and Eric J. Johnson (October 2004)

Automotive Suppliers: "Market leaders, market makers," by Umar Riaz and Eric J. Johnson (February 2005)

Banking: "The right combination," by Norbert Linn and Trevor J. Gruzin (June 2004)

Chemicals: "Driven to differentiate," by R. John Aalbrecht (February 2005)

Consumer Packaged Goods: "Cleaning up," by John Jackson, Susan S. Mann and John Zealley (October 2005)

Energy: "Big thinkers," by John Downie, Curt J. Howes and Julie Adams (February 2005)

Health Care Providers: "Patient power," by William N. Higbie (October 2005)

Industrial Products: "Engineers of growth," by Thomas H. Walsh (January 2006)

Retail Hypermarkets: "Consuming passions," by Susan S. Mann, Jeffrey R. Smith and Olivier Trouvé (June 2005)

Utilities: "Power plays," by Omar Abbosh, James C. Hendrickson and Etienne Deffarges (June 2004)

CEO interviews

Brad Anderson, Best Buy: "The Best and the brightest" (February 2005)

Bart Becht, Reckitt Benckiser: "Picking winners at Reckitt Benckiser" (October 2005)

Larry Culp, Danaher Corporation: "A philosophical approach to high performance" (January 2006)

High performance in the public sector

"A value model for the public sector," by Vivienne Jupp and Mark P. Younger (February 2004)

"Transforming the public sector," by Jane C. Linder and Jeffrey D. Brooks (October 2004)

Functional capabilities mastery

Customer relationship management

"The best and rest," by John G. Freeland, Stephen Dull and Paul F. Nunes (October 2004)

"Marketing mastery matters," by Marianne Seiler, Paul F. Nunes and Jeffrey D. Somers (May 2006)

"Think your customers are loyal? Think again," by Woody Driggs, Steven S. Ramsey and Paul F. Nunes (this issue, page 30)

Finance and performance management

"Future value: The \$7 trillion challenge," by John J. Ballow, Robert J. Thomas and Göran Roos (February 2004)

"A seat at the table," by Chris Rutledge and Rosanne Williams (June 2004)

Human performance

"Disturbing the system," by Peter Cheese (June 2004)

Information technology

"Breaking away: How to create value with information technology," *Outlook Special Edition* (May 2004)

Outsourcing

"A matter of control," by Jane C. Linder (February 2004)

Supply Chain Management

"Supply chain and the bottom line," by Robert L. D'Avanzo, C. Edwin Starr and Hans von Lewinski (February 2004)

Building blocks of high performance

"Balance, alignment, renewal: Understanding competitive essence," by Tim Breene and Paul F. Nunes (February 2005)

"Making the trend your friend," by Karen Crennan, Paul F. Nunes and Marcia A. Halfin (May 2006)

Market focus and position

"Is bigger always better?" by Tim Breene and Paul F. Nunes (October 2004)

"The right place, the right time," by Tim Breene, David Mann and Paul F. Nunes (October 2005)

Distinctive capabilities

"Marks of distinction," by Tim Breene, Narendra P. Mulani and Paul F. Nunes (June 2005)

"Innovation unbound," by John Engel, Anita M. Thompson, Paul F. Nunes and Jane C. Linder (January 2006)

Performance anatomy

"In search of performance anatomy," by Tim Breene and Robert J. Thomas (October 2004)

"Continuous renewal: Managing for the upside," by Jane C. Linder (June 2005)

Performance anatomy case studies

Harrah's Entertainment: "Exploring the mindset of the high performer," by Walter E. Shill and Robert J. Thomas (October 2005)

Constellation Energy: "A star is born," by Robert J. Thomas and Walter E. Shill (January 2006)

Marriott International: "Why Marriott shareholders sleep well at night," by Robert J. Thomas and Walter E. Shill (May 2006)

UPS: "Inside the values-driven culture at UPS," by Robert J. Thomas, Jane C. Linder and Ana Dutra (this issue, page 18)