In Search of EXCELLENCE

Lessons from America's Best-Run Companies

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For Gene Webb and Lew Young, who inspired the book. And for Judy, Robb, and Kendall, who are a source of continuing inspiration.

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Preface

There are a few observations that may help the reader through the pages ahead. We collected the data on which this book is based and distilled them into eight basic findings. Some readers may say that the findings are motherhoods, but that's not true. Each finding in and of itself may seem a platitude (close to the customer, productivity through people), but the intensity of the way in which the excellent companies execute the eight—especially when compared with their competitors—is as rare as a smog-free day in Los Angeles.

Second, we hazard that Chapters 3 and 4 may be daunting, because they are devoted largely to theory. They can be skipped (or read last), but we *do* suggest that the reader skim them, at least, and consider giving them careful attention. We urge this, because the eight basics of management excellence don't just "work because they work." They work because they make exceptional sense. The deepest needs of hundreds of thousands of individuals are tapped—exploited, if you will—by the excellent companies, and their success reflects, sometimes without their knowing it, a sound theoretical basis. Moreover, we think readers may be pleasantly surprised to see how interesting the theory is. It is not, we would add, new or untested; most of the theory has stood the scientific test of time and defied refutation. It merely has been ignored, by and large, by managers and management writers.

We also would like to say here that the majority of the excellent companies are not McKinsey clients. McKinsey supported the research and the writing but did not influence our selection of companies.

Introduction

We had decided, after dinner, to spend a second night in Washington. Our business day had taken us beyond the last convenient flight out. We had no hotel reservations, but were near the new Four Seasons, had stayed there once before, and liked it. As we walked through the lobby wondering how best to plead our case for a room, we braced for the usual chilly shoulder accorded to latecomers. To our astonishment the concierge looked up, smiled, called us by name, and asked how we were. She remembered our names! We knew in a flash why in the space of a brief year the Four Seasons had become the "place to stay" in the District and was a rare first-year holder of the venerated four-star rating.

Good for them, you are thinking, but why the big deal? Well, the incident hit us with some force because for the past several years we have been studying corporate excellence. For us, one of the main clues to corporate excellence has come to be just such incidents of unusual effort on the part of apparently ordinary employees. When we found not one but a host of such incidents, we were pretty certain we were on the track of an exceptional situation. What's more, we were fairly sure we would find sustained financial performance that was as exceptional as the employees' performance.

Other images come to mind. We were in another Washington, the state this time, talking to a group of Boeing executives about our research and making the point that excellent companies seem to take all sorts of special trouble to foster, nourish, and care for what we call "product champions"—those individuals who believe so strongly in their ideas that they take it on themselves to damn the bureaucracy and maneuver their projects through the system and out to the customer. Someone piped up: "Champions! Our problem is we can't kill them." Then Bob Withington, who was present when it all happened, went on to tell the story about how Boeing had *really* won the contracts for the swept-wing B-47, which was later to become the highly successful first commercial jet, the 707. He also told the story about how Boeing *really* won the contract for the B-52, which was to have been a turboprop design until Boeing was able to demonstrate the advantages of B-52 as jet aircraft.

For us, the fascination of the first story was the saga of a little band of Boeing engineers poring through German files on the day Nazi labs were occupied by the Allied forces. In so doing, they quickly confirmed their own ideas on the enormous advantages of swept-wing design. Then it was the drama halfway around the world in Seattle of the subsequent rush to verify swept-wing design in the wind tunnel and the surprising finding that if the engine couldn't be on the aircraft body, it was best suspended out in front of the wing. The second story told of one long, sleepless weekend in a Dayton hotel where a small team of engineers completely redesigned the B-52, wrote and produced a 33-page bound proposal, and presented it to the Air Force just seventy-two hours later, the following Monday. (This tiny team of champions, moreover, presented the proposal complete with a finely sculpted scale model, which they had made out of balsa and other materials purchased during the weekend for $15 at a local hobby shop.) These were both fine tales of little teams of people going to extraordinary lengths to get results on behalf of a truly unusual corporation. Yet the Boeing pattern emerged as the norm at companies as disparate as 3M and IBM; small, competitive bands of pragmatic bureaucracy-beaters, the source of much innovation.

To cite yet another example, we dropped by a small calculator and electronics store the other day to buy a programmable calculator. The salesman's product knowledge, enthusiasm, and interest in us were striking and naturally we were inquisitive. As it happened, he was not a store employee at all, but a twenty-eight-year-old Hewlett-Packard (HP) development engineer getting some first-hand experience in the users' response to the HP product line. We had heard that HP prides itself on its closeness to the customer and that a typical assignment for a new MBA or electrical engineer was to get involved in a job that included the practical aspects of product introduction. Damn! Here was an HP engineer behaving as enthusiastically as any salesman you'd ever want to see.

Wherever we have been in the world, from Australia to Europe to Japan, we can't help but be impressed by the high standard of cleanliness and consistency of service we find in every McDonald's hamburger outlet. Not everyone likes the product, nor the concept of McDonald's as a worldwide expression of American culture, but it really *is* extraordinary to find the kind of quality assurance McDonald's has achieved worldwide in a service business. (Controlling quality in a service business is a particularly difficult problem. Unlike manufacturing, in which one can sample what comes off the line and reject bad lots, what gets produced in service businesses and what gets consumed happens at the same time and in the same place. One must ensure that tens of thousands of people throughout the company are adhering roughly to the same high standard and that they all understand the company's conception of and genuine concern for quality.)

We recalled a conversation that took place one sunny, calm spring day in a canoe on the mirror waters of Lake Geneva, years before this research was undertaken. One of us was teaching at IMEDE, a business school in Lausanne, and was visiting an old colleague. His ventures had had him traveling constantly, which distressed his wife, so he up and started a chain of McDonald's outlets in Switzerland, which kept him home but left his wife, who was born in Geneva, in a state of xenophobic shock. (She got over it as soon as the Swiss became loyal McDonald's customers.) He was talking about his early impressions of McDonald's, and commented, "You know, one of the things that strike me most about McDonald's is their people orientation. During the seven years I was at McKinsey, I never saw a client that seemed to care so much about its people."

Another friend described for us why, in a recent major computer system purchase for a hospital, he chose International Business Machines. "Many of the others were ahead of IBM in technological wizardry," he noted. "And heaven knows their software is easier to use. But IBM alone took the trouble to get to know us. They interviewed extensively up and down the line. They talked our language, no mumbo jumbo on computer innards. Their price was fully twenty-five percent higher. But they provided unparalleled guarantees of reliability and service. They even went so far as to arrange a back-up connection with a local steel company in case our system crashed. Their presentations were to the point. Everything about them smacked of assurance and success. Our decision, even with severe budget pressure, was really easy."

We hear stories every other day about the Japanese companies, their unique culture and their proclivity for meeting, singing company songs, and chanting the corporate litany. Now, that sort of thing is usually dismissed as not relevant in America, because who among us can imagine such tribal behavior in U.S. companies? But American examples do exist. For anyone who has not seen it, it is hard to imagine the hoopla and excitement that attend the weekly Monday night Rally of people who sell plastic bowls—Tupperware bowls. Similar goings on at Mary Kay Cosmetics were the subject of a segment done by Morley Safer on *Sixty Minutes*. Those examples might be dismissed as peculiar to selling a certain kind of product. On the other hand, at HP, the regular beer bust for all hands is a normal part of each division's approach to keeping everyone in touch. And one of us went through an IBM sales training program early in his career; we sang songs every morning and got just as enthusiastic (well, almost as enthusiastic) as the workers in a Japanese company.

In teaching workshops for clients or students, we often use a case built around Delta Airlines' unique management style. We who travel a lot are apt to tell a story or two about the material assistance we have gotten from Delta's gate employees while scrambling to make a last-minute connection. The last time we did it, one executive raised his hand and said, "Now, let me tell you how it really is at Delta." As we were preparing for what was clearly to be a challenge to our thesis, the individual went on to describe a story of exceptional service from Delta that made ours pale by comparison. His wife had inadvertently missed out on a super saver ticket because the family had moved and, owing to a technicality, the ticket price was no longer valid. She called to complain. Delta's president intervened personally and, being there at the time, met her at the gate to give her the new ticket.

Anyone who has been in brand management at Procter & Gamble sincerely believes that P&G is successful more for its unusual commitment to product quality than for its legendary marketing prowess. One of our favorite images is that of a P&G executive, red in the face, furiously asserting to a class in a Stanford summer executive program that P&G "does too make the best toilet paper on the market, and just because the product is toilet paper, or soap for that matter, doesn't mean that P&G doesn't make it a damn sight better than anyone else." (As in most of the excellent companies, these basic values run deep. P&G once refused to substitute an inferior ingredient in its soap, even though it meant not meeting the Army's pressing needs during the war—the Civil War.)

Finally, at Frito-Lay we hear stories, perhaps apocryphal, probably not—it doesn't matter—about people slogging through sleet, mud, hail, snow, and rain. They are not delivering the mail. They are potato chip salesmen, upholding the "99.5% service level"* in which the entire Frito organization takes such pride—and which is the source of its unparalleled success.

And the stories go on. What really fascinated us as we began to pursue our survey of corporate excellence was that the more we dug, the more we realized the excellent companies abounded in such stories and imagery. We began to realize that these companies

* At Frito, a mom and pop store in Missoula, Montana, or the flagship *Safeway* in Oakland, California, each stands the same 99.5 percent chance of getting a daily call from its Frito route salesman.

had cultures as strong as any Japanese organization. And the trappings of cultural excellence seemed recognizable, no matter what the industry. Whatever the business, by and large the companies were doing the same, sometimes cornball, always intense, always repetitive things to make sure all employees were buying into their culture—or opting out.

Moreover, to our initial surprise, the content of the culture was invariably limited to just a handful of themes. Whether bending tin, frying hamburgers, or providing rooms for rent, virtually all of the excellent companies had, it seemed, defined themselves as de facto service businesses. Customers reign supreme. They are not treated to untested technology or unnecessary goldplating. They are the recipients of products that last, service delivered promptly.

Quality and service, then, were invariable hallmarks. To get them, of course, everyone's cooperation is required, not just mighty labors from the top 200. The excellent companies require and demand extraordinary performance from the average man. (Dana's former chairman, Rene McPherson, says that neither the few destructive laggards nor the handful of brilliant performers are the key. Instead, he urges attention to the care, feeding, and unshackling of the average man.) We labeled it "productivity through people." All companies pay it lip service. Few deliver.

Finally, it dawned on us that we did not have to look all the way to Japan for models with which to attack the corporate malaise that has us in its vicelike grip. We have a host of big American companies that are doing it right from the standpoint of all their constituents—customers, employees, shareholders, and the public at large. They've been doing it right for years. We have simply not paid enough attention to their example. Nor have we attempted to analyze the degree to which what they instinctively do is fully consistent with sound theory.

Discussions of management psychology have long focused on theory X or theory Y, the value of job enrichment, and, now, quality circles. These don't go far toward explaining the magic of the turned-on work force in Japan or in the American excellent company, but useful theory does exist. The psychologist Ernest Becker, for example, has staked out a major supporting theoretical position, albeit one ignored by most management analysts. He argues that man is driven by an essential "dualism"; he needs both to be a part of something and to stick out. He needs at one and the same time to be a conforming member of a winning team and to be a star in his own right.

About the winning team, Becker notes: "Society . . . is a vehicle for earthly heroism. . . . Man transcends death by finding meaning for his life. . . . It is the burning desire for the creature to count. . . . What man really fears is not so much extinction, but extinction with *insignificance* . . . Ritual is the technique for giving life. His sense of self worth is constituted symbolically, his cherished narcissism feeds on symbols, on an abstract idea of his own worth. [Man's] natural yearning can be fed limitlessly in the domain of symbols." He adds: *"Men fashion unfreedom* [a large measure of conformity] *as a bribe for self-perpetuation."* In other words, men willingly shackle themselves to the nine-to-five if only the cause is perceived to be in some sense great. The company can actually provide the same resonance as does the exclusive club or honorary society.

At the same time, however, each of us needs to stick out—even, or maybe particularly, in the winning institution. So we observed, time and again, extraordinary energy exerted above and beyond the call of duty when the worker (shop floor worker, sales assistant, desk clerk) is given even a modicum of apparent control over his or her destiny. An experiment in psychology consistent with this major field of inquiry underscores the point. Adult subjects were given some complex puzzles to solve and a proofreading chore. In the background was a loud, randomly occurring distracting noise; to be specific, it was "a combination of two people speaking Spanish, one speaking Armenian, a mimeograph machine running, a desk calculator, and a typewriter, and street noise—producing a composite, nondistinguishable roar." The subjects were split into two groups. Individuals in one set were just told to work at the task. Individuals in the other were provided with a button to push to turn off the noise, "a modern analog of control—the off switch." The group with the off switch solved five times the number of puzzles as their