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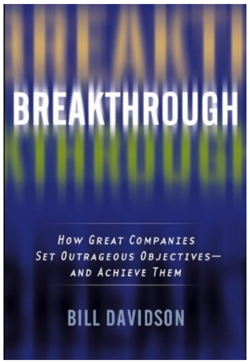

Breakthrough

How Great Companies Set Outrageous Objectives — and Achieve Them

by Bill Davidson
John Wiley & Sons © 2004
244 pages

Focus

- Leadership & Mgt.
- **Strategy**
- Sales & Marketing
- Corporate Finance
- Human Resources
- Technology & Production
- Small Business
- Economics & Politics
- Industries & Regions
- Career Development
- Personal Finance
- Concepts & Trends

Take-Aways

- When the stakes are high, bet the company.
- Breakthrough success requires an enterprise mindset — not entrepreneurship.
- A firm with a "spirit of enterprise" has centralized leadership, focused strategy, unified culture, cooperative systems, process integration and identified targets.
- There's a time for debate and democracy and there's a time for dictatorship.
- Breakthrough companies look to the future with a tight, short list of goals that everyone in the enterprise can understand and support.
- They learn all they can about their customers so they can build relationships.
- Breakthrough companies may be cost-cutting superstars but cost cutting is not their main goal.
- Breakthrough firms empower their people and use their human capital in new ways.
- Breakthrough companies use technology practically, applying it to intelligent improvements of their processes.
- Breakthrough companies compound their breakthroughs by continuing to act on the new opportunities created by each breakthrough.

Rating (10 is best)

Overall	Applicability	Innovation	Style
6	**5**	**7**	**7**

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Relevance

What You Will Learn

In this Abstract, you will learn: 1) How extraordinary companies make amazing breakthroughs; and 2) What the "Spirit of Enterprise" is, and what you can achieve with it.

Recommendation

This book aims to show CEOs how to achieve the impossible. Based on a study of 70 companies that managed to accomplish incredibly ambitious goals, it offers a straightforward and, for the most part, lucid set of guiding principles to reach breakthrough success. Author Bill Davidson anchors his prescription in the experiences of real companies and illustrates each point with copious anecdotes. Although he strays now and then into the jargon of the academic tribe, these digressions are rare and excusable. His case histories and tactical advice offer something of value to every CEO or senior manager. *getAbstract.com* recommends this book to executives whose companies are trapped in strategic dead-ends and desperate to blast out, or to executives who would rather act before a crisis really blossoms.

Abstract

The Breakthrough Phenomenon

By 1992, IBM seemed stymied by circumstance despite its history of massive strategic leaps. IBM had introduced the great mainframe computers and depended upon them for decades, although the firm did not stagnate. IBM invented the personal computer, for example, and moved aggressively into the PC business. Yet others, namely Intel and Microsoft, reaped much richer gains from IBM's PC innovation.

"Breakthrough is the bedrock of business success."

IBM virtually created Microsoft by choosing DOS as the operating system for the PC, and was an early, though not terribly astute, investor in Intel. IBM owned 20% of Intel at one point, having purchased the shares for between $600 and $700 million. Big Blue sold its stake somewhat prematurely in 1987 for a billion dollars. By 2000, that stake would have been worth more than $60 billion. In 1992, Intel and Microsoft were companies with a lot of growth potential, but the writing already seemed to be on the wall for IBM, which reported its first loss that year. Clearly, the company needed radical change to survive and return to prosperity. Big Blue required a new leader and breakthrough thinking to restore its glory.

"Breakthrough results appear primarily in these four key dimensions: profit, operating performance, company profile and market position."

Breakthrough is a change that transforms an entire organization. The genesis can bloom anywhere — a new product, a new process, and so on — but it always leads to better profitability, improved performance, a more favorable profile and superior positioning. Breakthrough makes the difference between a market leader and a market champion. The former may hold the lion's share of the market in a business. Market champions not only lead in market share, but also represent the majority of the market capitalization in their sector. That means investors and analysts recognize the market champion's domination and expect it to remain supreme in profit and performance for the foreseeable future. One clear indicator is the important relationship between market share and value share. When financial value share dwindles to less than market share, a market champ is past its prime and sinking fast.

Often successful market champion incumbents get paralyzed when they see danger ahead. They are trapped by history, habit and entrenched practices. They fear threats from the low end of the market, loss of short-run profits and departure from their "comfort zone." When this is compounded by shortsighted or locked-in-place leadership, daily distractions and the usual fear of change, few firms that go downhill manage to reverse course and achieve the peak again. That takes a breakthrough. IBM was one of the few that went back up the hill.

"Breakthrough companies focus on great leaps forward rather than incremental improvements."

Countrywide's Journey

Of course, breakthrough companies also come from the other end of the business spectrum — small innovators working their way up the curve, aspiring for market championship. Consider Countrywide Credit. The firm, a small but successful '70s niche player, specialized in packaged loans, reselling bundles of loans to investment institutions and others. Countrywide, neither a market leader nor a market champion, had a tiny market share — less than 1% — and ranked fifty-first in its business. In 1989, the management team put Countrywide on a new course. They decided to attack the retail market and to become the biggest home lender in the U.S. The proposition seemed outrageous, but Countrywide achieved the goal by 1992. Although its loan volume had been only about $1 billion in the late 1980s, by 1992 it was $32 billion, and Countrywide was indeed the biggest provider of home loans in the U.S. How?

"Corporate leaders must decide whether they are going to move forward as a single, integrated team or whether a philosophy of entrepreneurship, independence, autonomy and decentralization defines the core of their company."

Breakthrough Nuts and Bolts

Countrywide's breakthrough came as every breakthrough comes, with a fundamental redefinition of the business. Countrywide could not become number one by doing the same thing everyone else did. The usual loan approval process took 14 different steps, interspersed with reviews and signoffs, stretched over an industry average approval time of one to two months. Countrywide decided to reduce weeks to hours. It eliminated all the approval steps and signoffs and, most of the time, gave each loan officer the power to approve a loan. Countrywide called the officer a "loan committee of one." To make this breakthrough possible, Countrywide invested in technology that gave its loan officers these tools:

- Electronic decision support with information from relevant databases.
- Computerized loan application evaluation and scoring.
- Authority to sign off on loans, even after a single communication with the customer.

"The foundations of a sound strategy are self-knowledge and knowledge of the external environment."

As Countrywide's experience illustrates, breakthrough is not only about financial performance. Success depends on and derives from meeting customer needs. This means identifying customers' requirements and finding solutions to problems that vex them. Countrywide recognized that a lengthy loan approval process inconvenienced customers. Other industry incumbents may have recognized this also — the difference was, Countrywide found a breakthrough solution. Interestingly, Countrywide's solution to the problem of customer delay also substantially reduced its loan approval costs. Eliminating all of those approval steps and the lag time benefited customers and led to astonishing sales growth. It also allowed Countrywide to book new business at much lower costs than its competitors. The average transaction cost in the home loan industry was more than $2,000; Countrywide's cost was less than $800.

"Concern for and commitment to the greater good are core qualities of the best breakthrough leaders."

Breakthrough Companies

Other breakthrough companies built remarkable customer service success records with similarly impressive cost reductions. Among them:

- Southwest Airlines — Shut out of several airline reservation systems, Southwest innovated with unreserved seating, flexible work rules, quick turnarounds, on time performance and more to become that rare bird, an astonishingly profitable airline.
- Dell Computers — The company used mass customization and supply chain innovations to dominate the PC industry with direct sales.
- Progressive Insurance — The firm made settling auto insurance claims convenient for customers. It actually sends agents to accident sites and cuts checks on the spot or tows the customer's car to an authorized shop, lends the customer a temporary car, performs the repair and returns the car to the customer with a guarantee.

"Let's not assume that insurgents and breakout niche players are always best at the breakout game."

In general, breakthrough companies share the following strategic traits:

- They aim at audacious goals.
- They look far beyond the present.
- They stress knowing the customer and solving the customer's problems, and doing so at lower costs. Customers are primary; costs are secondary.
- They focus on creating new ways to do things, not just improving performance with old methods.
- They harness technology and use its full power.
- They emphasize a few clear programs throughout the enterprise.
- They empower people and employ all of their human resources.
- When the breakthrough reveals new growth prospects, they pursue the opportunities.

"The most formidable obstacle to innovation, however, may be legacy culture and consciousness."

The Spirit of Enterprise

Jack Welch of GE was a prototypical breakthrough man. Although Welch is famous for decrying bureaucracy and calling for new ways of thinking, he recognized that GE's need for innovation was not really about entrepreneurship. It was about working with and within an enterprise. He demanded that his executives adhere to what he called "The GE Way," which included cost cutting, high performance, market leadership and healthy acquisitions.

"Successful endogenic growth relies on one crucial factor — the ability of the existing organization to nurture and grow the next-generation business; this is no small feat."

For much of its history, Hewlett-Packard (HP) sat at the opposite end of the enterprise spectrum, characterized by independence and entrepreneurship. While there was much to admire in the company's approach, HP hit hard times and suffered from too much autonomy. Under a new CEO, Carly Fiorina, HP developed a few clear, enterprise-wide programs. Fiorina instituted a novel executive performance rating system. Those who succeed in running an HP business garner a rating of three on a five-point scale. For a five, executives have to demonstrate that they collaborate with each other and that they work according to the HP Enterprise Way.

The spirit of enterprise implies conformity. Breakthroughs don't happen because one executive charges out ahead of the pack. Sometimes free and open discussion, internal competition, experimentation and novelty are the right steps. But, sometimes, everyone in an enterprise must cooperate in the pursuit of one goal. Teams move together, particularly in the face of change. For example, when IBM invited Lou Gerstner to take the helm in 1993 after its historic, disastrous 1992 loss, many predicted that he would break up the company. Instead, Gerstner consolidated it, reducing autonomy and reuniting core competencies to offer customers solutions instead of products. Integration, not autonomy, unlocked the door to success for Big Blue.

"Breakthroughs can occur within freestanding divisions when the right local leadership and support from corporate come together."

A company with a spirit of enterprise has a single strategy or, at least, shared strategic ideas and programs. The company's leadership is centralized, with a shared management philosophy and shared policies. The culture is unified; the infrastructure and systems work well together. Processes are integrated, including "program and project management," and people pursue well-understood, mutual targets.

"A diverse portfolio of projects will overwhelm the firm's scarce implementation resources, resulting in gridlock, even in some of the best companies."

Making it Happen

Breakthrough companies not only have strategy, they have tactics. The ten tactics that seem to pop up at all breakthrough companies are:

1. Leadership Council for Strategy — Select no fewer than five and preferably no more than 20 senior executives and make sure they understand that the company has to reinvent itself with a new strategy. The whole leadership team has to be fully on board for breakthrough to happen, so make sure that they are actively involved in creating the new strategy.
2. "Strategic office and program office" (SOPO) — A member of the leadership council should lead this office, which works with business units to make sure the strategy gets implemented. It is an excellent posting for executives below the senior level whom the organization has identified as future leaders.
3. Be careful about consultants — Exercise the same diligence in hiring consultants as you'd exercise in making an acquisition. They can provide valuable help if they provide a clearly necessary skill that your organization lacks, but consultants are no substitute for developing and implementing a breakthrough strategy of your own.
4. Cut weight — If people on your team can't adapt or won't advance the new strategy, advise them that this is a good time to leave. Both they and you will be better off.
5. Make it personal — Beyond formal organizational expectations, have personal conversations with your peers and with new, emerging candidates for leadership. "Personal contracting" is a very potent tactic, particularly with new leaders.
6. Reward and recognize — The old performance rating and compensation system bought you the old performance. The new strategy demands a new approach to defining, recognizing and rewarding success.
7. Communicate — Say the same thing over and over in as many different ways, shapes and forms as you can. The organization is only beginning to hear you when you're thoroughly bored with what you're saying.
8. Demand results now — Or, at least, demand them very soon. Set the bar high and don't give people much time to clear it. Keep the pressure on.
9. Leadership corps — Identify the people who are capable of leading the organization in the future and assemble them in a corps. This allows them to show what they can do, and provides you with an opportunity to recognize them formally.
10. The senior leader — The senior leader is critically important. This person should have many talents, and should be heroic, hands-on, demanding, personable, humane and focused on the greater good.

"A true market champion at its core is concerned about its extended community, competitive stability, customer and shareholder value delivery, industry health and well-being and the future state of the business it dominates."

About The Author

Bill Davidson was a tenured professor of management at the Marshall School of Business at the University of Southern California from 1985-1998. He is the author of *The Amazing Race* and *20/20 Vision*. He is chairman of the consultancy MESA Research.