

An Empirically Based Model of Business Excellence

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■ ABSTRACT

This paper identifies eleven of Australia's long-term top performing organizations and discusses the common features that make them winning organizations. Nine key elements are identified and presented as a winning framework for achieving sustainable organizational excellence. All framework elements need to be present and linked together, and the model is applicable to all types of organizations. Some unique features of the Australian business environment are discussed and the findings compared with other overseas studies on best management practices.

Descriptors: Organizational excellence, sustainability, performance improvement, measurement

■ RESEARCH BACKGROUND

Australia has been through a period of unprecedented change over the past 20 years and the national economy has continued to rank highly among the OECD countries. Decision-makers in organizations of all types and sizes are continually exposed to a barrage of overseas management fads and concepts. Despite the increasing media coverage of business in Australia, there is little agreement about which are the high-performing organizations and what practices they have followed to become the best. In today's global markets, where new sources of competitive advantage are more challenging to identify, organizations need to know how to become more successful by improving their performance over the long term.

Most of the research on high performance companies has been conducted in the USA. Whilst this has provided valuable experience and insights into the critical aspects of success, it has left many Australian executives and strategists unclear as to which local enterprises might qualify as winning organizations. Furthermore, there has been uncertainty as to whether there are important differences in the practices that underpin excellent performance in the Australian context compared with overseas countries. Against this background, a major research project was initiated at Mt. Eliza Business School in 1999 involving a team of four people to (1) identify organizations operating in Australia that were considered high performing or 'winning' over the long term and (2) identify the common characteristics that accounted for their winning status. The detailed findings have been recently published in a book titled *The First X1: Winning Organizations in Australia* (Hubbard, Samuel, Heap and Cocks, 2002). This article is adapted from the findings in this publication and presents a practical model for defining organizational excellence.

During the 1990's, three key developments provided the foundations for this research project:

Developing Management Principles

Several studies on the Australian business landscape and Australian organizations provided a general framework for strategic management and some specific examples of successful role models. These included two influential publications (Australian Manufacturing Council, 1990 and 1992) that identified the key challenges and how Australian organizations might become more competitive in international markets. The Australian Quality Council, a peak body established by the Australian Government in 1995 to promote quality and productivity, assisted this effort by producing and promoting the Business Excellence Framework. This framework was benchmarked against the European and Malcolm Baldrige Quality Awards and provided great stimulus for organizations to assess and improve their business performance.

Measuring Organizational Performance

Publication of the Balanced Scorecard model (Kaplan and Norton, 1992) provided an objective means to measure organizational performance. This model uses four generic categories of measurement: financial, market/customer, internal efficiency and innovation. It focuses on the need for balance between lead and lag indicators, financial and non-financial measures and short and long-term performance. It also addresses the needs of both internal and external stakeholders. This model continues to be embraced by Australian managers who regard it as a valuable tool to measure and control their businesses.

Winning Organizations Overseas

Built to Last (Collins and Porras, 1994) was a pioneering book that assessed 18 high-performing companies (mainly from the USA) and identified common factors that contributed to their success. This research was regarded as a significant development over the earlier publication titled In Search of Excellence (Peters and Waterman, 1982) that also identified a group of excellent American companies and their key management practices. The findings in Built to Last followed 6 years of research and reflected CEO's opinions regarding the drivers of success in high-performing companies. This book created widespread interest and shaped management thinking in Australia. It seemed to capture the key issues that executives found intuitively important but that were too subtle to be identified in standard management literature.

■ ASSESSING WINNING ORGANIZATIONS IN AUSTRALIA

The research methodology was based on that in Built To Last (Collins and Porras, 1994). The project commenced with a survey of over 1000 senior executives of large organizations who were asked to nominate their views of the most successful organizations in Australia over the 20-year period from 1982 to 2001. They could include listed, private, government, not-for-profit and subsidiaries of overseas organizations. 'Success' was defined as taking a balanced scorecard perspective that covered financial, market, internal efficiency and long-term growth, innovation and productivity issues. The notion of success was therefore more broadly defined than simply the level of profit. A total of about 200 organizations were nominated and the top 14 chosen for further investigation by the team of four people who came from different backgrounds and experiences. This led to the number of organizations being reduced to 11 (one did not show consistent financial performance and another had only one CEO and was eliminated because it was possible that success could be attributed simply to the founder CEO. A third organization had not adopted a balanced scorecard approach and was also eliminated). The team then did more in-depth research, analyzed the basic causes of success in each of the 11 organizations and agreed on their underlying common principles. Finally, interviews were conducted with executives who had long-term experience in these organizations to gather further insights into the causes of success.

This approach ensured that all 11 organizations demonstrated success over a minimum 20-year period under more than one CEO and with solid financial and share price performance (where relevant) covering good and bad economic cycles. A set of common success factors was identified from the research and this compared with the findings in Built To Last (Collins and Porras, 1994) and In Search of Excellence (Peters and Waterman, 1982) to analyze similarities and differences and to identify those aspects unique to the Australian business and cultural landscape.

■ WINNING ORGANIZATIONS AND THE WINNING FRAMEWORK

The research methodology identified the 11 winning organizations shown in Table 1 (next page).

It is a very diverse group with one "not-for-profit" organization and ten "for-profit" organizations that are widely known public companies in diverse industries plus. The research suggests that it is the organizations themselves, not their industries, that are the underlying causes of their success. It also indicates that winning organizations do not need to be in significant growth industries to prosper as most of their products and services are in basic industries. Over the 20 year period, these organizations outperformed the All Ordinaries Accumulation Index by almost three times, even though financial performance was only one of the criteria for selection and some of the organizations were listed for less than 10 years.

Table 1 Australia's Winning Organizations

Organization	Services/Operations
Brambles	Diversified industrial services
Harvey Norman	Discount specialist retailer
Lend Lease	Property developer and manager of property
Macquarie Bank	Specialist banking and funds management services
National Australia Bank	Retail bank
Qantas Airways	Airline
Rio Tinto	Diversified resource explorer, miner and developer
Salvation Army	Religious welfare agency
Telstra	Telecommunications
Westfield	Shopping centre developer
Woolworths	Retailer

The team's research disproved several current myths about successful organizations. Firstly, it showed that organizational excellence is not about precise vision and mission statements, highly ambitious goals, great breakthrough ideas, charismatic or high profile leaders, formal organizational structure, marketing promotion or unusually high remuneration levels. The most profitable organizations are not necessarily the most profit oriented. Secondly, winning cannot be attributed to one of the plethora of management fads and acronyms that promise 'quick fixes'. Management fads can take on a level of significance that can transcend the organizational strategy itself. They are merely enablers of strategy execution, useful in their respective ways if they are customized to the unique needs of the organization. They become more powerful when they are integrated into one total operational performance model. Otherwise, constantly changing from one fad to another makes people disillusioned with the lack of focused and consistent leadership.

The research team identified nine common elements for long-term success that are represented as a "Winning Wheel" framework in Figure 1.

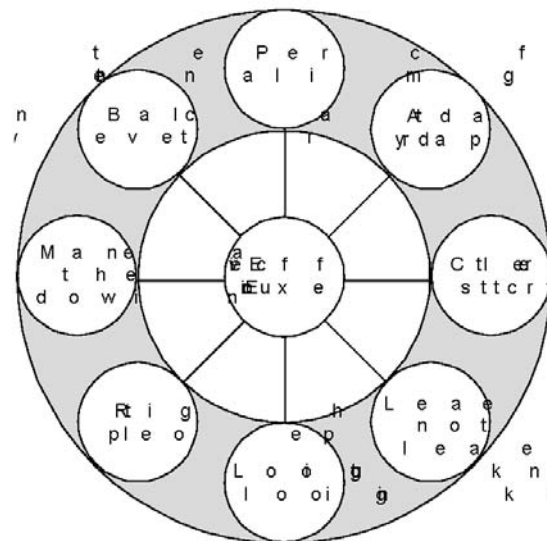


Figure 1 The Winning Framework for Organizations in Australia

The framework shows how the elements relate and fit together. It shows the central, pivotal role of 'effective execution' that is depicted as both an element of the framework and the outcome of the total framework. Conventional wisdom suggests this should be one of the last elements and perhaps even the end result of doing everything else well. When developing the frame-

work, it was thought that leadership or strategy formulation should be an over-arching concept. But as the team continued to analyze data from the winning organizations, it was clear that it was the results and the way they were delivered that caused success. The organizations were therefore chosen on the basis of their results. It is effective execution that enables them to deliver these results. That is what makes them different.

All framework elements are linked together to make the wheel operate and steer the organization towards its mission and goals. The power of the model lies in its integrative approach – there is no ‘start’ or ‘finish’ to the wheel. All elements are important and change in one precipitates change to others. Success is based on superior execution of all elements of the winning framework to deliver results. Following is a brief outline and discussion of each of the nine elements.

■ **ELEMENTS OF THE WINNING FRAMEWORK**

Effective Execution

Effective execution enables winning organizations to deliver results against an expressed expectation – they do what they say and do it again and again. Executives announce what they plan to do, plan and budget for it and then meet the plans and budgets. To do this they have clear processes that are accepted within the organization. They have good management control systems, people take personal responsibility for their work and they rigorously measure performance. They learn from their mistakes and handle them positively by regarding them as opportunities for improvement. They do not allow poor performance of a business unit to drag down the overall performance of the organization (or at least not for very long). In other words, under-performing business units are not cross-subsidized and every unit has to meet the standards and pay its way. These characteristics differentiate winners from most other organizations that disappoint their stakeholders by failing to deliver what they say, what they promise and what they promote and market. Given these characteristics, it has been argued (Cocks, 2003 and Egelhoff, 1993) that effective execution of strategy rather than its formulation may well provide a major source of competitive advantage for many organizations.

Perfect Alignment

While seemingly impossible, winning organizations actually believe they can achieve perfect alignment. Practicing a culture of continuous improvement, they use systems as the critical foundation for alignment. They seek to align culture, leadership, people and perceptions of strategy. Alignment is made to external needs as well as to internal forces. Achieving alignment across the organization is very difficult but essential. The organizations understand the importance of being aligned to customers to ensure that internal processes deliver the products and services that are wanted, instead of simple alignment to the products that the organization can produce.

Adapt Rapidly

Changing business conditions mean that even if perfect alignment is achieved, the organization will have to change and evolve rapidly. Winning organizations are flexible but change in these organizations is controlled. They understand that change is continuous and may be externally or internally induced. Continuous improvement and innovation is sought in processes as well as in products and services.

Clear and Fuzzy Strategy

Strategy is an important element of the winning framework. Winning organizations have a clear strategy, though it can be expressed in many ways and does not necessarily exist through vision and mission statements or a similar type of statement. However, there appears to be some fuzziness or flexibility at the edges of strategy. Winning organizations are always seeking to take advantage of incremental and unexpected opportunities, even if they tend to lie just outside their current clear strategy. Good strategy is an important driver of success but on its own does not guarantee success. It helps with organizational alignment, direction setting, decision making and ensures focus and consistency throughout the organization.

Leadership, Not Leaders

In winning organizations, leadership is seen as a team based capability rather than the responsibility of one individual. Leaders set up an emotional ‘cause’ for the organization, often expressed in moral or social terms. Leadership style is dependent on

the particular organizational needs at a specific time - an ability to adjust rapidly to changing needs is a key characteristic of success. Leaders in winning organizations in Australia tend to exhibit 'captain-coach' styles and build informal communication networks within the organization. They also go to great lengths to find different channels in which to communicate formally, frequently and as widely as possible. They are available, egalitarian, and they closely support their people rather than set difficult challenges from afar. Some of these factors are considered to be cultural differences peculiar to Australia and are consistent with the historical value of 'mateship' in the Australian culture and lifestyle. A key leadership focus is building the capabilities at all levels of the organization. There was clear evidence that leaders come from within the organization. Of the 40 CEOs over two decades in all 11 organizations, 37 were promoted from within. Promotion from within means that the strategic direction is likely to change incrementally but, as winning organizations are defined as being externally focused and performing well, this is not an unexpected result. Promotion from within also means the organization identifies with the new CEO and vice versa. CEOs in winning organizations also tend to stay for an average of about 9.8 years, considerably longer than the current (and diminishing) Australian average of 4.2 years. When turnover is high and managers are brought in from outside, it is usually because the organization is not performing well or it needs transformational change.

Looking Out, Looking In

Winning organizations are both externally focused and internally focused, and have a balanced perspective with respect to all stakeholders. They are aware not just of customers, but of their environment, their community, their international industry and international trends. They carefully manage relationships outside the organization and know their place in the value chain, understanding how future value is created and how it can be extracted. Winning organizations operate from the customer's perspective and develop customized products and services, using market research to validate needs and satisfaction. They strive to build lasting relationships with suppliers and other business partners and also view governments and regulators as forces to be managed. Leaders are constantly thinking outside Australia.

Right People

Winning organizations recognize that getting the right people into the right jobs is critical for achieving excellence. They recruit and develop people who believe in the 'cause' and whose values and attitudes fit the intended strategy and culture, rather than the 'best' people who demand the highest pay. People who do not fit are actively managed out of the organization quickly. People who work in a winning organization are committed and proud to work for their organization and are keen to use their collective talents to ensure it succeeds. Having the 'right' people means less need for organizational hierarchy, structure, bureaucracy and excessive controls. Winning organizations are very clear on what people need to achieve individually and in teams. They measure performance against targets, provide feedback on performance and reward people based on the results.

Manage the Downside

Despite rapid growth, innovation and looking outwards, winning organizations are conservative. Project management techniques are used to plan carefully beforehand and evaluate the downside and risks of major decisions, not just the upside or positives. Winning organizations accept that risks are necessary for progress and are proactive in sharing them with other organizations, customers and their people.

Balance Everything

Rather than trying to choose between alternatives, winning organizations choose both. For instance, while they are conservative, they are also entrepreneurial. While focusing on the long term, they also focus on the short term. While focusing on financials, they also focus on delivering value to customers, employees and the community. While working in teams, people are also individually responsible. They achieve superior performance by combining all elements of the framework, rather than focusing on profits or marketing or innovation or leadership. They do many things consistently well at the same time.

■ UNIQUE AUSTRALIAN CHARACTERISTICS

There are several characteristics that are unique to the Australian corporate environment and Australian business practices in

particular. These are summarized in Figure 2.

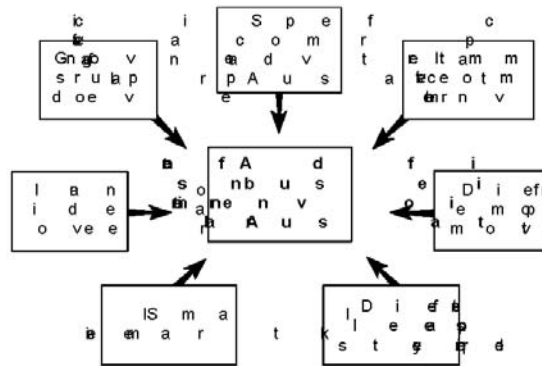


Figure 2 Characteristics of the Australian Business Landscape

Australia’s large resource and agricultural base provides a natural source of competitive advantage and a foundation for the development of major Australian industries and organizations. Prior to the early 1980s, the economy was protected economically, socially and geographically from major disruptive change. Companies were narrowly focused on local issues. However, the business landscape changed dramatically over the next 20 years, driven largely by the Government’s deregulation and privatization policies. Progressive removal of trade and tariff protection during that time has rapidly exposed enterprises to international competition. These changes revolutionized the winning organization’s ways of operating - the most obvious being Telstra and Qantas, which moved from being public sector organizations to privately listed companies. Winning organizations were aware that these changes would fundamentally shift the business environment and were quick to respond and create advantage.

Some of the key differences in Australia are due to small, geographically dispersed local markets and an historical lack of exposure to international competition. Economies of scale are limited and this impacts on several aspects of business operations including the ability to conduct research, the size of product run lengths, the ability to create viable customer segmentation and the size of production plants. Many innovative ideas come from overseas, which is quite different from organizations in major economies where research and development are extensive and affordable due to product run lengths and scale economies. The role of Government will continue to be important in Australia, not only in creating new winning organizations, but also in providing support to existing organizations to improve their chances of success in international markets.

These considerations may partly explain the different motivation for Australians to work in organizations and the different leadership styles that are necessary to build winning Australian organizations. Australians want their organizational leaders to be coaches – people who respect them and encourage them to improve performance, rather than generals who provide a vision and tell them what to do. They respond to leaders who are players on the field during the game, showing captaincy skills on the field, supporting them during the play and sharing the work involved - not generals who are removed from the battle.

Leaders of winning organizations are passionate about their organizations. The reason for this passion can be traced to the existence of a ‘cause’ that is often expressed in terms of social and moral implications. Effective leaders identify the organization’s ‘cause’ and use it as a way to harness the creative talent of their workforce. For example, at Qantas (Australia’s international airline) the ‘cause’ is to represent Australia on the world stage by being an icon of reliable, top quality aviation. At Telstra (Australia’s national telecommunications provider), the ‘cause’ is to build and operate high quality communications systems for all Australians.

Winning organizations strive to select and develop people with the right attitude and correct values to fit with the culture and strategic intent. They do not just focus on people with the best technical skills. Organizations such as Qantas and Woolworths

recognize that people, not technologies, provide the only enduring source of creativity, improvement and change. They also recognize that financial rewards are usually not the only driver for Australians to work. Working for the ‘cause’ is a key motivator – the passion and fierce pride in the ‘reason for being’ for the organization rather than just financial returns to shareholders. Australians want clear guidelines and directions about where their organization is heading rather than being driven by unrealistic goals and stretch targets.

■ **COMPARING THE RESEARCH FINDINGS WITH OTHER STUDIES**

As seen in Section 5, there are context differences in Australia that make operating in Australia different. It is therefore expected that there would be some differences for winning organizations compared to overseas studies. However, the principles of success seem likely to be very similar around the world. For example, all organizations want to grow, be profitable, have delighted customers and happy, motivated employees and operate efficient processes. So it would be expected that there is a large degree of similarity in the underlying principles.

The following studies on winning or visionary organisations in America were used for comparison:

In Search of Excellence (Peters and Waterman, 1982)

Built to Last (Collins and Porras, 1994)

Table 2 summarizes the findings of all three studies.

Table 2 Comparisons with Overseas Studies

Winning Organisations in Australia	In Search of Excellence	Built to Last
Effective Execution	Bias for action. Hands-on, (value driven)	Try a lot of stuff and keep what works. More than profits.
Perfect Alignment	(Hands-on), value driven	Cult-like cultures
Adapt Rapidly	Encouraging autonomy and entrepreneurship	Try a lot of stuff and keep what works. Good enough never is.
Clear and Fuzzy Strategy	Stick to the knitting	Preserve core/ stimulate progress
Leadership, Not leaders	-	Clock building, not time telling. Home grown management.
Looking Out, Looking In	Close to customer	-
Right People	Productivity through people	-
Manage the Downside	-	-
Balance Everything	Loose/tight	No “tyranny of the or”. More than profits.
-	Simple form, lean staff	Big hairy, audacious, goals

These comparisons show a very large degree of agreement between all three studies. However, there are some subtle but important differences:

- There is agreement around the concepts of adapting rapidly, alignment, balance and execution but there are some differences in the relative importance of these elements, particularly ‘effective execution’.
- There is general agreement on strategy with some gaps in the leadership and people elements. Although In Search of Excellence does not specifically include leadership as an element of success, the study does imply that leadership is important. There is a strong emphasis on the ‘strong, charismatic, dominant leader’ as the driver of success, which is different to the Australian findings. Strangely, Built to Last omits the role of people but infers an underlying importance of people.
- The concept of managing risk is not mentioned in either of the previous studies.

- The importance of 'looking out' rather than simply focusing on customers in the Australian study presents a wider and more appropriate external perspective.
- The notion of 'big hairy audacious goals' might be relevant in USA but is inappropriate and not important in Australia. Similarly, *In Search of Excellence* includes a finding about structure whereas structure is not identified as an element of success in winning organizations in Australia.

■ **CONCLUSION**

The research has provided insights into the key factors that characterize eleven winning organizations in Australia. While there are some unique characteristics of the Australian business landscape and culture that differ from other developed economies, the practices in Australia's winning organizations are conceptually very similar to those identified in overseas studies of successful organizations. Some myths have been challenged and valuable insights revealed for all organizations throughout the global business environment that aspire to be winners.

The elements of success include delivering what is promised, adapting quickly to changing circumstances, being clear about the future direction and learning from mistakes. Success also means having the right (not just the best) people to fit the organization's culture and being cautious when taking risks. And it means pulling all these levers simultaneously rather just focusing on one initiative at a time. These elements have been integrated into a winning framework that provides a practical foundation for leadership teams and individual leaders to improve their practices and achieve sustainable organizational excellence.

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