

4+2 = Sustained Business Success

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Authors: Nitin Nohria, William Joyce, and Bruce Roberson

Executive Summary:


HBS professor **Nitin Nohria** along with **William Joyce** and **Bruce Roberson** studied 160 companies to look for common management practices that succeed. A hint: Business basics matter.

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About Faculty in this Article:



Nitin Nohria is the Dean of Harvard Business School.

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The dot-com boom of the 1990s had changed the rules of business forever, it seemed; all you needed was a sexy IPO, cold nerve, and the magic carpet of momentum trading. But even as entrepreneurs and venture capitalists were dismissing traditional business models as antiquated and conventional business wisdom as old school, we found ourselves wondering if they were right. For years we had watched new management ideas come and go, passionately embraced one year, abruptly abandoned the next. "What really works?" we wondered. Our curiosity prompted us to undertake a major, multiyear research effort in which we carefully examined more than 200 well-established management practices as they were employed over a ten-year period by 160 companies.

Our findings took us quite by surprise. Most of the management tools and techniques we studied had no direct causal relationship to superior business performance. What does matter, it turns out, is having a strong grasp of the business basics. Without exception, companies that outperformed their industry peers excelled at what we call

the four primary management practices—strategy, execution, culture, and structure. And they supplemented their great skill in those areas with a mastery of any two out of four secondary management practices—talent, innovation, leadership, and mergers and partnerships.

We learned, for example, that it doesn't really matter if you implement ERP software or a CRM system; it matters very much, though, that whatever technology you choose to implement you execute it flawlessly. Similarly, it matters little whether you centralize or decentralize your business as long as you pay attention to simplifying the way your organization is structured. We call the winning combination the 4+2 formula for business success. A company that consistently follows this formula has better than a 90 percent chance of sustaining superior business performance.

The 160 companies in our study—which we call the Evergreen Project—were divided into forty quads, each comprising four companies in a narrowly defined industry. The companies in each quad began the study period (1986 to 1996) in approximately the same fiscal condition. Yet their fortunes differed dramatically over the decade. One company in each foursome emerged as a winner—it consistently outperformed its peers in the industry throughout our study period; one a loser—it consistently underperformed against its competitors; one a climber—it started off poorly but dramatically improved its performance once it applied the 4+2 formula; and one a tumbler—it began the decade in good shape then fell far behind. Over the ten-year period, investors in the winning companies saw their money multiply nearly tenfold, with total returns to shareholders of 945 percent. By contrast, the average loser produced only 62 percent in total returns to shareholders over the decade.

Implementing our formula for success is not as simple as it sounds.

— Nitin Nohria, William Joyce, and Bruce Roberson

Winners, losers, climbers, and tumblers—with startling consistency, their fortunes marched in lockstep with how well they performed on the 4+2 practices. Consider how Tennessee-based retailer Dollar General, a winner in our study, fared during our research period compared to Kmart. (The other companies in their quad were Target and the Limited.) Both companies were in roughly the same financial shape in 1986, but Dollar General grew steadily, showing healthy profits year after year. Meanwhile, Kmart floundered, its market share plummeting from 30 percent to 17 percent between 1990 and 2000. (We confirmed our findings in the five years following the study period.) Both companies' performance was directly linked to whether or not they adhered to the 4+2 formula. In the strategy practice, for example, Dollar General never wavered from its focus, which was to provide quality

products at a low price to low- and fixed-income consumers. Kmart, by contrast, couldn't seem to decide whether it was focusing on low- or middle-income consumers. What's more, it got distracted by a major foray into specialty retailing, moving even further from its core customers. At the same time, Kmart was trying to compete with Walmart on price—a losing battle and in direct conflict with the organization's effort to go upmarket.

The eight essential management practices we cite are not new, nor is their importance particularly surprising or counterintuitive. But implementing our formula for success is not as simple as it sounds. Companies can all too easily forget or ignore the basics, as we saw in the waning years of the last century. And succeeding at the eight business practices can be hard work. Maintaining a laserlike focus on strategy alone, year in and year out, can be grueling. Yet the winning companies in our study were running full tilt on six tracks at once—impressive when you consider that a single misstep on any of the six can be fatal. Indeed, some of the companies that were deemed winners during our ten-year research period have since stumbled in one dimension or another—for instance, Dollar General lost its focus on the values in its culture and, as a result, recently had to restate its earnings. It's much easier to be a tumbler than it is to remain a winner. Our research found that less than 5 percent of all publicly traded companies maintain a total return to shareholders greater than their industry peers for more than ten years. And so, it seems, there is value in being reminded from time to time what really works.

Excel at four primary practices

The primary management practices—strategy, execution, culture, and structure—represent the fundamentals of business. But what does it mean to excel in these areas? There are myriad tools and techniques available to help executives master these practices. To improve execution, for example, leaders can employ TQM, Kaizen, or Six Sigma, among others. The conventional wisdom about what works best shifts with the times. Our research shows that while such tools and techniques are helpful and even necessary in streamlining execution, for instance, or developing strategy, there is no single, obvious choice that will bring a company success. There are, however, hallmarks of effective strategy, execution, culture, and structure—which virtually all of our forty winners demonstrated for ten solid years. That's no small accomplishment, especially given the limited resources companies have and the unpredictable pressures they face.

Making 4+2 work for you

Besides identifying the management practices that can significantly affect a company's performance, we've developed a list of behaviors that support excellence in each practice. The practices and accompanying mandates are outlined below.

Primary management practices

Strategy

Whatever your strategy, whether it is low prices or innovative products, it will work if it is sharply defined, clearly communicated, and well understood by employees, customers, partners, and investors.

- Build a strategy around a clear value proposition for the customer.
- Develop strategy from the outside in, based on what your customers, partners, and investors have to say—and how they behave—not on gut feel or instinct.
- Continually fine-tune your strategy based on changes in the marketplace—for example, a new technology, a social trend, a government regulation, or a competitor's breakaway product.
- Clearly communicate your strategy within the organization and to customers and other external stakeholders.
- Keep focused. Grow your core business, and beware the unfamiliar.

Execution

Develop and maintain flawless operational execution. You might not always delight your customers, but make sure never to disappoint them.

- Deliver products and services that consistently meet customers' expectations.
- Put decision-making authority close to the front lines so employees can react quickly to changing market conditions.
- Constantly strive to eliminate all forms of excess and waste; improve productivity at a rate that is roughly twice the industry average.

Culture

Corporate culture advocates sometimes argue that if you can make the work fun, all else will follow. Our results suggest that holding high expectations about performance matters a lot more.

- Inspire all managers and employees to do their best.
- Empower employees and managers to make independent decisions and to find ways to improve operations—including their own.
- Reward achievement with pay based on performance, but keep raising the performance bar.

- Pay psychological rewards in addition to financial ones.
- Create a challenging, satisfying work environment.
- Establish and abide by clear company values.

Structure

Managers spend hours agonizing over how to structure their organizations (by product, geography, customer, and so on). Winners show that what really counts is whether structure reduces bureaucracy and simplifies work.

- Simplify. Make your organization easy to work in and work with.
- Promote cooperation and the exchange of information across the whole company.
- Put your best people closest to the action.
- Establish systems for the seamless sharing of knowledge.

Secondary management practices

Talent

Winners hold on to talented employees and develop more.

- Fill mid- and high-level jobs with outstanding internal talent whenever possible.
- Create and maintain top-of-the-line training and development programs.
- Design jobs that will intrigue and challenge your best performers.
- Keep senior management actively involved in the selection and development of people.

Innovation

An agile company turns out innovative products and services and anticipates disruptive events in an industry rather than reacting when it may already be too late.

- Relentlessly pursue disruptive technologies to develop innovative new products and services.
- Don't hesitate to cannibalize existing products.
- Apply new technologies to enhance all operating processes, not just those dedicated to designing new products and services.

Leadership

Choosing great chief executives can raise performance significantly.

- Closely link the leadership team's pay to its performance.
- Encourage management to strengthen its connections with people at all levels of the company.
- Inspire management to hone its capacity to spot opportunities and problems early.
- Appoint a board of directors whose members have a substantial stake in the company's success.

Mergers and Partnerships

Internally generated growth is essential, but companies that can master mergers and acquisitions can also be winners.

- Enter new businesses that leverage existing customer relationships and complement core strengths.
- When partnering, move into new businesses that make the best use of both partners' talents.
- Develop a system for identifying, screening, and closing deals.



About the authors

William Joyce is a professor of strategy and organizational theory at Dartmouth College's Tuck School of Business.

Bruce Roberson is executive vice president of marketing and sales at Safety-Kleen.

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