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# Competitive Advantage

**Unless you have healthy top-line relationships, you likely won't achieve or sustain desirable bottom-line business results.**

IN THEIR NEW BOOK, *The Discipline of Market Leaders,* Michael Treacy and Fred Wiersema suggest that to gain and sustain competitive advantage you must stake your market reputation on one of three distinct value disciplines—operational excellence, product leadership, and customer intimacy.

Their conclusion, based on five years of research conducted with CSC Index, is sound. Those who lead markets typically focus on one of these three but have the other two in place.

However, the foundation of product innovation, customer service, and operational efficiency—and the real key to competitive advantage in any organization—is building relationships of trust in the culture. The top line affects the bottom line. Relationships produce results. When you have *unity*—the commitment of the culture behind a business strategy—you can have a creative synergy around your basic value discipline.

Please don't misread me here: uniformity is not unity; sameness is not oneness. Unity comes from shared awareness of the market realities and shared ownership of business results.

While you can't succeed today trying to be *all* things to *all* people, neither can you succeed unless you are delivering *unique* value to *some* people in a chosen market. In other words, you had better be *something* to *somebody*—and that means building and maintaining relationships of trust.

Competitiveness is a function of the quality of relationships. Quality stakeholder relationships are, in a very real sense, the common denominator to any market leadership strategy.

One joke in the strategy consulting industry concerns how frequently consultants come up with brilliant strategies based on extensive market studies, but the culture won't accept or sustain the strategy because the people don't deeply buy into it. It's just laid on them, and so there's no real institutional and cultural capacity to make the strategy work.

Unfortunately, the culture of an organization often gets ignored. I think of *culture* as *the quality of relationships behind a common vision and set of principles or values.*

To build a competitive culture, you apply the leadership habits of win-win interdependency, empathy, and synergy to develop a strategic plan and to make it happen. In effect, you apply the *Seven Habits* at the organizational level.

Sounds simple, but every leader who comes in with a new vision and wants to make improvements faces resistance from the old culture—and sometimes that resistance is well organized. And how do you deal with that? Well, you have to carefully make and faithfully keep promises.

### Identification and Involvement

Leadership is both charisma and character, requiring both personal identification and widespread involvement. If people identify with a charismatic leader and find the vision that the leader brings very appealing, they may say, "Yes, I identify with this person and believe that he or she can lead us to that vision." And if they are meaningfully involved and trust in the character and competency of the leader, they may say, "I willingly choose to follow this person."

Initially, leading by identification is just as powerful as leading by involvement in the building of commitment. Just as small children identify with their parents at home, whether that influence is negative or positive, so also do people initially identify with their leaders at work.

But as people become more self-aware, capable, responsible, and accountable, you need to move away from leading by identification to leading by involvement. For example, the charismatic Lee Iacocca knew that he had to move away from leading by identification at Chrysler, but leading by involvement was very hard for him to do in his later years as chairman. Often a charismatic leader will only change style because the company has lost operational efficiency, the profit picture has turned sour, and institutional investors have started to apply pressure either to bring in a new leader (such as IBM did with Lou Gerstner) or to transform the current leader.

Typically, the new or transformed leader brings in corporate redesign and reengineering, and everything is looked at very carefully against the criteria of efficiency and marketability. That's the brilliance of the marketplace—it drives you toward efficiency and practicality. You can't just have a great top line, meaning a great product and a great culture, if you aren't also very oriented to the marketplace and to what customers want. Knowing what customers want and how best to supply it requires benchmarking, not just in your own industry, but benchmarking against best practices done anywhere.

### Immersed in Raw Data

People who think of organizations in terms of false dichotomies might suppose that you have *either* a non-competitive "country club" characterized by congenial working relationships, *or* a productive, profitable, competitive organization characterized by stressed and strained relationships—you can't have both profitable results and productive, pleasant relationships.

I think you can have both, if you immerse the whole culture in the raw data of the market realities. That's what my son, Stephen M.R. Covey, is doing now for our company. As CEO of the Covey Leadership Center, he can see that while we have a good top line and great products, we haven't the operational efficiency and profitability we want. Using a caring and courageous leadership style, he is involving more people in a basic course in economics and marketing. The prevailing attitude is, "It's not whether we like it, it's whether it meets the needs of the marketplace and makes us more competitive."

If effect, my son is saying, "We don't determine what is *par for the course.* The market sets par. As in golf, we might think we play a great game, but we can't define what world-class *quality* or *service* or *value* is." He confronted the management of our company with hard data, looked at the current state, and immersed us in benchmarking to get an objective measure. He found that in some areas, we were excellent; but in many other areas, we were not even close.

Max Dupree says that the first duty of a leader is to define reality. That means taking a hard look at how you're doing relative to the best in class and immersing yourself in raw market data.

My son Stephen also immersed the company in the vision of the desired future state. In that way, he created a healthy tension between the current reality and the imagined ideal. The whole culture is being immersed in both the top line and in the hard realities that produce the bottom line.

This is a hard discipline because most people have never learned it. The academic world has never learned it. The government has never learned it. Many families and schools have never learned it. And so many people come into organizations with an entitlement mind-set and deny market data that threatens their survival or success. It may then take outside intervention to recover.

For example, after being industry leaders for many years, executives at Shell Oil woke up one day and realized they were in the bottom third of the industry. They invested heavily in our *Seven Habits* material to regain market share. By involving people who worked in the Exploration and Production Division of the company, they created a vision statement that won the hearts and minds of all the people. Every employee gave input to the vision statement. And, as they rolled it out, it captured the energy and the attention of people.

At Federal Express, management recognized the need to refocus on their value discipline of exceptional customer service. Flowers shipped from the West Coast often arrived wilted or crushed at floral shops. When everyone understood the customer's need, they developed a faster delivery system to keep the flowers fresh.

As I was reading a recent issue of *Forbes* magazine, I noted two examples of companies missing the mark. First, three of the big coffee makers missed a major shift in the coffee market. People are drinking the same amount of coffee today as they were 10 years ago; however, more people are grinding their own beans. Last year, with more easy-to-use home grinders in use, about 20 percent of the $4 billion of coffee was sold in roasted beans rather than in ground, canned coffee. Most of this growth was captured by small specialty companies. Instead of tapping this growing segment, the big companies tried to gain market share in a stagnant market by undercutting one another in price.

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*Forbes* also noted that U.S. West, the monopoly provider to 25 million customers in 14 western and midwestern states, embarked on a deep cost-cutting campaign two years ago, just as the western states' economies started to boom. The result has been service less than adequate that frustrates customers of the phone company. In the commercial real estate market, businesses frequently move or expand only to find out later they can't get phone service.

We might wonder how such organizations miss the mark, lose market share, and damage service reputations.

I can better understand how these things happen, thanks to the experience in our own company with the Seven Habits organizer, a life leadership product. Our organizer is great conceptually, but many people haven't found it to be user-friendly. As the creators, we wondered why. And so the new management team of the organizer division brought careful and critical analysis to the product line. About one year ago, we surveyed our external and internal clients to assess how they use the tool, what they like about our organizer, and what they would change. We gathered a lot of data from about 1,000 people. Basically, we learned that we were asking the market to make too much of a leap at once. So, we have redesigned the product. Our focus-group customers prefer the new design five to one over the old one. It's a more effective tool, because it meets the market where they are and bridges the gap between an old and a new way of thinking. Again, the market drives you toward that which is pragmatic.

I'm convinced that there are ways to have people buy into change to such a degree that even if they are let go, they feel that they are treated fairly. By being up-front and open about the market information and realities, and by immersing everyone in the data, people become more and more market aware and come up with better and better solutions.

### No Margin, No Mission

In business, you must produce a bottom line so that you have flexibility and freedom to grow the top line—no margin, no mission. If you don't have profits, you don't have opportunity to grow—you only struggle with lines of credit and with lines of upset customers and other stakeholders.

You can have a competitive organization and have congenial relationships; you don't need to be at each other's throat all the time; you can have synergy without divisiveness. Synergy develops a deeper relationships because you're more market oriented. It takes courage to confront people and to lay out factual information, especially when people are in denial. It forces everyone to be more authentic and open and to stop playing games.

Again, this is a hard discipline to learn—virtually impossible when you have a culture of golden parachutes and artificial subsidies. It may best be learned in small business, or in large organizations with small entrepreneurial business units where you are close to customers and there is no place to hide from personal responsibility.

It's a constant struggle to create relationships of trust. You need to have the mother of humility and the father of courage because you constantly face the discrepancies between what you preach and what you practice. You are constantly struggling to achieve total integrity.

Your customers have many options, and if you don't have relationships of trust with them, your suppliers, and your own people, you won't have their business. EE

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