



COLUMNISTS
Luke Johnson

Straight path to a superior business

By Luke Johnson

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Just as you meet few truly great individuals in the journey through life, so there are a tiny handful of companies that have outstanding management. And the reason so few organisations are really well run is not that it is a complicated matter; it is that managing well takes discipline and effort.

The principles followed by superior businesses are straightforward – but executing them consistently and over extended periods is very hard.

All the best companies have bottom-up management. That means those staff who actually meet customers, or run operations, tell the boss what works, rather than vice versa. It means delegating responsibility in order to empower staff. Imperious, dictatorial leaders who are out of touch with the shop floor do not achieve sustained success.

I was told of the chief executive of a large publisher who, when the fire alarm went off accidentally, would summon his chauffeur to pick him up so he could circle the building ensconced in his limousine rather than stand on the pavement and mingle with the troops. Not surprisingly, the business underperformed and he was replaced.

Another characteristic of winners is that they manage for the long term. Sudden strategic moves to suit quarterly targets or shorter-term bonus measures are damaging. Family stewardship often beats publicly traded or private equity as a form of ownership for this reason. Germany's Mittelstand companies are the backbone of their economy: they are principally family-owned, often world-class operations that adopt prudent financing, and invest in capital expenditure and research and development. Incentives at all levels tend to be long term.

The best leaders possess domain knowledge. This means they understand their industry and are experts in their field. It allows them to command the respect of their colleagues, and means they have genuine insight into the vital economics of their profession or niche.

When I interview managers, I ask them about their customers and competitors. The high achievers will know them intimately, and can talk for hours about the strengths and weaknesses of their rivals. Generic managers, who claim they can turn their skills to any sector and deliver impressive results, are mostly a clever illusion. That is why I tend to respect actual experience in a line of work, or a specific trade qualification, over an MBA.

Companies I've most admired have usually been run by teams. While every business needs an ultimate boss, larger 21st-century organisations are too complex to permit an individual to call all the shots. The enduring successes have several high-quality people at the top working as a collegiate group, co-operating and sharing responsibilities across divisions and disciplines.

The most able chief executives find, nurture and retain talent, and they delegate and congratulate in large doses. They never promote sycophants; instead they hire ambitious challengers who can one day replace them. As ever, this sounds easy to do, but it takes genuine willpower and self-confidence.

A further characteristic of outperformers is that they adopt the Japanese philosophy of *kaizen*: constant improvement through small but material steps. This is the belief that things are never perfect and could always be better. It is the acceptance that dramatic changes are unlikely to yield the best returns; relentless, incremental progress should be the objective.

Adopting these practices – many of which are common sense – should produce better business outcomes. The inspiration for noting them down came from one of the best management books I have read in years: *The Puritan Gift* by Kenneth and William Hopper. It is a work of history and a study of how the Anglo-American financial system has gone wrong. It has its flaws but, overall, it is a magnificent and original text. Moreover, it offers redemption and useful rules about how the best organisations are run. It should be required reading for everyone who cares about the capitalist system and those in high office in the business world.

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