WHAT IT TAKES

Seven Secrets of Success from the World's Greatest Professional Firms

CHARLES D. ELLIS

New York Times Bestselling Author

What It Takes

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For David F. Swensen, PhD, who invented the world's first financial derivative, reinvented endowment investing, shared his expertise widely as a teacher and adviser and wrote the best book on professional investing, chose making a life of service and values over making a fortune, brought more wealth to Yale University than any major donor, sets an example of excellence for all in his profession, and has more friends and admirers than he'll ever know.

Contents

Foreword

It is easy to admire the virtues of the five professional services firms featured in this book, but we also learn how very difficult it is to sustain excellence at the highest level from generation to generation. This should not be surprising. None of the ten largest corporations in the U.S. economy in 1900 still ranked in the top ten 50 years later, and, indeed, only three actually survived as companies. To maintain leadership in the face of competition, great firms must continually improve the nature and quality of their products and services and their own internal organizations.

Many readers of this volume will know at least some of Charley Ellis's many contributions to research and education in finance and business history. In this new and instructive book, Charley Ellis offers us some of the wisdom of his experience observing "what it takes" to be best-in-class as a professional services firm. Greenwich Associates, the firm Charley founded in 1972 and led for nearly three decades, provided research-based consulting to most of the world's strongest organizations in the financial services industry. The insights in this book thus rest on both keen observation and deep experience.

Charley develops his ideas within a clear conceptual framework, organized around seven essential attributes of a successful professional services firm. But the power of this book, as we have come to expect from Charley, resides in the compelling narratives he relates about the firms chosen as exemplars of excellence: McKinsey, Goldman Sachs, Capital Group, the Mayo Clinic, and Cravath, Swaine & Moore. Charley is a master storyteller, and his stories of people, their decisions, and their interactions communicate his conceptual arguments far more powerfully than any abstract discussion could. As always, Charley entertains us as he enlightens us.

As one who had the pleasure of working with Charley during his service as a Fellow of the Yale Corporation and Chair of our Investments Committee, I know firsthand that he practices the doctrines he preaches. He actively encourages every organization he touches to live by the principles he illustrates in this book.

What It Takes offers a roadmap for the kinds of organizational improvements that Charley has helped bring to many enterprises during his career. He shows us vividly how innovation and commitment to excellence can drive success, and how easy it is to fall behind. Whatever type of organization we serve, there is much to learn from this book.

—Richard C. Levin
President, Yale University
New Haven, Connecticut

Introduction

What It Takes is the story of what sets the *great* professional firms—the best firms, the acknowledged leaders in their industries—apart from all the rest. It is a blueprint for creating, building, and sustaining great organizations of all kinds.

For the 50 years that I have acted as a behind-the-scenes adviser on both strategy and tactics to several hundred firms in the Americas, Asia, and Europe, the questions that this book seeks to answer have been the burning ones for me: Which are the best firms? And what makes them the best? What principles and what concrete actions bring them to the top? How do they overcome external challenges from competitors and changes in the times, and the even more difficult internal challenges that either success or setbacks can create? How do they recover when they stumble?

All the firms included here are large and have been around for many years. To be sure, many smaller companies may mature into great firms. But for the purposes of this study, organizations have to be large enough that they are not dependent on a few individuals, and must have long enough histories that they are not creatures of one era, a few specific products, or a few major clients.

To identify the firms to include, I asked almost every firm leader I met three questions: At which firm in your industry would you most like to spend your career? Which firm would the most discerning clients like to use to handle their toughest challenges? And which firm's success is most durable, even as its leaders turn over or its environment changes?

Remarkably, there was a clear consensus in each of five fields. The outstanding leaders are McKinsey in consulting, Cravath, Swaine & Moore in law, Capital Group in investment management, the Mayo Clinic in health care, and Goldman Sachs in investment banking.

Yes, Goldman Sachs. While it has taken a well-deserved pounding since 2008 on a number of fronts, it was for decades the undisputed leader in its field. And it is working hard to regain that reputation and a dedication to the principles that brought it to preeminence in the first place. That intriguing struggle is covered in Chapter 10.

Once the firms were identified, I conducted over 300 formal interviews with their leaders during the past decade to determine what they believe are the secrets of their success. The results are revealed in these pages.

At the outset, I expected to find major differences from one field to another. But surprisingly, the essential lessons these firms teach are few and nearly identical. Olympic athletes supply a good simile. While they see themselves as obviously separate—"he's a pole-vaulter; she's a swimmer; he's a downhill skier, and I run the 440"—the gold medalists are essentially the same: superb athletes with unusual heart and lung capacity, and in great physical condition. They are highly disciplined, voracious competitors willing to spend unconscionable hours mastering every technique of their event.

So it is with the great firms and the superior people who create and maintain them. This book details how the great firms set themselves apart by the way in which they execute the following "simple" keys to success:

Mission—an overarching sense of purpose that motivates exceptional people to make personal sacrifices and dedicate their careers to the firm's work. (Chapter 1)

Culture—a set of values focused on using teamwork and self-discipline to repeatedly achieve superior results. The culture translates the firm's mission into specific, often idiosyncratic practices. Colleagues become a tribe. (Chapter 2)

Recruiting—bringing in the most capable, motivated new people. "Obvious!" you say? Wait till you see what work, costs, and sacrifices this entails. (Chapter 3)

Developing people—helping new colleagues get up the learning curve as fast as possible and maximizing their professional and personal development throughout their careers. (Chapter 4)

Client focus—tying clients to the firm by consistently meeting or exceeding what the most demanding clients expect when working on their most difficult issues. (Chapter 5)

Innovation—repeatedly finding new ways to serve clients. This can even include reinventing the whole organization to achieve game-changing advantages over competitors. (Chapters 6 and 7)

Leadership—steering the ship by bringing the other six factors together. (Chapter 8)

This study includes many stories of success. But along with the success stories comes the reality that for the top-ranking organizations there is only one new way to go—down. Even harder than becoming the best is staying the best. External challenges are tough—changing markets, competitors, clients, technologies, and regulation. But the internal challenges are often more difficult—growing lumberingly big or complex, the cockiness that success can breed, politics, weaker second-generation leaders, and finding the balance between profit-seeking and professional values. Professional firms are living organisms; none is assured of enduring success. They must always adapt. So a certain paranoia is needed to lead a great firm. And, as we see in Chapter 9, it also helps to have a little luck.

All the organizations celebrated in this book have faced adversity, sometimes of their own making. Chapter 10 examines how several of these firms have handled—and mishandled—recent mishaps and are struggling to right themselves.

Finally, Chapter 11 is the sad and instructive tale of a leader that stumbled and never made it back. Fifty years ago, Arthur Andersen & Co. was considered the finest professional firm in the world, period. It was the best major auditor and the leader in using computers. But then its leaders, standards, and organizational structure changed, and near-term profitability became paramount. Andersen's commitment to professional excellence got degraded in a long series of initially reversible stages until its essential culture had been destroyed from within.

Anyone familiar with how Mike Bloomberg has reconfigured New York City's mayor's office or how Lou Gerstner revitalized IBM or Rick Levin has been leading Yale University or General David Petraeus led the coalition forces in Iraq will appreciate how the lessons of *What It Take*s are applicable to the leadership teams at the top of all sorts of organizations. The elements of excellence are exemplified every day by diverse corporations in many fields, including Apple, Google, IBM, GE, ExxonMobil, Tupperware, John Deere, Caterpillar, Singapore Airlines, Duane Reade drug stores, Wegmans grocery stores, W. L. Gore, and Four Seasons Hotels, and at institutions as varied as the Hospital for Special Surgery, Memorial Sloan-Kettering, and the Navy SEALs. At the top of every organization, it's always all about people. The great firms are not dependent on any one remarkable leader or on a favorable environment. They sustain excellence over several generations of leaders who, knowing how many formerly leading firms have faded or fallen, are wisely on high alert for the unknown unknowns and their own misperceptions.

One of the most valuable qualities of a great firm is a superior capacity to see itself objectively and to learn and change on multiple levels and thus to continuously improve. Most organizations resist this; that is why organizational learning is so rare. What separates the great firms from their good competitors is not so much learning about external factors as internal learning—how individuals can be more effective at communicating and working with other members of their organization. As the network of effective members grows and as the effectiveness of each member of the network increases, small differences compound and the productivity of the network rises geometrically. This capacity to learn depends in turn on a clear mission, effective recruiting, developing people skillfully, innovations that serve clients, and multilevel leadership—a compelling virtuous circle of the lessons in *What It Takes.*

I

ACHIEVING EXCELLENCE

Chapter 1

Mission

An Inspiring Long-Term Purpose

"No, Herb. *No!*" exclaimed a rasping, nearly cracking voice from the back of the large room in Florida where 500 McKinsey & Co. partners were gathered for the firm's 1996 global leaders conference. They had been listening to Herbert Henzler, the architect of McKinsey's great success in Germany.

Henzler's talk—backed up as usual with slides on a giant screen—focused on a series of key words representing the bold actions he felt were needed to ensure McKinsey's future. Each word was a screen-dominator: INNOVATE. IMPROVE. MODERNIZE. REFORM. The last one-word slide had been followed by a four-word slide: REFORM OUR BUSINESS SYSTEM.

"Herb! *No!* There's something wrong with your slide!" The elderly, hunched man was now almost jogging up the middle aisle between row after row of chairs that filled the meeting room. "We are *not* a business. We are a *professional* firm! We have a professional system, but never a . . . a . . . *business* system!"

The agitated interrupter was McKinsey's former managing partner, Marvin Bower. Despite his 93 years, Bower exuded such assured authority that the room went silent. Henzler's face flushed as he froze at the speaker's podium. Attention centered on Bower. He had devoted his long career to making McKinsey a *professional* firm—never "just a business"—and on this vital distinction he felt he had to be right at all times. As he had done again and again over his 60 years of service, Bower reminded the group: "If there is the shadow of a doubt on something being good for business but not truly professional, *do not do it!*"

Having made his declaration, Bower returned to his seat near the rear of the room. Ken Ohmae, McKinsey's storied leader in Japan, was the conference's next speaker—and the next to be stopped cold in his tracks by Marvin Bower. Ohmae began by lamenting the hierarchical rigidity of Japan's *zaibatsu* corporate complexes and their consequent resistance to all consultants, including McKinsey. As usual, Ohmae had a bold, creative solution: At least some of the people in the inner core of Japan's largest corporate organizations would have to be replaced by open-minded new executives who would be interested in outside ideas and new ways of thinking. The solution, he said, was clear: McKinsey should get into executive search. Implied in Ohmae's strategy, of course, was that McKinsey would have preferential access to consulting assignments through those new executives McKinsey would place through its executive search: *We helped you get your job, so now why don't you help us get some consulting work with your company?*

Back on his feet, Bower was calling out as he again hurried to the front so he could be seen and heard by everyone: "Ken! Ken! We do *not* do headhunting. It would not be *professional* to go around pinching the best people from our clients. That would be a clear-cut conflict of interest." Once again the elderly man stopped any discussion of McKinsey's being a business. Bower was living another chapter in his lifelong commitment to McKinsey's being a truly professional firm in which every professional had an individual obligation to dissent.

True to that core value, Bower was leading by dissent, and as so often before, he prevailed. "Marvin took a central role at Florida, lambasting the 'innovators' when any of their ideas conflicted with the firm's priority drive for professionalism and so must be opposed," recalled Charles Shaw, a longtime senior partner. "He carried the day. Looking back to that day years later, I'm convinced that his argument—both emotionally and intellectually—made a valuable contribution to our long-term success as a professional firm. It clarified *for* McKinsey what *was* McKinsey."

■ ■ ■

Every great firm has a clear, long-term purpose—an inspiring, engaging mission. This North Star provides the firm's professionals with extra confidence in the meaning, value, and significance of their work and justifies the intensity of their engagement beyond "making a living" to making a purpose-driven life. In an old story, a pilgrim came to the construction site for what would become Chartres Cathedral and asked the stonecutters what they were doing. One tersely said, "Squaring this stone." Another proudly said, "Squaring this stone to build a strong wall for a major building." And the third, with joy in his heart, said with a wide smile, "Building a great cathedral to honor the glory of God!" With which stonecutter would you want to work?

Most young men and women coming out of the leading graduate schools—each with wide-ranging freedom of choice—will take the upper-middle pathway of a good job with a good firm, knowing they will earn more than enough to enjoy their time on earth. But a few of the best will choose a more demanding path. Wanting their careers to be more than just a series of high-paying jobs, they will seek employers with a truly compelling mission. For the most capable few who want to make a significant difference, good is not nearly good enough. And these purpose-driven people are as indispensable to each great organization's achieving its mission as being part of a great firm is essential to them. Only mission-driven organizations can consistently attract, inspire, and engage exceptional professionals in the continuously demanding work of producing superb service for the most interesting clients. And only mission-driven organizations can attract and keep important clients dealing with important challenges. That's why only organizations with a compelling mission can achieve and sustain excellence.

■ ■ ■

Marvin Bower's seminal contribution to McKinsey was understanding and articulating the value to the firm and its people of living for and with a higher purpose or mission: being not just a business but a *profession* and all that that implied. As a young man Bower had graduated from Brown University and gone on to Harvard Law School because he wanted to join Cleveland's leading law firm, the firm that eventually became Jones Day. But he failed to make the top 5 percent in his class and the *Harvard Law Review*, so he was rejected. Determined as always, Bower decided to return to Harvard, this time to the business school, and try again. He made the top 5 percent at Harvard Business School and was a student editor of the *Harvard Business Review.* This time the Jones Day firm admitted him.

Determined to understand what had made that firm great, Bower did what he would so often do during his later years at McKinsey: He made a list of the key factors. Client interests were always put first and clearly ahead of the firm's; confidences were always maintained; no assignment was taken unless it was really necessary and could not be handled by the client company's in-house counsel; partners always felt both the freedom and the responsibility to disagree with clients if that was in the client's interest; and partners consistently took time to coach associates on ways their work could be improved and on how they could keep their fees relatively low by being more creative than other firms in solving problems.

As a young lawyer serving as secretary to numerous bondholder committees organized to work out defaulted bond issues, Bower saw a pattern. The CEOs of the failed companies had needed information for sound decisions, but their employees, deferring to hierarchy, hadn't dared tell the insulated CEO what was really going on. Bower estimated that the managers could have saved 10 of the 11 companies if only frontline knowledge had been taken to the CEO. He became convinced that top management of corporations needed the same quality of independent, expert professional advice on *business* problems as his law firm was giving on *legal* matters. He began discussing with his wife, Helen, the great opportunities—and the risks—of switching from law to business consulting.

Early in 1933, Bower was working for a bondholders committee during a corporate reorganization in Chicago. Also on the committee was James O. McKinsey, the son of an Ozarks farmer, who had started a relatively small accounting and management engineering firm. McKinsey, impressed by a paper Bower had written on clothing manufacturing, asked about his career plans and offered to interview him. Bower was reluctant at first because his wife feared moving near "Chicago gangsters." But when Jones Day cut all staff salaries by 25 percent, Bower decided to interview with "Mac" McKinsey. As McKinsey explained his firm, Bower sensed that aside from its work in accounting it was becoming just the kind of professional firm he was interested in—working on business and management problems the same way law firms worked on legal problems.

Bower joined McKinsey in late 1933 as one of the world's first "career consultants." This was a change from the norm of experienced industrial executives becoming consultants for stints of a few years and then either "returning to industry" or retiring. Bower went into McKinsey determined to do as much as he could to help it develop into the kind of firm he envisioned.

James O. McKinsey's success in consulting peaked at Marshall Field & Co., the big Chicago retailer, where he directed a major study in 1935. He charged what was then considered a substantial fee: $50 a day. At Marshall Field, McKinsey's shocking report—delivered orally after just four months—recommended selling the 24 Fieldcrest mills in the South, as well as the Chicago Merchandise Mart, the nation's largest dry goods business, and the wholesale division, which had been the traditional core of Marshall Field's business but was a long-term money loser.

Having reported losses for five straight years, directors of Marshall Field urged McKinsey to become chairman and CEO and implement his comprehensive overhaul. Recognizing that advising was not doing, McKinsey, who had an incorrigibly high need for achievement—his work was his life—and a desire for real wealth, decided to take this challenge, test theory with practice, and try to prove that he could implement his concepts.

The work at Marshall Field—cutting off whole divisions, closing departments, firing hundreds of old-timers, and restructuring every part of the business—was exhausting and produced a dozen threats on Mac McKinsey's life. He saved Marshall Field but ruined his health: he caught a cold that became pneumonia before penicillin was available and died suddenly at age 48 in 1937. As Bower lamented, "My personal loss was that the man I admired most—my hero—was gone. My career loss was that I had had less than two years to learn from my mentor."

Although his firm had specialists in functional areas, McKinsey always preferred to take the generalist point of view required of top management. His holistic diagnostic approach centered on major policies and the strategies needed to implement them. Basic to McKinsey's concept of management consulting was not just figuring out how to produce more efficiently, but deciding whether to be in a particular business at all. "Mac McKinsey's greatest contribution to consulting, as well as to business," Bower believed, "was his concept of the integrated nature of managing a business and the process of management as [organizational] components interacting. Mac's second contribution to consulting was his demonstration of independence by thought and deed and his willingness to tell the client the truth just as he saw it. From Mac, I learned basic concepts and ways of managing. Most important is the concept that making major improvements in a business can best be achieved when tackled as a whole. Mac also thought managing should be kept as simple as possible."

With the foundation laid by Mac McKinsey, Marvin Bower became the architect and chief builder of what would become the world's largest and most admired firm of top-management consultants. Monthly Saturday training sessions with everyone coming provided Bower with the pulpit from which he would preach the policies and unifying practices he traced back to Mac McKinsey, particularly devotion to the "professional approach." The firm moved deliberately away from overtly selling its professional services; Mac McKinsey had believed that if clients were well served, McKinsey's services would sell themselves. (Others would argue that, while not calling it "sales," once it gets started the firm is accomplished at persuading clients to enlarge or extend engagements and is exceptionally successful at developing regularly repeating clients.) This belief in the importance of serving clients well led naturally to the view that each client is a client of the whole firm, not just of an individual consultant, and so must have full access to all the firm's resources. Mac McKinsey made another enduring impact on the firm through his conviction that a professional firm should invest in its reputation by having its offices well located and attractively furnished.

An effective mission has to resonate both within the firm and outside. Bower insisted on the term *management consulting* to get away from such alternatives as *efficiency experts* or *management engineering*, which he found unprofessional. He insisted that consulting should be recognized as a profession and as a career. Training would be rigorous and continuous. Since major prospective corporate clients operated nationally, Bower saw that the firm must also be nationwide, with offices in major cities, and that those offices must all be identifiably part of a "one-firm firm:" Policies and procedures would be the same in all offices. A series of consulting guides—leaving room for judgment where unusual circumstances warranted some variation—were carefully prepared on such topics as manufacturing, organization, and management information and control.

Descriptive terms and phrases matter in defining a firm's mission. When others proposed a marketing brochure for the firm, Bower's first impulse was to condemn the idea as unprofessional. However, he changed to hearty agreement when he saw that creating the brochure—with himself leading the process—could be an effective device for getting internal agreement on values even before any external distribution. The result was a 42-page hardcover booklet titled *Supplementing Successful Management*. Bower made sure it explicitly committed McKinsey to becoming a truly professional firm.

Advocating the professional approach at every opportunity, Bower led the firm from 1950 to 1967, finally stepping down at age 64. During this period McKinsey decided to concentrate on consulting and get entirely away from accounting and actuarial services—and from executive recruiting, which had brought conflicts of interest, little professional satisfaction, and inadequate compensation. (In his proposal at the Florida conference, Ken Ohmae had touched an old nerve.) Bower gave talks, wrote memos, and frequently admonished his associates until two colleagues took him aside and said that while they agreed with him on McKinsey's mission, he was hurting his own cause with so much repetition. Bower accepted their advice on method and promptly began what he called "persuasion through pointing up success," watching for opportunities to commend others for taking the professional approach and leading from behind rather than from the front. But it was still Marvin Bower persisting with the same message.

As the unrelenting advocate of the professional approach—and making it stick and flourish—Bower put McKinsey on a different pathway. Booz Allen Hamilton, then its major competitor, helped unintentionally by proudly emphasizing that it was a *business*. Bower's commitment to professionalism eventually—he would have preferred the word *inevitably*—led to McKinsey's having a substantially stronger business. Today's partners believe this is a direct consequence of subordinating the firm's business to the higher disciplines of the profession, which, of course, put clients' interests first.

As Bower once explained,

> By applying the professional approach broadly, rigorously, and consistently, we have developed a "secret" strength in attracting, serving and maintaining relations with clients. This strength also serves firm interests in other ways and distinguishes McKinsey from most consulting firms. Yet there is really nothing secret about this strength. All we have done is to instill in our consultants the standards of the older professions, which are well known and to which most management consultants now subscribe. Our strength comes from a deeper understanding of the great values of the professional approach to clients *and* to the firm—and from a broader, more rigorous, and more consistent application of that approach so that it comes naturally in our thoughts and actions.

The quest for professionalism in a field where that had not been the norm led to two allied goals: Help clients make substantial, lasting, positive improvements in their performance; and build a great firm that can attract, develop, excite, and retain exceptional people. The persistence established the enduring value of an inspiring mission that has given a compelling answer to the question every potential client and every potential consultant will ask and must answer: Why McKinsey?

Without the determination to define and ensure the firm's commitment to being always a professional firm, McKinsey would never have become the world's finest firm in consulting. It couldn't have served clients so well or provided such great working and learning experiences for the many consultants who have so enjoyed their years at McKinsey. Similar clarity of mission and overarching purpose is the essential foundation of superb organizations in every field.

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For insiders, a firm's mission is the big idea about why we are here and why we care so much and work so hard. Sometimes the mission emerges as a way of reconciling conflicting influences. At Capital Group Companies, a world-leading investment group that now manages well over a trillion dollars for millions of investors, the mission is a balance of three seemingly conflicting goals. The conflict was beginning to surface in the early sixties. In 1961, and again in 1963, the firm's reluctant leader-in-waiting, Jon Lovelace, got seriously ill and was away from Capital for many weeks. Recovering from adversity can be a good time for extended reflection and personal decision. During his second convalescence, several of Capital's mutual fund directors visited Lovelace to say that his future role was on their minds. His father, the firm's founder, Jonathan Bell Lovelace, was 67 and still had not stated any plans to step down. Young Lovelace resolved to overcome his diffidence and take up leadership, provided the other key people would join him in a novel three-way commitment to the organization's purpose or mission.

Two camps had been developing within Capital concerning the organization's primary purpose. Some in the firm emphasized service to *investors*; others emphasized returns to Capital's *owners*—akin to the professionalism versus business debate that so aroused Bower at McKinsey. At Capital, instead of choosing between "investors first" and "owners first"—in those days the conventional choice was "owners first"—Lovelace proposed that Capital would aim as fully and continuously as possible to balance achievement for *three* groups: investors, owners, and the firm's professionals, always focusing first on the investors. The proposal carried special weight because Jon Lovelace, through share purchases, had made himself a significant owner of the then only marginally profitable firm.

Jon met with his father and other principals in 1963 to gain agreement on this corporate objective. Shortly afterward, his father announced the selection of his son as his expected successor. The unusual three-way balance came to be seen in and beyond the firm as a seminal contribution to Capital's long-term success both by preempting a potentially divisive internal debate and by providing a meaningful organizational purpose or mission: always doing what's really right for investors. Over the long term, the interests of all three groups come together, because if investors do well, so will Capital's associates and owners.

Capital Group is unusual in its industry. While most mutual fund groups focus on "asset gathering" (sales), Capital focuses on *investing*—achieving superior risk-adjusted long-term investment returns for clients. The most important policy questions at Capital *always* center on serving the long-term interests of long-term investors. With its own kind of benevolent paternalism and self-discipline, Capital puts investors' interests first most strikingly in the unusual way it introduces new mutual funds. The strongest test of a professional firm's principles comes when it deliberately does *not* do something that is being done by competitors and would be highly profitable. The mutual fund industry norm is to "sell what's selling" by introducing new funds of a particular type whenever investor interest indicates an opportunity for more sales. Capital goes the other way with, eventually, favorable long-term results for its investors. At Capital, unlike most fund families, no new mutual fund will be launched unless the firm's investment professionals say, "Over the long run, investing in this fund *now* will prove to be a good idea for investors." For example, Capital was the clear leader in emerging-markets investing for institutional investors in the eighties when the emerging markets enjoyed a multiyear run-up. By the early nineties, retail investor interest was high. Many other fund families, often with far less experience or capability, were offering mutual funds that specialized in emerging markets. Brokers pleaded with Capital to offer an emerging-markets fund to individual investors, knowing it could be a big seller. But Capital refused. It wouldn't offer such a fund because it would sell *too well* to retail investors who wouldn't understand the real risks of investing in less developed countries, especially the risk of sudden major changes in valuation that would inevitably result in investor disappointment.

Then in 1999, *after* the average emerging-markets mutual fund had lost half its value since 1993 and retail demand was consequently low, Capital was ready to roll out a retail fund that would invest in emerging markets. With financial crises in Southeast Asia and Russia and the collapse of the Long-Term Capital Management hedge fund having substantially reduced investors' expectations, and with most competitors' emerging-market mutual funds experiencing net redemptions, Capital launched New World Fund. It would invest, near the market bottom, in a carefully composed portfolio of emerging-market sovereign debt and the shares of international companies headquartered in developed countries but doing substantial business in emerging markets—*not* companies headquartered in emerging-market countries where regulation and accounting practices might be questionable and corruption rife. Starting when it did, the fund has performed well. Similarly, Capital introduced the American High-Income Municipal Bond fund in 1994—at the very bottom of the municipal bond market. Riding the recovery in fixed income, that fund later ranked in the top 3 percent of its fund category.

Over and over again, Capital's mission of serving the real interests of long-term investors provides the True North for all sorts of operational decisions as well as the galvanizing purpose of the organization's investment professionals.

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Powerful missions are often easy to summarize but never easy to achieve. At Mayo Clinic, True North is even clearer than at Capital Group. Mayo has no shareholders and no profit-seeking professionals. It is controlled by a foundation and staffed by salaried employees. Even as medical science has advanced rapidly, Mayo's mission continues to be defined by one simple, clear, and compelling statement: The needs of the patient come first. All the rest, complex and costly as health care can so often be, is implementation. Of numerous examples, here's one: When some patients complained that they were not sleeping well, a few interns stayed up all night to see if they could discover causes. In that single night, they learned why patients were not sleeping well: There were lots of noises. Phones rang, doors slammed, metal clipboards snapped back into place, and x-ray machines were noisy when wheeled down the hall. Among the many solutions: Phones were connected to lights so no ringing was needed, soft pads were put on clipboards, and the time at which x-rays were taken was changed. As a result, patients could rest more peacefully and this accelerated their recovery.

The founding Mayo brothers—William J. Mayo and Charles H. Mayo, widely known as Dr. Will and Dr. Charlie—were inspired by their father, Dr. William Worrall Mayo. As Dr. Charlie once said, "If we excel at anything, it is in our capacity for translating idealism into action." Dr. Will specified three factors as crucial to the long-term success of Mayo Clinic: continuing pursuit of the ideal of service, not profit; continuing primary concern for the care and well-being of each individual patient; and continuing interest by every staff member in the professional progress of every other staff member. More recently, three additional implicit factors have been made explicit: willingness to change in response to changing needs, striving for excellence in everything undertaken, and conducting all activities with absolute integrity. The primary focus at Mayo Clinic is always on the original core commitment: The needs of the patient come first.

"It has to do with a value system," said Robert Waller, the clinic's CEO from 1988 to 1998. "Mayo was very fortunate to have founders who were just uncanny in setting down a set of values that have served us so well for so many years. We're taking the best care of patients we can. And I think we've always tried to stay focused on a common mission: meeting the needs of our patients. We try very hard to send home a happy patient."

Contemporary health care in a large organization that centers on patient care and also emphasizes medical education and research is clearly a complex undertaking. Because each patient is unique, health-care services are unusually personal, but are delivered when the "customer" or patient is most dependent, anxious, and vulnerable, wearing an anonymous hospital gown and often feeling depersonalized. This