Beyond Performance
Colin Price

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Beyond Performance

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How Great Organizations Build Ultimate Competitive Advantage
Four realities are shaping organisations today
First reality

The nature of competition has shifted from ‘scale and stability’ to ‘innovation and change’
Scale is no longer the key driver of company value.

![1984 Data](#)

Net income per employee vs. Number of employees in the company.

![2004 Data](#)

Net income per employee vs. Number of employees in the company.
Second reality

The gales of ‘creative destruction’ are still raging
The recent downturn has been disastrous for many.
Third reality

Most corporate transformations end in failure
Transformations tend to fail for the same reasons.
Fourth reality

However, some companies do re-invent themselves
A small number consistently out-perform the market
2 McKinsey investigates organisations and change
Our journey of discovery ... described in numbers

<table>
<thead>
<tr>
<th>Survey</th>
<th>Research</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>600,000</td>
<td>900</td>
<td>2</td>
</tr>
<tr>
<td>Survey respondents from over 500 organizations participated in our ‘Organizational Health Index’ research</td>
<td>Academic journal articles and books reviewed</td>
<td>Books were published one internally, one externally</td>
</tr>
<tr>
<td>6,800</td>
<td>30</td>
<td>1</td>
</tr>
<tr>
<td>CEOs and senior executives completed further surveys regarding transformational change</td>
<td>CEOs and chairpersons did face-to-face interviews with us</td>
<td>Unified theory of change</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Leading academics reviewed, challenged, and augmented our findings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Years were dedicated to developing and refining our understanding of organization and change</td>
<td></td>
</tr>
</tbody>
</table>
Performance alone can’t explain corporate success

- **Morgan Stanley**: Market value $88b, Jun 2007, $14b, Jan 2009, $254b, Jan 2011
- **RBS**: Market value $120b, Jun 2007, $6b, Jan 2009, $28b, Jan 2011
- **Deutsche Bank**: Market value $76b, Jun 2007, $13b, Jan 2009, $99b, Jan 2011
- **Credit Agricole**: Market value $67b, Jun 2007, $21b, Jan 2009, $116b, Jan 2011
- **Société Générale**: Market value $86b, Jun 2007, $18b, Jan 2009, $142b, Jan 2011
- **Barclays**: Market value $91b, Jun 2007, $9b, Jan 2009, $15b, Jan 2011
- **BNP Paribas**: Market value $111b, Jun 2007, $28b, Jan 2009, $176b, Jan 2011
- **Unicredit**: Market value $93b, Jun 2007, $25b, Jan 2009, $68b, Jan 2011
- **UBS**: Market value $126b, Jun 2007, $30b, Jan 2009, $82b, Jan 2011

- **Citigroup**: Market value $254b, Jun 2007, $142b, Jan 2009, $215b, Jan 2011
- **JP Morgan**: Market value $176b, Jun 2007, $68b, Jan 2009, $200b, Jan 2011
- **HSBC**: Market value $215b, Jun 2007, $200b, Jan 2009, $82b, Jan 2011

*Market value $b, Jun 2007, Market value $b, Jan 2009, Market value $b, Jan 2011*
A theory of change: balancing performance + health

**Performance**

What an organisation delivers to stakeholders in financial and operational terms

**Health**

The ability of an organisation to align, execute and renew itself better than the competition
“The narrow pursuit of shareholder value was the dumbest idea in the world”

Jack Welch
Former Chairman and CEO of GE
Financial Times, August 2009
“I believe we have lacked accountability and leadership to align and direct the company through these disruptive times”

Stephen Elop
Chief Executive
Nokia
3 The nine vital signs of organisational health
Organisational health comprises nine characteristics:

- Direction
- Accountability
- Coordination and control
- External orientation
- Leadership
- Innovation and learning
- Capabilities
- Motivation
- Culture and climate
One cluster relates to strategic internal alignment

- Direction
  - Accountability
  - Leadership
    - External orientation
    - Innovation and learning
  - Coordination and control
  - Capabilities
  - Motivation
  - Culture and climate
Another cluster is about your quality of execution.
A third cluster concerns your capacity for renewal

- Innovation and learning
- External orientation
- Leadership
- Culture and climate
- Capabilities
- Motivation
- Accountability
- Coordination and control
Leadership is at the core of all these characteristics
Strong health profiles correlate to high performance

**EBITDA margin**
- Weak: 31%
- Medium: 48%
- Strong: 68%

**Growth in value**
- Weak: 31%
- Medium: 52%
- Strong: 62%

**Growth in net income**
- Weak: 38%
- Medium: 53%
- Strong: 58%
Health matters, from refineries in an oil company ...

Performance

\[ R^2 = 0.54 \]
... to hospitals across a national healthcare system
4 How to be rigorous about organisational health
Five ways to create balanced performance + health

**Performance**
- Where do we want to go?
  - Strategic objectives
- How ready are we to get there?
  - Capability platform
- What do we need to do?
  - Portfolio of initiatives
- How will we manage for success?
  - Delivery model
- How will we keep moving forward?
  - Continuous improvement infrastructure

**Health**
- Set the overall performance goals
- Determine gaps across technical, managerial and behavioural systems
- Develop a portfolio of initiatives to improve performance
- Design the approach to rolling out initiatives across the organisation
- Set up mechanisms to drive continuous improvement

Define your organisational aspirations
Understand the mindset shifts needed within the organisation
Architect the implementation along the levers that drive people to change
Build broad ownership, take a structured approach and measure impact
Develop leaders to enable them to drive change
Where do we want to go?
Strategic objectives

Is your strategy:

Market beating ... or just playing along?

Based on sources of advantage ... or based on misdiagnoses?

Granular about where to compete ... or conventionally defined?

Ahead of trends and discontinuities ... or optimised for the status quo?

Applying privileged insight and foresight ... or just common math to common data?

Accounting for uncertainty ... or assuming uncertainty away?

Balancing commitment with flexibility ... or rigid and tactical?

Unbiased about alternatives ... or subject to undetected biases?

A personal conviction to act ... or missing personal decision-making?

Convertible to real action and resources ... or just a vague statement of intent?
Health essentials
Set the right health aspirations

**Leaders** are the glue and the engine that drive performance.

Building a strong, innovative brand and shaping **market trends**.

Discipline, sound **execution**, and managing the bottom line.

Our most important asset is our collective knowledge and **talent base**.
Perceptions depend upon seniority

<table>
<thead>
<tr>
<th></th>
<th>Direction</th>
<th>Leadership</th>
<th>Culture &amp; climate</th>
<th>Accountability</th>
<th>Coordination &amp; control</th>
<th>Capabilities</th>
<th>Motivation</th>
<th>Innovation &amp; learning</th>
<th>External orientation</th>
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</thead>
<tbody>
<tr>
<td>Executive team</td>
<td>93</td>
<td>97</td>
<td>60</td>
<td>87</td>
<td>73</td>
<td>84</td>
<td>100</td>
<td>69</td>
<td>75</td>
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<tr>
<td>Senior manager</td>
<td>82</td>
<td>89</td>
<td>53</td>
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<td>71</td>
<td>86</td>
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<td>77</td>
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<tr>
<td>Manager</td>
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<td>77</td>
<td>57</td>
<td>72</td>
<td>49</td>
<td>73</td>
<td>84</td>
<td>65</td>
<td>72</td>
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<tr>
<td>Officer</td>
<td>54</td>
<td>73</td>
<td>40</td>
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<td>42</td>
<td>71</td>
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<td>Admin staff</td>
<td>48</td>
<td>72</td>
<td>39</td>
<td>62</td>
<td>40</td>
<td>63</td>
<td>49</td>
<td>49</td>
<td>67</td>
</tr>
</tbody>
</table>

Mean

Elite
Able
Ailing

Health
How ready are we to get there?
True tests of corporate capabilities
Scarce within the industry
Superior to substitutes
Difficult to imitate
Discovery process
“Doctors and scientists said that breaking the four-minute mile was impossible, that one would die in the attempt. Thus, when I got up from the track after collapsing at the finish line, I figured I was dead.”

Sir Roger Bannister
Focus on the vital few

From transactional to ... relational

“I am responsible for quickly and efficiently meeting the needs that my clients express”

“I bring the best of my company to clients and address their needs whether articulated or not”

From silos to ... collaboration

“I know what’s right for my area and no one else can achieve what I can”

“I can learn from others and there is great value in ‘mining the seams’ together”

From blame to ... accountability

“I show up at each meeting so I can watch my back”

“I trust others to do what they are supposed to do, in a fair manner”
What’s working, as well as what isn’t
What do we need to do?
Portfolio of initiatives

A balanced portfolio

- **Familiar**
  - Short (1-2 years)
  - Medium (2-3 years)
  - Long (3-5 years)

- **Unfamiliar**
  - Short (1-2 years)
  - Medium (2-3 years)
  - Long (3-5 years)

- **Uncertain**
  - Short (1-2 years)
  - Medium (2-3 years)
  - Long (3-5 years)

- Lack of focus
- Risky future
- Poor innovation
Influence model
Create the right context

**Role modelling**
“... I see my leaders, colleagues, and staff behaving differently.”

**Compelling story**
“... I understand what is being asked of me and it makes sense.”

**Skills needed for change**
“... I have the skills and opportunities to behave in the new way.”

**Reinforcing mechanisms**
“... I see the structures, processes and systems to support the changes.”

“I will change my mindset and behaviour if ...”
Executive sponsors ask, “What is the impact on the customer of that recommendation?”

‘Day in the life of a customer’ vignettes created to understand customer’s experience more fully

For each issue, customer handoffs across silos are mapped to processes to gain more understanding of the customer experience

Customer feedback and loyalty scores represent the ultimate measure of initiative success; these are tracked regularly

EXAMPLE initiative
Customer intimacy

Skills needed for change

Reinforcing mechanisms
How will we manage for success?
Delivery model

**Linear:** Sequential interventions with stable resource requirement

**Geometric:** Successive waves of interventions with increasing resource requirement

**Big bang:** Concurrent interventions with intensive but punctual resource requirement

**Organic:** Light a forest fire and then stand back
10 teams, each with 10 members, were asked for their collective 10 priorities.

Best possible result, if all teams agree on all priorities 10 different priorities

Worst possible result, if no teams agree on any priorities 1,000 different priorities

Actual number of priorities 922
Level 1: Transformation headline

To become a highly competitive integrated company, recognized as one of the top five energy producers worldwide and as the employer of choice in our industry.

Level 2: Performance and health themes

<table>
<thead>
<tr>
<th>Health themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaboration</td>
</tr>
<tr>
<td>Alignment</td>
</tr>
<tr>
<td>Customer focus</td>
</tr>
<tr>
<td>Accountability</td>
</tr>
</tbody>
</table>

Performance themes

- Expanding production
- Integrating value chain
- Maximising downstream
- More efficiency/safety

Level 3: Specific initiatives

Health themes

- Cross-business councils
- Story cascade
- Data sharing
- Talent review overhaul

Performance themes

- Pricing
- Learning
- Vendor consolidation
- Lean
Build broad ownership

Manage the transformation like a military campaign ... and like a marketing campaign
How will we keep moving forward?
Continuous improvement

Top-down structural change
- Top management driven
- A few big levers
- Project-based change
- One-off improvements

Continuous improvement
- First-line-manager driven
- Thousands of small levers
- Changing ‘the way we work’
- Continuously improve across all functions
Centred leadership

“The purpose of an organization is to enable common men to do uncommon things.”

Peter Drucker
1954
It’s not easy being a business leader

Which professions do people respect most?

<table>
<thead>
<tr>
<th>Profession</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctors</td>
<td>65%</td>
</tr>
<tr>
<td>Police</td>
<td>63%</td>
</tr>
<tr>
<td>Clergy</td>
<td>50%</td>
</tr>
<tr>
<td>Journalists</td>
<td>23%</td>
</tr>
<tr>
<td>Bankers</td>
<td>19%</td>
</tr>
<tr>
<td>Lawyers</td>
<td>13%</td>
</tr>
<tr>
<td>Business exs</td>
<td>12%</td>
</tr>
<tr>
<td>Car salesmen</td>
<td>6%</td>
</tr>
</tbody>
</table>

With whom are you happiest (rating 1-5)?

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Happiness Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friends</td>
<td>3.3</td>
</tr>
<tr>
<td>Parents/relatives</td>
<td>3.0</td>
</tr>
<tr>
<td>Spouse</td>
<td>2.8</td>
</tr>
<tr>
<td>My children</td>
<td>2.7</td>
</tr>
<tr>
<td>Co-workers</td>
<td>2.6</td>
</tr>
<tr>
<td>Parents/relatives</td>
<td>2.4</td>
</tr>
<tr>
<td>Alone</td>
<td>2.2</td>
</tr>
<tr>
<td>Boss</td>
<td>2.0</td>
</tr>
</tbody>
</table>


Building a leadership-rich organisation

Company effectiveness (% responses)

Importance to my development (% responses)

- External assessment
- External training
- In-house training
- Non-traditional training
- Individual learning
- Performance evaluation
- 360° feedback
- Development plans
- Special projects
- Speedy job rotation
- Job structuring
- Role models
- Informal coaching
- Mentoring
- Job rotation

- Roles/assignments
- Coaching/mentoring/performance dialogue
- Formal training

Company effectiveness (% responses)

Importance to my development (% responses)
5 How well do you balance performance + health?
Where do we want to go?

1. Do we have a compelling, understood, and jointly owned vision of change, plus performance targets?
2. Do we have a robust baseline and shared aspirations for the health of our organisation?

How ready are we to get there?

3. Do we have a solid assessment of our organisation’s capability to deliver our change vision?
4. Do we have insight into the root-cause mindsets that inhibit or enhance our organisation’s health?

What do we need to do?

5. Do we have a concrete, balanced set of performance improvement initiatives to deliver our change vision?
6. Do we have a clear plan for how to reshape our work environment to influence healthy mindsets?

How will we manage for success?

7. Do we have a well-defined scale-up model for each of the initiatives in our portfolio?
8. Do we have a method to ensure that energy for change is continually infused/unleashed during the change process?

How will we keep moving forward?

9. Do we have the structure, processes, systems, and people to drive continuous improvement in performance and health?
10. Do we have committed leaders who can lead transformation and sustain high performance from a core of self-mastery?

Where are you in your own transformation journey?

Delivery model

Continuous improvement infrastructure

Centred leadership

Strategic objectives

Health essentials

Capability platform

Discovery process

Portfolio of initiatives

Influence model

Change engine

Strategic objectives

Health essentials

Capability platform

Discovery process

Portfolio of initiatives

Influence model

Change engine
**Mindsets** in an organisation really can be shifted …

<table>
<thead>
<tr>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cost reduction</td>
<td>1 Cost reduction</td>
<td>1 Cost reduction</td>
<td>1 Cost reduction</td>
<td>1 Customer focus</td>
</tr>
<tr>
<td>2 Shareholder value</td>
<td>2 Profit</td>
<td>2 Shareholder value</td>
<td>2 Customer focus</td>
<td>2 Cost reduction</td>
</tr>
<tr>
<td>3 Results orientation</td>
<td>3 Shareholder value</td>
<td>3 Accountability</td>
<td>3 Shareholder value</td>
<td>3 Customer focus</td>
</tr>
<tr>
<td>4 Profit</td>
<td>4 Results orientation</td>
<td>4 Accountability</td>
<td>4 Continuous improvement</td>
<td>4 Customer focus</td>
</tr>
<tr>
<td>5 Goals orientation</td>
<td>5 Hierarchical</td>
<td>5 Profit</td>
<td>5 Continuous improvement</td>
<td>5 Achievement</td>
</tr>
<tr>
<td>6 Bureaucracy</td>
<td>6 Continuous improvement</td>
<td>6 Results orientation</td>
<td>6 Profit</td>
<td>6 Profit</td>
</tr>
<tr>
<td>7 Hierarchical</td>
<td>7 Customer focus</td>
<td>7 Continuous improvement</td>
<td>7 Results orientation</td>
<td>7 Results orientation</td>
</tr>
<tr>
<td>8 Short-term focus</td>
<td>8 Bureaucracy</td>
<td>8 Achievement</td>
<td>8 Achievement</td>
<td>8 Community involvement</td>
</tr>
<tr>
<td>9 Control</td>
<td>9 Achievement</td>
<td>9 Bureaucracy</td>
<td>9 Community involvement</td>
<td>9 Shareholder value</td>
</tr>
<tr>
<td>10 Risk averse</td>
<td>10 Goals orientation</td>
<td>10 Being the best</td>
<td>10 Customer satisfaction</td>
<td>10 Customer satisfaction</td>
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<td>28 Customer focus</td>
<td>28 Customer focus</td>
<td>28 Customer focus</td>
<td>28 Customer focus</td>
<td>28 Customer focus</td>
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</tbody>
</table>
“A turnaround is a transformation tragically delayed”

Gary Hamel
*Harvard Business Review*
2003