ADDENDUM: POST MEETING NOTES

DELIVERING ORGANISATIONAL PERFORMANCE – *SIMPLE BUT NOT EASY!*

Dennis Layton Senior Advisor, **McKinsey and Company**

Aisling Teillard Chief Customer Officer, **beqom**

Allen Powley Senior Vice President, Reward, **GSK**

What makes some organisations perform better than their peers or competitors? Why is it that some organisations achieve their goals, be it growth, profit, market share or saving lives, and others don't? How much of a company's success is due to the actions of its executives and managers? Which aspects of superior business performance can be attributed to the process by which senior management delivers that performance?

This was the subject of the recent PARC event and accompanying report on Delivering Organisational Performance. Managing organisational performance falls into that 'simple but not easy' category – the theory is usually simple to understand but the delivery can be fiendishly difficult.

Even so, there is strong evidence that those organisations which actively manage performance achieve better results than those which don't. The World Management Survey (WMS), run by LSE, MIT and Stanford, has studied 15,000 organisations since 2002. It found that management practices in three areas – target setting, performance monitoring and incentives – correlated with a number of measures of business success:

- Productivity
- Profitability
- Market share
- Sales growth
- Survival rates and lower length of stay in hospitals
- Better teaching scores and research outcomes in universities.

Furthermore, these correlations were robust across countries and sectors. More than 80% of the variation in productivity between firms occurs within a given sector in a given country. Productivity cannot therefore simply be explained by some sectors and countries being more productive than others. It has something to do with what those running the firms are doing in their respective organisations. As the WMS concluded:

> *High-performing firms have goals "based on shareholder value in a way that works through business units and ultimately is connected to individual performance expectations."*

However, in many organisations, this process seems to break down. As our speaker Dennis Layton, Senior Advisor to McKinsey and Company, explained. His research has shown that there is often a disconnect between what senior executives think people are doping and what they are actually doing. Typically, he said, some 20-40 percent of what people are working on has little or no relevance to the organisation's goals.

Establishing 'Grip' – a clear line between the company strategy, the senior executives' priorities and the activities of people on the frontline – is, he said, crucial to being able to stretch and improve the company's performance. There are examples from a number of organisations in Dennis's slides.

This, he argued, must be based on ongoing management and frequent conversations conversation, not on annual or periodic reviews of KPIs or individual objectives. As he put it:

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"Performance review processes are not designed to improve your organisation's performance. Management matters. Reviews do not."

Our second speaker, Aisling Teillard, Chief Customer Officer at beqom, also noted the frequent disconnect between the supposed strategic direction of organisations and the activities people were actually working on. She, too, stressed the importance of ongoing conversations. She highlighted the shift away from formal authority which was underway before the Covid pandemic but which was boosted by the sense of a 'boundaryless world' engendered during the lockdown and the dispersal of most organisations' employees.

Maintaining grip in such an environment becomes more difficult. Working side-by-side with people and getting to know them is key, she said. People expect a more collaborative approach. To achieve change, you need to take the whole team with you.

"The title 'Manager' doesn't have the same reverence that it once did. The team is king."

Even so, the old adage that 'what gets measured gets managed' still applies, so using tools that enable that in a less hierarchical and more distributed environment is key. Aisling's presentation goes into some of the processes in more detail.

Alan Giles, portfolio NED and former CEO, introduced a case study of Rentokil, of which he was, until recently, Remco Chair. Rentokil is a particularly interesting organisation because it has achieved FTSE Top 30 status in an industry where differentiation is extremely difficult and the barriers to entry are low. Achieving real performance differentiation in an activity like pest control is testament to the company's management. At the end of 2021, the Lex column in *The Financial Times* described Rentokil as *"a UK stock market darling again after decades in the cold."*

Essentially, the factors in the company's success can be summarised as follows:

- Highly visible leadership.
- Simplified and focused business – by getting rid of non-core operations and stopping activities that diverted energy and focus from its key objectives.
- A clear performance model – able to fit on one slide and be repeated. *"We stick to it and it becomes ingrained."*
- Set a small number of clear objectives.
- Communicated clearly in a core message.
- Core message is consistent internally and externally – for all levels of staff and for shareholders and customers.
- Respect for the front line – all senior managers spend time out with the operational staff.
- Devolved IT systems to the front-line.
- Tight cost control.
- Few trappings of status – everyone stays in the Travelodge.
- Low ego – no room for 'vanity projects'.
- Everyone paid and bonused on the same structure.

When researching our report, we interviewed a broad sample of chief executives, senior executives, non-executive directors, investors, and consultants. A number of common themes emerged from these discussions and the other data we gathered.

1 FOCUS
Setting a small number of key corporate priorities.

2 SIMPLIFY
Being prepared to stop activities and projects that do not help the organisation achieve its goals.

3 CLARITY
Setting clear expectations. Explaining priorities in a succinct and easily understandable way.

4 VISIBLE LEADERSHIP
Leaders reinforce the culture. They set the goals of the company but also the assumptions and expectations of the people within it.

5 GRIP
Planning work and understanding what people are spending their time on.

6 CANDOUR
Encouraging managers to confront difficult issues as they arise. Make feedback a habit.

As the chair of the meeting, Allen Powley, Senior Vice President, Reward at GSK (session slides available here), remarked:

"If you can't get the priorities onto a single slide, they are probably not priorities."

His comments were echoed by Alan Giles:

"Decisiveness over allocation of time, investment and resources makes the difference between success and mediocrity. There is a lot to be said for just stopping doing things. The Leaders I've seen be successful are people who make things simpler."

Which is where we came in. Improving organisational performance might be simple but it's not always easy. Much of it is about discipline, the ability to break habits, the willingness to stop doing interesting but irrelevant projects and the candour to confront and challenge the status quo. As anyone who has ever started an exercise or diet regime knows, this is a lot easier to say than to do.

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