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Beyond Performance
How Great Organizations Build Ultimate Competitive Advantage

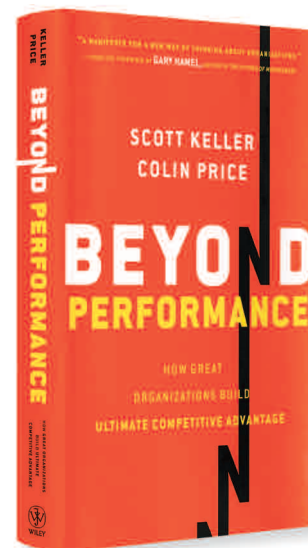by Scott Keller
and Colin Price

THE SUMMARY IN BRIEF

The greatest invention of all time isn't the wheel, it's organization. By working together effectively, people can achieve feats far beyond anything they could accomplish individually. At a time of unprecedented economic, political and social change, organizations need more than ever to operate at peak levels of performance. In order to do so, they need leaders who understand both how to achieve organizational excellence and how to sustain it.

Evidence shows that only a third of organizations that achieve excellence are able to maintain it over decades. Even fewer manage to implement successful transformation programs. These statistics have devastating implications. In business, most of today's companies will falter within 20 years. In government, the majority of reform programs will fail. So will most efforts to create broader social change.

Co-authors Scott Keller and Colin Price wrote *Beyond Performance* for people who intend to beat these odds. Based on one of the most extensive research efforts ever undertaken in the field of management, *Beyond Performance* shows how leaders can deliver performance today while ensuring that their organizations stay fit for the future.

IN THIS SUMMARY, YOU WILL LEARN:

- The secret of achieving and sustaining organizational excellence.
- Everything you need to build an organization that can execute in the short term and prosper over the long term.
- Why the health of an organization is equally as important as its performance.
- How to determine the mutually reinforcing combination of management practices that best fits your organization's context.

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THE COMPLETE SUMMARY: **BEYOND PERFORMANCE**
by Scott Keller and Colin Price

Introduction

Almost three decades ago, McKinsey's Tom Peters and Robert Waterman published what was to become one of the best-selling and most influential business books of all time, *In Search of Excellence: Lessons from America's Best-Run Companie*s. in which they examined 43 of the Fortune 500 list of top-performing companies in the United States.

Since *In Search of Excellence*, there has been a torrent of business titles providing accounts of organizational excellence and theories about what drives it. One of the best-known examples is Jim Collins and Jerry Porras' 1994 book *Built to Last*, which analyzed patterns among 18 successful companies.

Unfortunately, it seems that the recipes for excellence offered by these landmark publications provide no guarantee of staying power. It's revealing to look at what has become of the "excellent" companies lauded in the pages of *In Search of Excellence* and *Built to Last*. By 2006 — well before the recent financial crisis — 20 percent no longer existed, 46 percent were struggling and only 33 percent remained high performers. Why was this?

Changes in Fortune

Not all of these changes in fortune can be attributed to the companies themselves, of course. Performance is partly driven by macroeconomic forces, industry attractiveness and sheer luck. But it's also driven by the decisions leaders make, what they do and don't do, and the way they lead, which are things under every leader's control.

Our research suggests that many companies fall from grace because of an excessive bias toward a static view of managing performance instead of taking a more dynamic view that encompasses not only their company's performance, but also its health: its ability to align, execute and renew itself faster than the competition.

So if organizations need to take a more dynamic view of excellence, how can they achieve it? This takes us to the question of how leaders make rapid, large-scale change happen, and how they develop cultures of continuous improvement.

We don't claim to have all the answers, but at this point in our research efforts, we're confident that we do have insightful (beyond common sense) and pragmatic (readily applicable) advice that will help leaders beat these odds and achieve sustained organizational excellence. In fact, we've observed so many successes in so many industries and from so many different starting points using the approaches we describe that we regard successful transformation and sustained excellence as a real possibility for almost any organization. ●

PART I: WHY PERFORMANCE IS NOT ENOUGH

Perhaps surprisingly, we have found that leaders of successful and enduring companies make substantial investments not just in near-term performance-related initiatives, but in things that have no clear immediate

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benefit, nor any cast-iron guarantee that they will pay off at a later date. At IT and consultancy services company Infosys Technologies, for instance, chairman and chief mentor N.R. Narayana Murthy talks of the need to "make people confident about the future of the organization" and "create organizational DNA for long-term success."

So why is it that focusing on performance is not enough — and can even be counterproductive? To find out, let's first look at what we mean by performance and health.

Performance is what an enterprise delivers to its stakeholders in financial and operational terms, evaluated through such measures as net operating profit, return on capital employed, total returns to shareholders, net operating costs and stock turn.

Health is the ability of an organization to align, execute and renew itself faster than the competition so that it can sustain exceptional performance over time.

For companies to achieve sustainable excellence, they must be healthy. This means they must actively manage both their *performance* and their *health*. Our 2010 survey of companies undergoing transformations revealed that organizations that focused on performance and health simultaneously were nearly twice as successful as those that focused on health alone and nearly three times as successful as those that focused on performance alone.

The Five Frames of Performance and Health

Leaders can bring about significant and mutually reinforcing improvements on both of these fronts at the same time by following a structured process.

We've chosen to describe this process in terms of five basic questions that must be answered in order to make change happen. Here they are:

- *Aspire:* Where do we want to go?
- *Assess:* How ready are we to go there?
- *Architect:* What do we need to do to get there?
- *Act:* How do we manage the journey?
- *Advance:* How do we keep moving forward?

Our goal is to provide rigorous and proven methods that enable leaders to answer each of these questions as they relate to both performance and health. While both aspects are critical, we go into much more depth on health. Why? Because that's where the greatest need exists. When surveyed as to which areas they wish they had better information to help them design and lead transformation programs, only 16 percent of leaders chose "determining what needs to be done to generate near term performance." On the other hand, more than 65 percent chose "determining what needs to be done

to strengthen the company's health for the longer term." ●

The Science: Hard Facts Behind the Soft Stuff

You'll remember that we identified three key attributes of good health: internal alignment, quality of execution and capacity for renewal. Working from these attributes, we've determined that organizational health can be broken down further into nine elements that combine in different ways to support and sustain them:

1. **Direction** is a clear sense of where the organization is heading and how it will get there that is meaningful to all employees.
2. **Leadership** is the extent to which leaders inspire actions by others.
3. **Culture and climate** is the shared beliefs and quality of interactions within and across organizational units.
4. **Accountability** is the extent to which individuals understand what is expected of them, have sufficient authority to carry it out and take responsibility for delivering results.
5. **Coordination and control** is the ability to evaluate organizational performance and risk, and to address issues and opportunities when they arise.
6. **Capabilities** is the presence of the institutional skills and talent required to execute strategy and create competitive advantage.
7. **Motivation** is the presence of enthusiasm that drives employees to put in extraordinary effort to deliver results.
8. **External orientation** is the quality of engagement with customers, suppliers, partners and other external stakeholders to drive value.
9. **Innovation and learning** is the quality and flow of new ideas and the organization's ability to adapt and shape itself as needed. ●

PART II: THE FIVE FRAMES ASPIRE: WHERE DO WE WANT TO GO?

The first step towards organizational excellence is setting clear objectives for performance and health.

Performance: Setting strategic objectives

The performance aspirations your organization chooses will depend, to a great extent, on your starting point. They will also depend on your industry or sector. A

bank's performance aspirations will be quite different from those of a mining company, a hospital or a government department.

All the same, there are three lessons that almost any organization can apply when setting its performance targets: focus on your medium-term future, balance facts and intuition, and set tough but achievable goals.

Health: The Four Archetypes

On the health side, organizations will do best by starting with the knowledge that 37 specific management practices make up the nine elements of health.

Our research shows that healthy organizations need to excel at no more than six, if they're the right six. We've been able to determine how these practices complement, or impede, one another, and defined four archetypes that around four-fifths of healthy organizations fit into.

The Four Archetypes

How do we find those six? When we analyzed the complementarities among the practices underpinning organizational health, we found there are *four* recipes that can be used as a foundation on which to build. For simplicity, we've labeled each recipe as an "archetype" of a healthy organization. They are:

- **Leadership Driven.** Companies that fit this archetype believe that leaders are the catalysts for performance, setting high expectations and supporting the organization in achieving them.
- **Execution Edge.** Companies that fit this archetype believe that discipline, sound execution and continuous improvement are the foundation for great performance.
- **Market Focus.** Companies that fit this archetype believe that shaping market trends and building a portfolio of strong and innovative brands keep them ahead of the pack.
- **Knowledge Core.** Companies that fit this archetype believe that their pool of talent and knowledge represents their most important asset, and that their success depends on developing it effectively.

It's important to note that these four recipes are not a mere analytical construct, but a deeply ingrained fact of organizational life. Further, the knowledge that there are four reinforcing recipes should make it clear to leaders that they need to think systemically about health rather than adopting individual "best practices" from other organizations. What works in one recipe may spoil another. ●

Assess: How Ready Are We to Go There?

For most leaders, once they've set their performance and health goals, it's tempting to move straight into action. That is a mistake. Organizations that succeed take the extra time to assess whether they have the capabilities and mindsets to fulfill their aspirations.

Performance: Determining the Capabilities That Matter

Assessing the capability platform of your organization takes place in a two-step process: determining the capabilities that matter most in terms of your performance aspirations and then evaluating the state of these capabilities in your organization today.

This is a vital part of the transformation process: Our survey indicates that organizations that explicitly assess their current capabilities against those required to fulfill their performance aspirations are 6.6 times more likely to succeed in their transformation.

Consider an organization that needs to do something to stop its margins being squeezed. Its natural response will be to cut costs. But what capabilities will it need to implement this strategy? The answer will depend on where it intends to achieve the savings. Will it look to lean manufacturing? Better procurement? Supply-chain redesign? A review of overhead costs? Having targeted one or more areas, the organization faces another question: How good does it need to be at these areas to capture the savings? And looking further ahead, which of them is worth investing in strategically? In other words, which might yield competitive advantage in the future?

Answering questions like these will give you a clear view of the institutional capabilities you'll need.

In our experience, genuinely institutional capabilities are supported by three systems within an organization: technical, management and behavioral.

Health: Discovery Process

If we find symptoms of ill health, how can we trace them back to root causes? The place to look is at underlying mindsets. Mindsets drive behaviors and behaviors support (or obstruct) the management practices that lead to good (or bad) organizational health.

Bringing these mindsets to the surface and working with them explicitly is the only way to make sustainable change happen. Missing this step will doom any transformation to failure. In our 2010 survey, none of the companies that did no work on diagnosing mindsets rated their transformation programs as "extremely successful."

Moreover, companies that did go below the surface to identify deep-seated mindsets were four times more likely than those that didn't to rate their transformations as "successful." ●

Architect: What Do We Need to Do to Get There?

By this stage, you know your aspirations and the facts about your capability platform and vital shifts in mindsets, so it's time to work out exactly what you need to do to get from where you are now to where you want to be.

To make the transformation manageable, you'll need to break it down into a portfolio of change initiatives.

Performance: Identify the Right Set of Initiatives

Identifying the right set of initiatives is not always straightforward. Again, there's a close analogy with human health. When you feel ill and visit your doctor, he or she will ask about your symptoms, conduct an examination, eliminate possibilities and, if necessary, use tests to form a judgment on your disease or condition, the course it will take and the treatment most likely to prove effective.

Translated into a business context, this might sound something like: "This is where we are heading if we carry on as we are. Unless we address X and build on Y, we won't be able to get to where we want to go."

To help companies devise a holistic set of actions to meet their performance goals, we've developed an approach that we call the "portfolio of initiatives." To follow it, organizations develop a list of potential initiatives to take and then plot them on a grid with two axes: time and familiarity. The grid they produce will reveal at a glance whether the initiatives are balanced or unbalanced.

A portfolio of initiatives should embody all the actions your organization needs to take to meet your medium-term performance aspirations.

Health: The Influence Model

In the "Assess" phase, you decided on the vital few shifts in mindset that you need to make to achieve your performance and health aspirations, so your next priority in this, the "Architect" phase is to devise a set of interventions to influence those mindsets. The key to influencing mindsets lies in making meaningful changes to the context in which people work.

Through years of research and practical application, we have developed what we call the "influence model." It identifies four major levers that leaders can use to shift employee mindsets on a wide scale:

- **A compelling story.** The key elements in a compelling story are its content, the way it is communicated and the embedding of its message through rituals.
- **Reinforcement mechanisms.** Organizations need to link performance and health with rewards and consequences, leverage non-financial incentives and adjust their management processes, structures and systems.
- **Skills required for change.** The right skills can be developed by adopting a "field and forum" approach, working on the required relational and technical skills, and refreshing the talent pool.
- **Role modeling.** Effective approaches to role modeling include having the top team undergo a visible transformation, taking symbolic actions and selecting and nurturing influence leaders.

Using these levers to influence mindsets doesn't mean adding further initiatives to the slate of things to do. Instead, it means ensuring everything already on the slate is done in a way that maximizes their impact on the desired shifts in mindsets. ●

Act: How Do We Manage the Journey?

As with any journey, lessons are learned along the way, unforeseen events call for the plan to be adapted and energy levels must be managed to make it over the long haul. Having the right delivery model and change engine enables this to happen during transformational change.

Performance: Choosing the Right Delivery Model

Too often, organizations are impatient to get a pilot under their belt so they can press on with the rest of the implementation. However, driving it too fast or without sufficient care and attention can quickly lead to unintended consequences.

The first pilot is a *proof of concept* designed to establish whether the idea you are testing truly creates value. Conducted properly, this pilot will make considerable demands on your attention and resources. After all, if an initiative has made it into your portfolio, that must mean you expect it to deliver significant value, so investing in a field trial will be very important.

Let's say the first pilot goes well. What's to stop you

jumping straight from proof of concept to scaling up? We'd strongly advise against it. Instead, we recommend you complete a second pilot — a *proof of feasibility* — to work out how you can capture the bulk of the desired impact in such a way that it is fully replicable.

This pilot needs resources on par with those you'd dedicate to the real scale-up effort, plus a sustainable level of senior management attention (not an initial surge of interest that fades as time goes on).

Health: Creating the Change Engine

To help leaders generate and manage energy in their organization during the hectic execution stage, we've developed a tool called the change engine. It applies equally to performance and health initiatives, and consists of three linked elements:

- **Structure.** Bringing order and clarity to transformation activities by structuring the program at three levels: the transformation headline, performance and health themes, and specific initiatives. Programs are more than six times more likely to be considered successful if they are well structured according to our 2010 *McKinsey Quarterly* survey.

- **Ownership.** Building broad ownership for the transformation by combining formal governance and accountability with viral tactics to unleash self directed change. The same survey found that programs that energize employees through communications and personal involvement are twice as likely to be considered extremely successful.

- **Evaluation.** Regularly collecting robust data on progress in order to correct course quickly when necessary and celebrating achievements. Programs that rigorously track progress and impact through clear metrics and milestones are more than seven times more likely to be considered extremely successful. ●

Advance: How Do We Keep Moving Forward?

Building the capacity for continuous improvement requires as much energy and focus as any other stage in a transformation. The key to embedding a capacity for continuous performance improvement in your organization is to hardwire it into the infrastructure.

According to our 2010 survey, companies that build the capacity for continuous improvement into their organization are 2.6 times more likely to consider their transformation program a success over the long term.

Performance: Continuous Improvement Infrastructure

The transformation program will already have helped develop many of the mindsets and competencies that are needed to support continuous improvement: stronger functional and problem-solving skills, confidence that improvement can be achieved, the breakdown of silo thinking and so on. But the organization will also need to take specific steps to put a continuous improvement infrastructure in place. This comprises four main elements:

- Systems for sharing knowledge and best practice to ensure that improvements in one area are quickly adopted in relevant areas across the organization.

- Processes to identify and capture opportunities for improvement that enable employees at any level to change things for the better.

- Methods to facilitate continuous learning that give an organization a chance to pause and take stock of what's working, what isn't and what to do about it.

- Dedicated expertise to ensure continuous improvement activities get the attention they deserve.

Health: Centered Leadership

The core requirement on the health side is the right kind of leadership. The centered leadership model comprises five elements, which, when combined, give leaders the resilience and emotional capacity to continuously improve themselves as they continuously improve their organization. These elements are:

- **Meaning:** finding and communicating personal meaning in work, and enabling others to tap into their own sources of motivation and purpose.

- **Framing:** discovering opportunities in adversity by viewing even the most difficult problems in a way that opens up constructive and creative solutions.

- **Connecting:** taking active steps to build a web of internal and external relationships.

- **Engaging:** generating the confidence to step up and act, involving themselves and others in the face of uncertainty and risk.

- **Energizing:** investing systematically in one's own physical, mental and emotional energy, and creating the practices and norms needed to energize others.

A *McKinsey Quarterly* survey of 1,147 executives found that the five elements of centered leadership are mutually reinforcing. Respondents who reported that they frequently practiced four or all five gave high ratings to their passion for their work, their effectiveness as leaders and their satisfaction with life.

We discuss centered leadership last because it is a destination. By the end of any transformation you should have a broad base of centered leaders to take the organization forward. The journey to centered leadership, however, should start from day one. ●

PART III: PUTTING IT ALL TOGETHER

The senior leader's role is unique. The person at the top of the pyramid provides cues for everyone else in the organization as to what really matters. Furthermore, by learning what the senior leader's role in a transformation should be, readers at lower levels of an organization — and would-be leaders, too — can help their own senior leader fulfill it.

What Only the Senior Leader Can Do

There are four roles the most senior leaders should play during transformational change: making the transformation meaningful, role-modeling, building the team and relentlessly pursuing impact.

- **Make the transformation meaningful.** The impact of the change story depends on the extent to which the senior leader makes it personal, openly engages others and spotlights successes as they emerge. Senior leaders should consider themselves the "Chief story teller" in the organization.

- **Role model desired mindsets and behaviors.** Successful senior leaders typically embark on a personal transformation journey of their own. Through their actions, they not only show what the new behavior looks like, but also role model the ability to change.

- **Build a strong and committed top team.** To harness the transformative power of the top team, senior leaders must make tough decisions about who has the capability and motivation to make the journey, and spend real time ensuring alignment at the most senior levels.

- **Relentlessly pursue impact.** Where significant customer impact, or financial or symbolic value is at stake, there's no substitute for senior leaders rolling up their sleeves and getting personally involved. "I was an outrageous champion of everything we did," Jack Welch said of his involvement in numerous GE transformation initiatives including Six Sigma, the Workout program, reinventing Crotonville and the A-Class leadership initiative.

While playing each of these roles, the senior leader must also ensure that the organization strikes the right balance between performance and health, and doesn't allow one to overshadow the other. Daniel Vasella, CEO of Novartis, warns that, "Once you become dominated by the pressure of making the quarter, even unwittingly … you'll begin to sacrifice things that are vital for your company over the long term." ●

The Five Frames in Action: One Company's Story

On becoming president of the US financial services company Wells Fargo, John Stumpf inherited an organization with a strong culture that already led the industry in many products and customer segments. With no burning platform to drive change, he wondered how he could define his era of leadership, so he commissioned a review of current performance and future trends. This exposed worrying developments on the horizon: opportunities for acquisition were few, regulation was getting tighter, credit quality was deteriorating and customer preferences were changing.

Further analysis revealed that the bank had a healthy execution-edge archetype. It committed itself to pursuing historic growth rates despite the adverse trends, and decided to focus on capturing value by "mining the seams" between its traditional silos to boost cross-selling and customer loyalty. This would involve shifting to a market-focus archetype, but without losing the strengths and disciplines of the execution-edge archetype.

The bank followed the five-phase approach to make these aspirations a reality. Two years later, thanks to the equal emphasis on a portfolio of performance initiatives and a health-oriented spirit and way of thinking — on top of continuing efforts within lines of business to out-execute the competition — Wells Fargo's cross-sell rate was up by 18 percent to an extraordinary 5.2 products per customer. Customer loyalty measures in the community bank, where the bulk of the initial efforts were targeted, had jumped from 34 percent to 45 percent, and customer attrition had dropped from roughly 20 percent to less than 10 percent. Total returns to shareholders grew by 5.5 percent compared with 2.6 percent for industry peers, and net revenue grew by 31 percent compared with 11 percent for industry peers.

On the health side, the number of team members who felt that their way of working helped make things easy for customers had increased by 23 percent, and those feeling that collaboration across businesses was benefiting customers had increased by 16 percent. Moreover, the ratio of engaged to disengaged employees in the community bank had leaped from an already high 4:1 to a truly distinctive 7:1.

'One Wells Fargo'

Wells Fargo's merger with Wachovia has made the rallying cry of One Wells Fargo all the more important. The work on integrating the two companies continues and is expected to take until the end of 2012. What then? The organization is already gearing up for the next round of One Wells Fargo performance and health initiatives that will equip it to stay ahead of the competition long into the future. For now, though, the bank's experience over the period of 2005-2008 stands as a vivid illustration of how to make change happen at scale in an organization.

When asked to look back and identify the key ingredient in the effort, Stumpf — now chairman, CEO and president — nominates "getting the right balance between the initiatives we were driving from the top of the house with creating the right spirit, ways of thinking and ways of working throughout the organization." In the end, what mattered was "our 150,000 team members making the right One Wells Fargo decisions day in and day out." Ever true to his company heritage, however, Stumpf adds, "And having a time-tested set of vision and values to build upon and a great team to make it happen didn't hurt either!"

That brings us back to our central theme. The "vision and values" and "great team" that Stumpf credits as key factors in Wells' success are hallmarks of an organization that places as much weight on sustaining its health as on delivering performance and financial results. Getting that "and" into performance and health is what gives organizations ultimate competitive advantage. Not only does it enable them to make a successful transformation, it enables them to stay on top from then on. ●

Making It Happen: Do You Have What It Takes?

As we come to the end, we'd like to reiterate three of the principles that sit behind everything you've read. They are right at the heart of our findings and we'd encourage you to keep them in mind so that you stay grounded in the fundamentals of performance and health as you embark on and progress through your own journey.

Performance and Health Matter Equally

The first principle is that *performance and health matter as much as one another — and can be measured and managed with equal rigor.* The most important word in performance and health is "and." In all the decisions you make and actions you take as a leader, we encourage you to address both dimensions at once whenever you can. But

bearing in mind that it's the health aspects that are most often neglected, we suggest you put extra emphasis on that side of the equation.

For most leaders, doing what we recommend will mean stepping outside their comfort zone. When we leave our comfort zone, we enter a learning zone.

Manage Performance and Health Today

The second principle is that *performance and health are both things you should be managing today.* Just as performance requires a quarter-by-quarter, month-by-month, day-by-day focus from leaders, so does health. Sometimes people equate health with the long term (something to manage tomorrow). This thinking couldn't be more flawed. Our research shows that the way you manage your health today is responsible for at least 50 percent of your ability to continue to perform in the future. And we'd add a word of warning: the higher an organization is riding in its performance, the more likely it is to be complacent about its health. Leaders of today's high-performing organizations would be well advised to watch out for this tendency and deal with it quickly should it arise.

It All Comes Down to Behavior Change

The third principle is that nothing changes unless behavior does. In the end, improving an organization's performance and health comes down to getting people to do things in a different way. That requires us to understand why we behave the way we do, and to be aware of the things that can stop us from achieving the impact we're striving for. We need to accept the predictable inherent biases that make us human, no matter how irrational they may seem in the cold light of logic. The approaches and tools we use should always be viewed through the lens of "How does this help us to understand and influence the behaviors we need to achieve our aspirations?"

A Proven, Rigorous Approach

Our research and experience indicate that by putting the three principles above into practice through the five frames approach, your organization will be well on its way to sustaining high performance and company health no matter what its industry or field may be. ●

RECOMMENDED READING LIST

If you liked *Beyond Performance*, you'll also like:

1. *How Companies Win* by Rick Kash and David Calhoun.
2. *Leading Outside the Lines* by Jon Katzenbach and Zia Khan.
3. *Change the Culture, Change the Game* by Roger Connors and Tom Smith.