

# STRATEGY NEWS

## Winter 2003

### Achieving superior performance Management practices that matter

Out of over 200 well-established management practices only a handful have a significant impact on performance and produce superior results. This is the finding of a groundbreaking five year study reported in the Harvard Business Review (July 2003) "What really works" (Nohria, Joyce & Robertson)

At last there is research-based evidence to prove which management practices really matter versus the many "fads" that don't.

This study looked at the performance of 160 companies over a ten-year period and the impact of various management practices on their performance. The results were stark and simple. *There are only four primary management practices that lead to superior business performance. These practices are supplemented by mastery of two out of four secondary management practices.* Of equal importance is an organisation's ability to sustain and remain focused in pursuit of these practices.

# " Without exception companies who excelled at these practices outperformed their industry peers "

Companies that consistently follow this 4+2 formula have a better than 90% chance of sustaining superior performance, according to the authors. Within a ten-year period investors in the "winning" companies saw their investment multiply almost tenfold (945% for "winners" versus 62% for "losers").

## THE 4 PRIMARY MANAGEMENT PRACTICES

### 1. STRATEGY

*Strategy must be sharply defined, clearly communicated and well understood by employees, customers, partners and investors.*

#### Hallmarks of Success:

- Ensure a clear value proposition for the customer
- Develop strategy around the behaviour and views of customers, partners & investors
- Adjust continuously to market changes
- Communicate strategy in simple terms to all stakeholders
- Focus time & effort on core business areas

### 2. EXECUTION

*There must be flawless operational execution and never disappoint customers*

#### Hallmarks of Success:

- Consistently meet customer expectations (exceeding expectations is not always required!)
- Create market adaptability by putting decision making authority close to the front line
- Improve productivity at twice the industry average – strive to eliminate waste and excess

### 3. CULTURE

*The culture must hold high expectations about performance*

#### Hallmarks of Success:

- Inspire all employees to achieve high performance
- Release employees to make independent decisions and reward improvements to operations
- Link pay and performance and keep raising the performance standards
- Recognise achievements by offering people other ways to use their talents
- Create a challenging work environment
- Define and communicate clear company values in forceful language, backed up by solid actions

### 4. STRUCTURE

*The structure must reduce bureaucracy and simplify work*

#### Hallmarks of Success:

- The structure must simplify working with and working in the organisation
- Sharing information and team working should be built into the structure
- Strive to put your best people as close as possible to the customer

Without exception companies who excelled at these practices outperformed their industry peers. To quote from the authors "it really doesn't matter if you implement ERP software or a CRM system; it matters very much, though, that whatever technology you choose you execute it flawlessly. Similarly it matters little whether you centralise or decentralise your business as long as you pay attention to simplifying the way your organisation is structured".

## THE 4 SECONDARY MANAGEMENT PRACTICES (MASTERY OF 2 OUT OF 4 IS NECESSARY)

### 5. TALENT

*Organisations must retain talented people and develop more talent*

#### Hallmarks of Success:

- Where possible promote outstanding talent from within to senior positions
- Sustain top of the range training and development programmes
- Design jobs which challenge your top performers
- Dedicate personal attention from senior executives in the selection and development of people

### 6. INNOVATION

*Organisations must anticipate events to produce innovative products & services*

#### Hallmarks of Success:

- Focus on innovation with the potential to transform the industry – rather than marginal improvements
- Be willing to cannibalise existing products rapidly
- Apply new technologies to internal processes to create new ways of doing business or major cost efficiencies or both!

### 7. LEADERSHIP

*Selecting great CEOs can improve performance significantly (15% variance on profitability)*

#### Hallmarks of Success:

- Link leadership team's pay to performance
- Develop connections with all levels in the company
- Create the environment to ensure opportunities and threats are identified at an early stage
- The board must understand the business, committed to it's success and have a significant stake in it's financial performance

### 8. MERGERS AND PARTNERSHIPS

*It is imperative to master mergers and acquisitions and integrate them quickly. Only 22% of companies studied made this a winning practice.*

#### Hallmarks of Success:

- Only acquire businesses that compliment core capabilities and leverage existing customer relationships
- Use partnerships to move into new business areas using a unique combination of both sets of capabilities
- Develop principles and guidelines (from experienced based leading practices) to consistently select the right deals and how to integrate quickly to generate returns within three years that exceeds the premium paid

## CONCLUSION

These fundamental management practices while not surprising are not simple and demand a very clear and determined focus not on one practice only but consistency and resilience in six practices (4 primary and 2 secondary)! Not many organisations have the capability, foresight or focus to continuously drive excellence in these practices over a sustained period. The types of companies that do in an Irish context, include Kerry Group, Ryanair and CRH, all of whom appear to be relentless in pursuit of business basics and achieve superior performance.

This research certainly gives clarity and insight into where companies should focus their time, effort and resources. Forget the "fads". The management practices presented here have a direct causal relationship to superior business performance, but only if pursued with passion and rigour over a sustained period.

## PROSPECTUS NEWS

### RECENT/ONGOING WORK

#### **Financial Institution**

Review of a branch planning model for determining appropriate branch staffing requirements across the branch network.

#### **Major Food Processor**

We are currently assisting a major food processor in the development of a strategic development plan.

#### **Major Acute Teaching Hospital - Casemix support**

We are assisting the senior management and casemix professional staff of a large acute hospital to look at all aspects of their casemix operations.

#### **International Mutual Fund Bench Marking Study**

We are participating in a study of the administration of mutual funds in Paris, Dublin (including the IFSC), London and Luxembourg.

#### **Executive briefing on accreditation for private hospital**

Our role was to provide the senior management and supervisory board with a detailed understanding of the principles and practice of quality improvement and to plan the implementation actions and challenges for the hospital.

#### **Review of voluntary residential childcare home**

Currently reviewing the roles, structures, governance and working relationships in a voluntary residential childcare home and making recommendations for their future direction.

#### **Strategy for Voluntary Hospital**

Assisted the new CEO and Board in developing a five year strategy. The strategy formulated involves developing a healthcare proposition which is unique in Ireland.

#### **Pharmaceutical Company**

Market assessment for multinational drugs and medical devices distribution company

#### **Consortium of Dublin based Academic Institutions/Teaching Hospitals**

Currently, developing a business case, including operating, financial and governance models, for the establishment of an imaging research centre in Dublin by a major trans-national company

#### **Leading Cancer Hospital**

Currently, developing a service development plan for the Hospitals's new Patient and Family Support Centre and a Cancer Education and Research Centre.

### STRATEGIC COMPETITIVENESS PROGRAMME FOR MULTATIONALS

The IDA is grant-aiding consultancy costs for Irish subsidiaries of multinationals to make a business case to their parent company for relocation to Ireland of additional "Value Chain" activities. 50% of the consultancy costs up to a total of €50,000 will be grant-aided after successful application to the IDA.

We at Prospectus are uniquely qualified to assist companies in developing such a case. If you would like to learn more about this and how we can help you please contact Damian Ringwood on tel: 01 – 260 3122 or email: [dringwood@prospectus.ie](mailto:dringwood@prospectus.ie)

### EVENTS

Prospectus Business Forum Breakfast "M&A the CRH WAY", guest speaker Joe McCullough, Group Development Director, CRH Plc, took place on October 16th in the Radisson. The event was a great success and highlighted a number of significant issues around M&A integration. If you would like a briefing on some of issues that came out of the event please contact – Damian Ringwood on tel: 260 3122 or email [dringwood@prospectus.ie](mailto:dringwood@prospectus.ie).

#### **Association of Directors of Community and Enterprise Annual Conference**

Diarmaid O Corrbuá, Director, Prospectus, spoke on "Making Change Happen" at the Association of Directors of Community and Enterprise Annual Conference in Letterkenny, Co Donegal on the 14th October.

#### **AGM of the Irish Pharmaceutical Healthcare Association**

Vincent Barton, Director, Prospectus addressed the AGM of the Irish Pharmaceutical Healthcare Association on 14th November. The subject was "Health reform - what needs to happen next?"

#### **Prospectus Corporate Governance Publication**

Prospectus, in Partnership with the IOD, (Institute of Directors Ireland) is writing a Corporate Governance Publication around the "Building Blocks of Corporate Governance". This publication will be launched in the New Year and is targeted at leading business men and women who want to put effective corporate governance structures and processes in place.

This will be the first of three publications, the other two will look at Corporate Governance in the Public Sector and Corporate Governance in Healthcare.

#### **Prospectus Website**

We have recently launched our new website, any feedback you have is most welcome. Please check it out and learn more about how we can help you: [www.prospectus.ie](http://www.prospectus.ie).

### PROSPECTUS

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