

High-Performance Business II

# In search of performance anatomy

By Tim Breene and Robert J. Thomas

Performance anatomy is perhaps the most elusive characteristic of all great companies. But with its distinctive perspective on the interaction between leadership and strategy, people development, IT enablement, performance measurement and innovation, it is critical to defining a high-performance business.



■ Competing companies can, for a time at least, appear almost identical. They may share the same targeted markets, business model, revenue base and employee compensation levels, among countless other features. But over time, these companies' performances start to vary, and soon it becomes obvious they never really were the same. Where they differ is in something Accenture calls *performance anatomy*.

Performance anatomy runs deep inside an organization, and it affects all of its employees and functions. Performance anatomy is neither hereditary nor accidental. It is the outcome of deliberate choices made by senior executives. Yet it is also by nature elusive, rarely if ever reducible to a statement of vision and values.

In accord with most business leaders and observers, we believe that culture matters when it comes to explaining how some organizations achieve and sustain high levels of performance. But frankly, most discussions of culture end up being less precise and less actionable than what we have in mind when we refer to performance anatomy. To be explicit, performance anatomy is different in three key ways.

1. It represents a unique way of approaching the core elements common to every business: leadership and strategy, people development, technology enablement, performance management and innovation (see table, page 30). In other words, performance anatomy is similar to culture in that it expresses the vision and values of the organization—especially those of the founders. But it is different in that it contains very clear and explicit directions for how each of those core elements ought to be managed and

what competencies the organization needs to develop to achieve high performance.

2. Performance anatomy represents a distinctive perspective on the interaction and the integration of those core elements; that is, how and why they relate to one another the way they do. High-performance businesses, we argue, actively manage the interaction between leadership and strategy, people development, IT enablement, performance measurement and innovation in a way that produces outstanding and sustainable results. Conventional treatments of culture provide little insight into how companies manage these interactions; performance anatomy does.

3. CEOs and their top management teams make integration of those elements a primary responsibility, whether they do it intuitively or programmatically. Indeed, the ability of a top management team to actively build the organization's performance anatomy is testimony to its deep understanding of the competitive essence of the business. Performance anatomy thus represents more than values and assumptions; it represents a touchstone guarded and stewarded by the CEO that aligns the top management team—a touchstone that is absolutely essential in an increasingly turbulent and uncertain business environment.

The impact of performance anatomy is profound. It touches decisions about organization design, business models, incentives and values, and top management team composition and succession; it affects the long-term effectiveness, quality and speed of decision making, as well as the mastery of change and innovation productivity.

The challenge of creating a high-performance anatomy is considerable because executives must commit to decisions and actions that may produce only subtle changes in the short term, even if they will have enormous impact years later on the company's ability to outperform competitors and fend off new entrants. In too many businesses, the agenda gets swamped by the pressing needs of today's operational realities.

In the sections that follow, we lay out our thinking on both the perspectives and the behaviors that characterize organizations with high-performance anatomies.

### **Leadership and strategy: Balancing a market-maker mindset with disciplined execution**

Many of today's leading business books underscore the importance of the intellectual underpinnings of a business's pursuit of growth. They encourage companies to exploit visionary leadership to overcome the challenges of disruptive technologies, for example. But another wave of recent books has focused on the importance of "execution"—the ability to *act* as well as *think*. So which is the right answer?

Our research shows that high-performance companies do both. They proactively shape markets based on an unrelenting pursuit of customer-valued innovation. We say "customer valued" because these companies have worked hard to get close to customers and identify latent demand. High-performing companies are not merely reacting to market evolution.

Yet these companies maintain a discipline in their ability to execute that is the envy of their competitors.

They value and believe in organizational discipline—in the kind of adherence to budgets and deadlines that creates mutual reliability and trust within and throughout organizations. They have made a *commitment to commitments*, if you will.

In the process, they successfully manage the paradoxes of near- and long-term business focus, including the requirement to create both lasting stability and constant change, both management control and organizational flexibility. They actively embrace stretch goals but are not reckless with what they have already established.

Microsoft Corporation is one company that expertly manages the constant blocking and tackling of high performance. The company has established world-class distribution and customer service, for example. Yet it has also repeatedly moved into important new markets that play to its strengths, like Internet services and video and online gaming. Other companies—Dell, Nokia, UnitedHealth and Procter & Gamble, to name just a few—consistently demonstrate this sort of balance by weathering dramatic changes in their business environments, while remaining a top player in each area of competition.

To make this perspective on leadership and strategy a part of their anatomy rather than simply a management fantasy, high performers operate differently in a number of key areas. First, these companies' top management teams deliberately manage their agendas to ensure the appropriate balance between "today" and "tomorrow." In contrast to typical leadership teams mired in day-to-day problem solving, research shows that high performers deliberately set aside *at least a third* of their time for issues that are strategic at the

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enterprise level (not at the business-unit or operational level) and are intended to build organizational capabilities (not current production). This commitment is particularly effective in preparing top managers to face unexpected challenges.

Second, they often wisely choose strategic initiatives that serve both near- and long-term needs. Take UK retailer Tesco, for example. Long known for its “pile it high and sell it cheap” strategy, the retailer’s management team decided in the early 1990s that the company needed to become customer-focused if it was to remain competitive.

By concentrating on changing the everyday behaviors of all its employees through better training

and incentives, Tesco found a way not only to immediately improve its business results but also to build a lasting differentiator that drives the company’s high performance today, more than a decade later. Tesco’s slogan, “Every little helps” perfectly captures the essence of how small changes in employee behaviors can add up to big benefits for customers and the company.

### People development: Talent-multiplier system

High-performance businesses prove more effective than their competitors at exploiting the collective intelligence and motivation of their workforces. How? According to the 2004 Accenture High Performance Workforce study, there is a strong correla-

tion between financial performance and the priority organizations place on human capital development. (For related articles, see “How to boost your workforce performance ROI,” *Outlook*, May 2003, and page 64 in this issue.) For example, leading companies are far more likely than others to regularly measure the link between investments in people and business results. Moreover, their CEOs take a much more visible and direct role in people-development initiatives. In this way, high performers create a “talent multiplier”—better results per dollar of investment in their workforces. This multiplier serves as a real and hard-to-imitate competitive advantage.

Building a talent-multiplier system requires a fundamental shift in

## Perspective and behavior

Organizations with high-performance anatomies are characterized by their perspectives and behaviors in five key areas.

Element	Perspective	What high performers do
Leadership and strategy	Balance market-maker mindset with a focus on execution	Tame the inherent contradictions in successful business management by finding ways to be both visionary and execution-minded; to maintain stability while managing change; to achieve control yet remain flexible and adaptive; and to shape, as well as respond to, internal and external pressures for change.
People development	Talent-multiplier system	Achieve extraordinary levels of employee productivity through differentiated approaches to recruiting; identifying and developing talent; growing leaders; and supporting the optimal performance of the workforce.
IT enablement	IT as strategic asset	Enable rapid and effective use of technologies that provide competitive advantage by cultivating employee receptivity and a strategic-IT mindset.
Performance measurement	Inclusive scorecard	Achieve significantly greater ROI by identifying, measuring and leveraging intangible assets unique to the business, as well as tangible assets.
Innovation	Continuous renewal	Vouchsafe the future of the organization by infusing the business and its employees with a dedication to innovation through learning, an openness to change, and a passion for, as well as skill in, execution.

mindset, followed by changes in several key human performance areas. This mindset is one in which human capital development is considered strategic. Rarely is this shift accomplished by simply elevating conventional human resources executives to the executive suite. Indeed, in more than one instance, we found that high-performance companies drew their HR executives from outside the HR community, and when they could not be found inside the company—as was the case at General Electric Company under Jack Welch—outside experts were brought in to advise the CEO.

When building a talent-multiplier system, among the most important changes in HR processes are those involved in identifying talent, preparing leaders and supporting the optimal performance of the workforce. Research often suggests two effective ways to identify next-generation leaders: Find people who already have the “right stuff,” or find people with extraordinary learning capacities, even if they’re not ready to lead right away.

Many companies pay lip service to these approaches, or apply them superficially. But a high performer identifies talented employees early in their careers, grooming them with developmental experiences that are increasingly strategic in focus and enterprisewide in scope, and providing them with coaching and learning through successes—and, if necessary, failures.

High-performance businesses also excel at a second and tougher task: recognizing underperforming employees and dealing with them decisively. Knowing that discipline in small things leads to discipline in big things, these companies strive to stay on top of employee under-

performance, nipping the weedlike spread of slipshod work in the bud.

At many companies, preparing employees to lead simply means having a clear succession plan, and mechanisms in place to identify and harness talent. High performers do things differently. Their perspective is much broader, enabling them to tap into the abilities and leadership of a larger pool of potential talent. Just as an army develops effective leadership for frontline duty, not just at central command, high performers build leadership in depth, focusing not just on getting those with high potential up to speed quicker but also on making B players better.

The benefits of better selection and preparation, however, can be diminished if employees find themselves working in an environment that does not fully champion their success. Indeed, in a pathbreaking study, Accenture’s Human Capital Development Framework has shown empirically that workplace design is strongly correlated with both innovation and financial performance. The full talent-multiplier effect is driven by an additional focus on performance support, evinced in subtle yet important cultural behaviors, such as tolerance for risk and failure, flextime, job sharing and creative contracting—all practices embraced by high-performing businesses that give their employees the support they need to be extraordinarily productive (and often to lower costs at the same time).

Many high-performance businesses also possess a cadre of self-organizing teams that encourage and enable talented workers to identify one another and collaborate. For instance, recent studies by Harvard

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Business School professor Steven Spear and University of Michigan professor Jeffrey Liker have found this to be a perennial cultural trait at Toyota Motor Corporation. The result, in Toyota's case, is an organization with a long history of making significant improvements and modifications at a rate that few organizations have ever approached.

A final aspect of establishing the right environment for developing talent is creating continuity and stability, which means not launching big CEO initiatives every year or every month. High performers are committed to consistent improvement, not continual drastic change, and like Toyota, they are willing to reap its benefits in a slow but steady pattern that allows every employee to be part of changing for the better.

### **Technology enablement: IT as strategic asset**

High-performance businesses regard IT as a source of both operational excellence and competitive advantage. They look beyond using IT as a tool for controlling costs, and understand that IT is the link for capturing the business value of information. However, the strategic use of IT demands far more than just a strategy and leading-edge systems. Top management must recognize that IT's true benefit is as an enabler of innovation and new value creation, and that this benefit will be realized only when employees use IT intensively and creatively. (For related articles, see "Breaking away: How to create value with information technology," *Outlook Special Edition*, May 2004, and page 48 in this issue.)

Accenture research concludes that the journey from IT infrastructure to IT innovation for high-performance

businesses is at one and the same time managerial, organizational and technical. In particular, high performers imbue every employee and function with an understanding of the value of information technology for innovation and competitiveness.

For example, one large utility company organizes IT implementations by business process, independent of the ultimate software application. This way, management reinforces a strong connection between business strategy and technology. To measure whether the company has embraced this mindset, executives track subtle but telling signs: Is IT (as a function) involved in the creation of business innovation—that is, to what extent has it helped the company break out of the organizational silos? Do idea practitioners and corporate planners regularly attend technology and innovation conferences to keep abreast of emerging technologies? Is there an ongoing process to assess and adopt new technologies as they become economical and scalable?

High performers experiment with more technologies than their less tech-savvy competitors. They may end up having to abandon some of their early adoptions, but their successes more often than not improve competitiveness and market impact. Through repeated assessment, experimentation and adoption of new technologies, these organizations are able to eliminate technologies that don't work.

High performers recognize IT's critical importance in creating business insights, customer insights, quality and innovation, in both products and services. Procter & Gamble, for instance, uses open innovation to encourage customers and partners to co-develop new markets and products. Although P&G purchased the

technology for its SpinBrush, the company developed its Whitestrips formulation in-house, and used the Internet both to conduct market research on the product and to conduct its initial launch. This balance works because third-party technologies are not rejected by P&G employees, who are able to see and act on the potential of technologies from both inside and outside the company.

This example illustrates the essence of what's true about high-performance businesses in this domain: They do everything right. They are willing to experiment by early adoption *and* they are happy to use someone else's solution when it works.

Finally, a growing number of companies are discovering ways to accelerate the conversion from data to information to business value through the strategic use of IT. A recent experience at pharmaceutical giant Merck & Co. illustrates the point. Researchers combing through the massive volume of data generated in trials for a new compound discovered that even though original expectations for the drug under study proved unfounded, correlations hidden in the data pointed to a totally unanticipated—and potentially very lucrative—new application. According to MIT's *Technology Review*, "Capital-intensive innovators like Merck increasingly structure their research initiatives to ensure that such startling correlations trigger recognition and review."<sup>1</sup>

### **Performance measurement: Inclusive scorecard**

Accenture research shows that high-performance businesses create value-centered cultures that permeate the entire organization. They recognize that future performance

is dependent on resources that don't appear on a conventional balance sheet, and they incorporate intangible assets into practice, actively managing them by finding ways to assess the trade-offs between tangible and intangible investments. (For a related article, see "Future value: The \$7 trillion challenge," *Outlook*, February 2004. For a detailed analysis of the Accenture approach to valuing intangible assets, see "New Paradigm for Managing Shareholder Value," Accenture Institute for High Performance Business, July 2004.)

These firms not only establish disciplined performance measurement for today's widely recognized intangible assets—like talent, know-how and brand—they also, quite significantly, create and measure intangibles that are specific only to the values of their organization.

Consider International Paper, which views the level of its employees' engagement in their work as a vital part of its effort to become both efficient and effective. Company executives reason that engaged, involved and committed employees not only strive to make the best possible use of existing resources, they also seek out the skills and knowledge necessary to be effective—to do the work, to improve the way the work is done, and to revolutionize the work. Consequently, the company's management has begun to explore the relationship between employee engagement and valued operational outcomes like safety, productivity and return on investment. The results to date have been very positive: Facilities (usually pulp mills and conversion plants) with high employee engagement scores also tend to be among

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<sup>1</sup> Schrage, M., "Prepared Minds Favor Chance." *MIT Technology Review*, July/August 2004.

the highest performers in ROI, productivity improvement and safety.

Thus, rather than ask whether happy employees make for more profitable operations, International Paper asks, “What impact does employee engagement have on safety or productivity—the things that lead to more profitable operations?” Executives also recognize that the impact of human capital practices is seldom immediate but more often plays out over time; by determining how long it takes for an intervention to have a measurable result, they are much better positioned to calculate the payback on investments in human capital.

### Innovation: Continuous renewal

As businesses grow and mature, they risk becoming resistant to innovation and change. Recognizing this, top management teams of high performers understand that challenges and answers to one phase in the life of a product or an organization often do not carry across to the next.

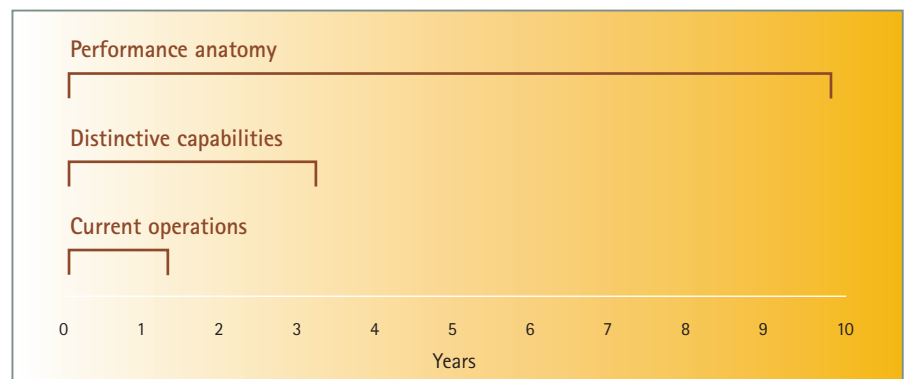
Indeed, that’s why researchers like Harvard’s Michael Tushman and

Clayton Christensen, as well as Georgetown’s Elaine Romanelli, have seized upon ideas like “punctuated equilibrium” to characterize the life-cycles of organizations, as well as their products and technologies. That is, organizations must actively pursue incremental innovation—often under the mantle of “continuous improvement”—while at the same time seeking out (or acquiring options on) disruptive innovations. At heart is an innovation mindset focused on renewal—not static reproduction but steady improvement punctuated by breakthroughs that change the nature of competition.

Concretely, leaders in high-performance businesses continually find ways to keep their organizations on their toes, encouraging and rewarding people to shoulder three simple but powerful responsibilities: *doing the work* in a way that accomplishes the specified objective; *improving the way work is done*, whether individually or collectively, to continuously improve performance; and *revolutionizing the work* by seeking out the next wave of products and processes that could disrupt even the most efficient status quo.

## Today and tomorrow

A high performer’s top managers simultaneously address current operations (the next five quarters), developing distinctive characteristics (three-year horizon) and building a high-performance anatomy (5 to 10 years).



Of course, while these duties aren't the task of every employee in a high-performance business, they are the task of appreciably more employees than at most organizations. BP is just one example of a company that has exhibited all three attributes of balancing a market-maker mindset with an execution focus. The company has made it a practice to document internal benchmarks ("pacesetters") and has established simple but effective cross-departmental reward systems to encourage people to achieve record-level outputs by "copying with pride." General Electric's widespread use of a "pilot's checklist"—an important outcome of its Work-Out methodology for managing change—illustrates how it treats renewal as a continuous activity, not an episodic one.

By embracing the challenge of continuous renewal, high-performance businesses recognize the need to explicitly address continuity and organizational learning so that the company does not lose learning-curve benefits or simply zigzag with the latest management fad. For example, Goldman Sachs has leveraged the experience of chief learning officer Steven Kerr—he helped drive renewal at GE with a series of corporatewide initiatives, like Six Sigma, Work-Out and boundarylessness—to create a process for managers from widely divergent lines of business to share lessons learned in critical leadership areas, such as managing transitions, venturing into new markets and exiting failing businesses.

The doctrine of "do, improve, revolutionize" is manifested in the top management team's agenda as well. That is, as depicted in the figure on page 34, the agenda of the top management team is structured so

as to simultaneously address today and tomorrow. Today—represented as the next five quarters—is focused on current operations. Tomorrow is focused on the development of distinctive capabilities (three-year horizon) and building a high-performance anatomy (5 to 10 years).

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A superior performance anatomy is a vital contributor to the ability of high-performing businesses to flourish in the face of turbulence and uncertainty. Performance anatomy is distinct from culture in that it is at once a unique approach or mindset and a set of integrated practices. It informs the most central of organizational elements, like leadership and strategy, people development and the like, but it cannot be reduced to a discrete set of capabilities or a particular form of organization.

Instead, performance anatomy is a distinctive worldview owned by the CEO and given operational life by his or her top management team. The task of creating and sustaining a high-performance anatomy stands out on the top management agenda.

That's why we believe—consistent with the findings of Jim Collins in his insightful work, *Good to Great*, and with Edgar Schein's classic *Organizational Culture and Leadership*—a high-performance anatomy is more likely to be present in organizations where the founder remains active or where top management teams have either a long history together or have undertaken an intensive and intentional effort to arrive at a common understanding of the essence of their business.

In those instances, performance anatomy represents the touchstone

to which leaders return when they're trying to make sense of new information in a chaotic world, and the strategic story with which they pursue alignment of the disparate parts of the organization. ■

## About the authors

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