

SECRETS OF ENDURING PERFORMANCE

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■ Big Picture

What is the key to achieving lasting high performance? We are working to help executives find some answers.

Performing consistently well over time has always been a tough proposition for businesses. Indeed, while 15 of the Fortune 100 have remained on the list for more than 40 years, the vast majority have been there for less than 10. The likelihood is that increasingly intense global competition and the complexity of today's business environment will make sustained performance even more difficult in the coming decade.

This is an important issue for our clients, and although our practices have insights into parts of the solution, the Firm does not yet have an integrated view of what it takes to survive and thrive for decades. The corporate excellence proprietary database effort, begun in 2005, aspires to create a longitudinal view of the business practices that drive enduring performance. This bulletin introduces the effort and presents some of the questions we are trying to answer.

Looking for answers

We are working with a number of people and practices across the Firm to yield new answers to this long-standing issue. Our research has begun to coalesce around the following inquiries:

- **What are the best measures of enduring performance?** This is a relatively easy question to answer for the long term: The ultimate measure of success is clearly that shareholder wealth is created in a sustainable way, or that the net social value of the corporation is positive for a long time. However, we believe companies require two shorter-term capabilities if they are to achieve this kind of long-term success. These are resilience in the face of shocks, and the ability to renew over time – that is, the ability to make significant alterations to the corporate game plan, either by playing the same game differently or by electing to play a new game.¹ We are developing quantitative metrics – such as the percentage of revenue that must come in from new products or the average time it takes to recover from market cap drops – to assess these two characteristics.
- **How do we identify high-performing companies to track and study?** Once the quantitative metrics are established, they can be combined and prioritized in any number of ways, allowing us to generate a master list of high-performing companies. We are also looking at nonquantitative approaches, such as the Delphi Method, to help determine the ideal list – the top 50 to 70 companies globally that qualify as high-performing over a sustained period.
- **What are the drivers of performance?** To understand corporate success, we need to determine the key performance drivers – the actions that can be taken to improve performance against the metrics used. A survey of the academic research on the subject reveals that there are many such drivers, and that the jury is still out on which ones affect performance the most.
Of course, there may be no silver bullet. The answers may lie instead in our ability to discern the patterns in companies' activities over time, which will no doubt differ by industry and by region.
- **How are these drivers implemented?** Simply identifying the key drivers is not enough. We want to know how companies actually deploy them. It is easy to say that a company's success is due to "great leadership." In such a case, we want to understand exactly what the company does to merit this label: Does it employ particular recruiting techniques? Does it have an aggressive training program that focuses on particular skills?

1 Tsun-yan Hsieh, "The Zen of Organization – A Perspective for the Disciplined Practitioner," Staff Paper no. 63 (ID# 715151).

Early answers

To begin our formal research, we surveyed close to 6,000 executives around the world about their companies' capabilities in the two key areas we originally identified.

- **How can companies renew themselves over time?** Our survey revealed that while executives consider renewal to be essential to superior performance, they also believe there are significant barriers to it. They see the focus on short-term performance as the biggest constraint; this is true no matter where the company is located, and is especially acute for publicly listed companies. Only Chinese executives noted that a lack of talent stifled their ability to innovate.

We know that R&D and collaboration (acquiring or working with other entities) are two key avenues to renewal. Whereas both small and large companies invest in R&D, the executives surveyed revealed that large companies invest almost twice as much in collaboration – primarily in M&A and joint ventures.

- **Why do some companies recover from shocks more easily than others?** Political, natural, and economic turmoil have affected all companies at one time or another, as have specific industry or company events, and a company's ability to recover depends on its preparedness. Executives know that this is the case, yet when we asked them if they had any crisis management systems in place, 22% reported that their companies had only one or none of the following eight systems: security protocols, business continuity plans, financial risk management controls, public relations crisis management systems, supply chain contingency plans, shock-resistant quality control processes, a crisis-ready legal team, or specialized training in negotiations.

While larger companies typically have more systems in place than do smaller ones, even they rarely have enough. There are big differences by sector and geography, however. More than 70% of financial services executives, for example, say that they have at least three crisis management systems in place, while fewer than half of the high-tech/telecom executives we surveyed have three or more, and 20% have none. Chinese companies are the least prepared to deal with potential shocks: 40% of Chinese executives note that their companies have only a single crisis management system in place, and 25% have none.

The corporate excellence proprietary database aims to understand the drivers of enduring performance by using systematic survey instruments; longitudinal, proprietary data collection and analysis; and interviews with both high-performing and lagging companies. We would like to enlist support for this effort from across the Firm. Please contact us if you would like to get involved.

For more detailed information on the survey results, please contact [Vidushi Shrikant](#), McKinsey Knowledge Center