Since Coco Chanel unveiled her iconic black dress in Paris in 1926, that little black dress has become a clothing essential in every woman's wardrobe.

In a similar vein I have been working with an international research team for the last decade to discover the essentials of management. This team — from the Harvard Business School, Cambridge University, the London School of Economics, McKinsey & Company, and Stanford University — has surveyed over 10,000 firms in over 20 countries, interviewed hundreds of CEOs, and even run multimillion dollar management field experiments in an unparalleled research effort to reveal some basic practices that every manager should follow.

Measuring management

The team used an interview-based evaluation tool developed by McKinsey & Company that defines and scores 18 basic management practices from 1 ("worst practice") to 5 ("best practice").

To avoid steering our respondents, we asked production plant managers a range of open questions, like, "Tell me how you monitor your production processes," and then continued with more focused questions to target actual practices and examples. At the same time, the interviewers were not told in advance anything about the firm's performance, but were only provided with the company name, telephone number, and industry. Since we randomly sampled medium-sized firms (employing between 100 to 10,000 workers) who are not usually reported in the business press, the interviewers generally had not heard of these firms before, so had no preconceptions.

The essentials of management

We matched our management data on over 10,000 firms to public and private accounting data, which enabled us to identify the management practices, were associated with success. We found three key essentials of good management

1. Rigorous monitoring

Best practice firms are ruthless in monitoring their entire production process. In manufacturing and retail our best firms collected detailed data at every stage of the process on a continuous basis, evaluated the data daily, and used it to generate continuous improvement process. Defects were rapidly spotted and fixed. Opportunities were ruthless sought out and exploited. In healthcare and education, patient and student performance was evaluated on an ongoing basis to highlight problems and opportunities. The basic message: information is king, and firms that collect, process, and exploit information are beating firms that do not.

2. Challenging targets

Best practice firms also set tough short-run and long-run targets for every stage of their process. For example, in manufacturing many great firms had daily, weekly, monthly, quarterly, yearly, and 5-yearly target. This provides employees with a staircase for higher performance. These targets were tough but fair, so that developing them takes time and effort. But we find firms with broad and challenging targets are comprehensively outperforming their competitors.

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3. Rewards and incentives

The best firms acknowledge and reward their top performers with a range of bonuses and promotion. Underperformers are rapidly identified and provided with training. If efforts to improve their performance are not successful, they are moved out of the firm. This motivates employees to outperform, driving firms with strong rewards and to overtake their weaker competitors.

Of course these practices work best together. Effective incentives require comprehensive monitoring and broad targets to enable firms to identify star performers. So we find the very best firms are adopting these performances across the board. But the rewards are stunning — going from bad management (the 25th percentile of management practices) to good management (the 75th percentile of management practices) is associated with a 3% higher return on capital, 26% higher market valuation, and 70% faster growth.

Where do you fall?

You can read more about our broader research project, the World Management Survey, here, and you can benchmark your own company to see how you compare to our respondents by clicking here.

Raffaella Sadun is an assistant professor in the Strategy Unit at Harvard Business School, where she studies the economics of productivity, organization, management practices, and information technology. She is still in search of the perfect little black dress.

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notmd 1 week ago

so why do we have companies that don't mature to best practice?..
1)there are companies that produce plenty of data but are so buried in day to day problem solving they never get to continous improvement(systemic changes)..
2)there are those companies that have the data and attempt improvements but solve the symptom not the cause..
3)there are companies that have the data ,have a great process improvement process but are constantly absorbing new cultures that they can't focus on improving..

my point..i think most of us know what best practice should be..the question you should be asking is why that can't some companies achieve a sustainable level of excellent performance ..

1 person liked this. Like Reply

Dhaval Rawal 2 days ago in reply to notmd

1. you need to pick what you want to focus on and then enter the haystack.
2. they implement the fly by night solution for analytics
3. the world is changing very fast. You need not keepup. just be ahead of your competition :)

Overall i fell there need intention above all else. If you will take decisions based off your analytics/BI solution and help it mature by giving it the right feedback.

Like Reply

Gnomic 1 week ago

Quit paying people for "better performance" and start finding out what they want and offering them that. IT could be time off, more budget, more control, more training, recognition, etc. We need to stop assuming that money is the universal solvent!

1 person liked this. Like Reply

Mitch McCrimmon 3 days ago

This post represents management as a role, a mistake in my view, as it excludes self-management, such as managing your own time, finance or career.

It is also narrowly focused on execution as opposed to also fostering innovation.

It excludes mental work like solving problems, thinking creatively and making complex decisions. The best way to get mental work done through others is to ask questions that are variations on "What do you think?" - these include what do you see as the issue here, what options do you see for dealing with it, what are the pros and cons of your preferred option, etc. Here, the manager is operating as a catalyst, facilitator, coach and developer of others not simply as a driver-controller of execution.

Hence, I think that the concept of management described in this post is just wrong or, at best, very narrow. I have written a lot on management. See, for starters, my article called Management Upgraded: http://www.lead2xl.com/management-upgraded - there are links to other articles from this one, specifically one called 21st Century Management.

Like Reply

Nick Bloom 0 minutes ago in reply to Mitch McCrimmon

Thank you for this. As one of the authors of this research I should point out, however, this is only a few hundred words so by necessity we could not cover everything on the topic of management. The background materials we cite in the report cover much more ground which this short blog could not cover. In this we discuss how we find in our research that many other things matter as well as execution. But these points we highlight here are core practices that firms seem to be getting them wrong repeatedly. The fact they are suggests there is huge scope for improvement simply from getting these basics right before progressing to the more advanced stuff.

Like Reply

Elizabeth Ogun 1 week ago

For better performance Firms need to set targets and motivate employees to work towards these targets by giving them incentives. However, goal allignment of management and shareholder objectives works best in improving management, empolyee and Company performance.The share bonus scheme is a good incentive as it motivates management and employees to put in their best at work, since it gives them a stake in the performance of the Company.

Like Reply

cv harquail 1 week ago

It's always a great idea to focus on the fundamentals, however we dress them up.

Just a note, though: Jeanne Liedtka, a professor of strategy at the Darden School, has already published a provocative article on “Strategy as a ‘Little Black Dress’” in Henry Mintzberg's book "Strategy Bites Back".

Little black dress’ striking aspect is its simplicity. There are various ways to wear the dress by dressing it up or down. Either way this dress is the most functional item. The whole idea is transforming properties of

design. Business strategies designed with the little black dress would make us feel better about ourselves when we work with them. This could lead in confidence, openness to new adventures, and readily to find special right corner.

"Strategy as a 'Little Black Dress'" By: Jeanne Liedtka

Like Reply

pesatty 1 week ago

good point of view! All the results have to be based by NUMBERS! how much you buy!, How much you produce! how much you sell! how much you gain!

Like Reply

Valentina 28 1 week ago

Very interesting!!

Like Reply

James Wilson 1 week ago

Interesting article. You know that if you use a 1 to 6 measurement scale, respondents are less likely to sit on the fence. On a 1 to 5 scale that is 3. On a scale of even numbers they have to make a choice.
Hope that helps

Like Reply

Real-time updating is **enabled**. (Pause)

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