

The 12 conversations

The key conversations required to steer a large corporation.

Introduction

This paper sets out the 12 key conversations required to steer a large corporation. Almost all large companies engage in some version of each of these conversations, but they are rarely “designed”, and even less aligned and interlocking. Some organisations excel at a handful of these conversations, usually as a result of functional excellence in one area or another. But few engage consciously in each of them systematically and robustly. The thesis of this paper is that ensuring these conversations occur, and are conducted robustly, is the key role of the CEO. The orchestration or management of the conversations may be delegated to a Chief of Staff or a Chief Strategy Officer.

This paper should serve as a guidebook for CEOs, their Chiefs of Staff and Chief Strategy Officers, and for the executives that work closely with corporate centres. It should also prove valuable to their various stakeholders and advisors.

The articulation of the conversations reflects the author’s experience as a strategy consultant and then as a corporate strategy executive in large, complex multinationals. As a consultant, my work intercepted with these conversations, but I did not understand the landscape. I would have been a much more effective consultant if I had. As an executive, these conversations represent the world in which I operated, but have not seen represented or formalised. I would have welcomed this guidebook to the inner workings of large complex corporations.

This paper has benefited from my work with a number of senior executives. It has been a privilege to witness several high-profile CEOs and C-suite executives grapple with these conversations first-hand. Much of the wisdom here is theirs. Much of the rest is a synthesis of discussions with a wide range of thought leaders in consulting and business. My role is primarily in pulling together these insights to form a coherent whole.

PART A**Engaged in the world**

Understanding expectations and showing up in the world is the starting point for many other conversations across a large corporation. Most organisations are so busy focusing on the world inside the corporation that they largely forget the world around them, or at least make assumptions about what the rest of the world expects of them.

Four conversations underpin this engagement:

1. Clear on stakeholder expectations
2. Clear on our role in the world
3. Clear on our ecosystem relationships
4. Clear on how to mobilise in the case of crisis

These conversations typically “belong” to a range of different teams: Corporate Affairs, Government engagement, Regulatory, Investor relations, Sustainability / ESG, Business and Competitor Intelligence, Brand, HR, and Supply chain teams. Ensuring these conversations happen, are robust and explicit, and that the insights from them flow outwards across the organisation, is key to building a high-functioning organisation.

The aims of these conversations are to ensure:

1. Dispassionate clarity on how the outside world sees the organisation
2. Alignment on how the organisation will show up in the world
3. Processes in place to course-correct and react to an evolving world

01 / 12**CLEAR ON STAKEHOLDER EXPECTATIONS**

Many external stakeholders expect things of a large corporation. Understanding these expectations needs to move from tacit to explicit, and assumptions need to be surfaced and challenged.

Key questions to be answered:

1. Who are our key stakeholders?
2. Who else is an opinion-former about the company?
3. What do our stakeholders expect of us? Short-term and long-term?
4. How are they feeling about us? Why?
5. How can we best engage with them to shape their expectations?
6. What will happen if we do not meet their expectations? How will they react, and what impact will this have on us? What leverage do they have over us?
7. What conflicts exist between different expectations? How do we expect to reconcile them?
8. Do our plans see us meeting expectations? Have we factored stakeholder reactions into our plans?
9. How do we engage each group ongoing?
10. What is the engagement calendar, and who is responsible for the outreach?

A special note applies where there are large groups of stakeholders (e.g. employees, customers). Special care needs to be taken not to reduce stakeholder input to purely quantitative information. While quantitative surveys can provide insight, too much signal risks being lost in the translation to numerical input. The real value is in unstructured qualitative data. Time should be invested in mining and exploring the qualitative input to capture expectations and frustrations.

This points to a wider truth. Stakeholder expectations are emotional as much as they are rational. Intuited emotional truths should also be captured in stakeholder discussions. The SCARF framework provides a starting point for these discussions. Are our actions making stakeholders feel unimportant (status hit), uncertain (certainty), powerless (lack of autonomy), like they are dealing with a faceless machine (no relatedness / humanity), or like they are being treated unfairly (fairness: the implied contract, not the actual contract)? This is vitally important input and often needs to be teased out.

Each stakeholder expects:

- a. To be heard and understood
- b. For management to have a grip on their concerns and realities

c. To hear the truth about what they can expect (i.e. no obfuscation and spin)

This represents a sequence. Stakeholders will not engage in (c), and believe it or consider it sufficient or acceptable, if they have not had dialogues (a) and (b).

The main challenge companies face is that these conversations are typically ad hoc, and that learnings are rarely reported back in a structured way, making it difficult to identify patterns, trade-offs and risks. Does the government expect one set of outcomes because voters are vocally dissatisfied, the regulator another as it tries to promote infrastructure investment, and investors demand improved returns, while the pension fund needs accelerated deficit repayments? Or are the security services demanding changes to the global supply chain while key customers expect significant year-on-year price reductions? These expectations need to be articulated explicitly and brought together to be considered as part of tough discussions about the optimal path.

The stakeholder expectation conversation formalises the capturing and bringing together of these expectations, and ensures this reality is reflected within the organisation.

02 / 12

CLEAR ON OUR ROLE IN THE WORLD

A company per se has no utility. To the extent that its activities play a role in society and in progressing society, it has a purpose to society. To the extent that it generates economic profit, it serves a purpose to its customers. To the extent that it employs people, it serves a purpose to its employees and communities.

The role of the company is very different for each. For employees it is where they spend many of their waking hours, and it provides stability and income for them and their families. For communities it provides one of a range of employment options in the area. For customers the company is an option amongst others, to do a “job for them” in a category they are more or less invested in. For society, the company, along with the rest of its sector, contributes narrowly based on its activity, and is of interest only if those activities warrant particular attention. The level of attention afforded the company by each group reflects this.

The starting point in engaging with the outside world is therefore being clear what role the company plays and how important that role is to the constituent. The corporate tendency is towards vanity and attributing more importance to oneself than reality warrants. This distortion leads to a lack of focus and, in many cases, a misuse of resources. The less attention the company warrants from a constituent, the more the corporate objective can be reduced to two questions: (a) does the constituent know us (awareness), and (b) do they trust us to do the job they expect of us (trust). It follows that having a distinct (differentiated) purpose and proposition is only relevant to employees, and potentially to customers (but only for products and services that are high engagement).

Key questions to be answered:

1. Are our branding activities focused on awareness and building trust? Are we investing enough in branding (vs. promotion / short-term activation) to deliver these outcomes, or at least maintain our endowment?
2. If we are trying to achieve more or differentiate, can we substantiate that customers care enough about the category to be interested, and for there to be an ROI?
3. What does society expect of us specifically? Are they aware of our role, and do they trust us to fulfil it?
4. How important are we to the communities we operate in? Have we earned their trust? If not, why not? What more do we need to do?
5. What is our employee proposition? Are we living up to it? Do our employees trust us to deliver on it? If not, why not? What more do we need to do?

Companies also have obligations, both legal and moral (Human Rights, Competition law, Building Regulations, Employment law, Listing laws, Climate, the S and G in ESG, and others). No positive differentiation occurs from complying with these. Rather, there is significant reputational (and in some cases financial) risk from not actively embracing not just the letter of these obligations but also their spirit.

6. What is the long list of legal and moral obligations that we carry? What is the letter of the obligation? What is the spirit? How do we expect these to evolve?
7. What is our level of compliance? How do we know?
8. What actions are we taking to validate that we do not fall short?

9. Do we have clear action plans in place, and owners, to ensure we continue to make progress against these obligations?

Across these conversations, a range of issues limit effectiveness. They:

A. Do not happen explicitly or regularly

B. Are left to tick-box compliance exercises, thereby overstating the letter and understating the spirit of the obligation

C. Suffer from own-importance distortions

D. Are fashion-led rather than substance-led (Purpose, Modern Slavery, ESG, and others)

The “Clear on our role in the world” conversations are about ensuring external realities and obligations flow into the organisation, removing inside-out distortions and overly narrow interpretations that create inefficiencies and risk. This requires sustained attention.

03 / 12

CLEAR ON OUR ECOSYSTEM RELATIONSHIPS

No company operates in a vacuum. There is an ecosystem of other companies around the company. We are dependent on some, some are dependent on us, and with some we are co-dependent. Even direct competitors share many of the same interests in non-competitive areas, for example in lobbying government on common policy priority areas.

Mapping this landscape, including large B2B customers, suppliers, competitors and potential substitutes and new entrants, is the first step. The tendency is to define this picture too narrowly, and there is value in pushing for a broader picture.

For each player, we need to establish:

1. How important are we to them, and how important are they to us? This needs to be a dispassionate read that underpins an understanding of the power dynamics between the two organisations.
2. What is the current state of the relationship? How do we know?
3. What are they currently working on or prioritising? What pain-points are they feeling?
4. Who are their current allies? What ties them?

5. What are areas of common interest between us? How are we working together to progress these areas? What more could we do?
6. What could they do to hurt us? What warning signs would there be?
7. What asymmetries exist where, for small investment on the other side, the outcome would be disproportionately attractive or unattractive to the other?
8. How are we engaging with them? Is it structured and coordinated? What is the engagement cadence? Why? Who is on point for the relationship?

While having a model to track the wider ecosystem is important, a small handful of these relationships are disproportionately important. These require more explicit management and should see frequent review. The typical issue is that the overall relationship ends up lost between business intelligence reports, multiple day-to-day interactions (frequently with different stakeholders on both sides), unreported field contacts, and a lack of a joined-up perspective and alignment across the organisation. Formalising and steering a cross-organisation integrated view, and facilitating trade-offs across the relationship as needed, is key to driving successful outcomes.

The “Clear on our ecosystem relationships” conversation is about bringing together information about our relationships, being explicit about the quality of the relationships and the potential trade-offs that exist, and making clear decisions on how best to interact with other businesses and how best to participate in the ecosystem.

04 / 12

PLANS IN PLACE TO RESPOND TO CRISIS

Even organisations that are alert to the outside world can get embroiled in crisis. This can be a global crisis (pandemic, war), local (change of government, climate event, social unrest), sector (new regulation, new entrant, large M&A), or organisation-level crisis (market, compliance, shareholder activism, M&A).

We distinguish between three types of crisis: indirect, where the organisation is impacted but carries no responsibility; direct, where the organisation is at fault; and hostile, where the organisation needs to respond to hostile action from a third party.

We cannot plan for and pre-empt the nature of each crisis that could impact the business. A playbook for each type of crisis should be developed, covering (a) responsibility for communicating with the outside world, (b) expedited decision-making fora (e.g. board sub-committees), and (c) set-up and membership of the crisis war-room. The information gathered and prepared for other conversations needs to be kept updated and available. This applies in particular to the outcomes of conversations (1) and (2), as these provide the input required to tailor messages and expectations, articulate how we show up in the world, and set out what safeguards we have in place to ensure we live these commitments. The outcomes of conversations (8) and (9) are also likely required in situations involving M&A approaches and shareholder action, as the response will likely require weaving in aspects of market situation and corporate strategy.

Crisis response ultimately is about clear communications underpinned by the right processes and decision-making, with the right facts available in real time. Not all elements will be immediately available, as required investigations will take time (especially in “direct” crises). Ensuring that what can be put in place ahead of time has been is the goal of the “crisis response” conversations. These plans can be further strengthened by wargaming selected crisis scenarios to test readiness.

PART B

Ready to act

Being “Ready to Act” is about ensuring that the organisation is able to execute. This runs from ensuring the top team is aligned, to putting in place the right wider organisational culture, through to making sure key processes are aligned and integrated with desired action.

Many organisations spend large amounts of time designing strategies and having executive-level discussions without making decisions. Even if decisions are made, they are second-guessed or not followed through. Or while the execution intent is there, budgets do not allow progress. Getting anything new or different done in these organisations either requires Herculean willpower (usually embodied in a handful of “bulldozer” executives), or a burning platform or external event behind which the organisation can mobilise.

The three “Ready to Act” conversations provide an alternative. These conversations remove the friction that occurs in large organisations and stands in the way of execution:

5. Aligned top team
6. An execution culture
7. A clear performance architecture

The aims of these conversations are to ensure:

1. The organisation works together towards agreed goals
2. The formal mechanisms are in place to ensure execution
3. The organisation’s culture supports execution

05 / 12

ALIGNED TOP TEAM

Are your top team a team? Or squabbling barons competing for resource and unwilling to call each other out, to avoid the risk of retaliation? Do they wear a corporate hat, or only ever represent their area and direct interests? And who do you include in your top team? Just the CEO’s direct report group? The ExCo? Some other group?

Tribalism optimises the parts at the expense of the whole, and serves as friction to many cross-organisational coordination and actions. Avoiding tribalism and enabling robust cross-organisation dialogue at senior levels requires explicit design.

The first step is recognising that leadership talent is a corporate-level resource and needs to be managed and developed as such. Talent deployment decisions at senior levels should be coordinated and driven by the needs of the wider organisation, not simply the unit. This should cover long-term role allocations as well as short-term project allocations where needed. Regular staff rotation limits tribalism: you behave differently if you could be sitting the other side of the table in your next role. Remuneration also needs to retain a strong link to Group-wide performance, not solely to unit performance.

Who should be included in this corporate-level approach: the entire executive cohort, and succession candidates for these roles. In all cases, hiring at these levels needs to reflect not only unit near-term needs but also wider corporate bench needs. The advantage of this

approach is that it allows a more long-term view in developing future leaders, and ensures that executives receive the range of experiences needed to develop into future Group leaders. This process needs to be clearly owned and directly sponsored by the CEO.

Practically, this means leadership should be a corporate cost and be cross-charged to units (based on an average total labour cost per level of executive, to remove cost variation as a barrier to executive deployments). Members of this leadership cohort are implicitly the CEO's team: the CEO needs to engage with each of them accordingly.

The “aligned top team” conversation is about ensuring the executive tier is working together and no tribes exist. This likely requires an upfront intervention, and then ongoing tending through engagement with the executive community, both individually and as a group. The conversation creates the space to ensure these discussions happen and that reversion to tribalism does not occur, recognising that tribalism is the default stable equilibrium.

06 / 12

AN EXECUTION CULTURE

There is a lot of noise about culture, and much of it is fluff. An “execution culture” is much narrower. It is preoccupied only with putting in place the cultural elements required to enable organisational effectiveness.

There are five dimensions to an execution culture. The first is a “threshold” dimension: either it is present or it is not. If it is not, this needs to be fixed before any work is done on the other four dimensions.

PSYCHOLOGICAL SAFETY

The threshold dimension is psychological safety. In simple terms this means designing an organisation in which no negative repercussions exist from expressing a dissenting opinion or being the bearer of bad news. Doing so is not just hoped for, but expected and rewarded. This is difficult in every organisation where line managers are responsible not only for day-to-day work but also for career advancement, remuneration and potentially for termination decisions. This creates the risk of unfair and arbitrary treatment, or at minimum the perception of it, in the case of dissent. As such, HR decisions on individual careers need to move to being committee-based and separate from day-to-day work, with fact-based

recommendations being made and considered, and with the opportunity for dissenting opinions to be voiced. This is the only exception to my overall preference for point accountability, as discussed in the accountability section below.

With psychological safety in place, we need to put in place four further cultural pillars.

CUSTOMER-ORIENTATION

Ensuring that customer information flows across the organisation is important but insufficient. It is fundamental to ensure explicitly that every decision starts from the impact on the customer and is explicit in articulating the customer benefit. Too often, discussions end up focused on internal stakeholders, technologies and other considerations, with cursory or no discussion about the customer view. Can everyone in the organisation articulate key customer pain-points? Why the customer buys from the organisation? They should. Some teams are focused on internal customers. They should be just as relentless in focusing on meeting the needs of those customers and surfacing unstated needs. A customer-orientation also shifts the organisation from problem identification to solution-orientation, a much more productive mode to operate in.

Customer-orientation depends on what the executive team is seen to care about. This culture only lives if the senior team is seen to live it and champion it visibly, and choose it over other considerations when tensions exist. Ideally it should come from the whole team, but at minimum a few members of the top team need to live and breathe the customer perspective. This is not suggesting the creation of a token role such as a Chief Customer Officer. Rather, this role needs to be played by highly respected heavy-hitter executives in large, influential roles. If you do not have them, you need to hire them. Adding customer metrics to scorecards can also help. Since customer-orientation is much more powerful when extended to the whole organisation, this should not merely be for staff for whom scorecards drive a large part of compensation. Creating one-off all-staff incentives linked to achievement of customer goals is more powerful (e.g. an x000 one-off bonus for all staff if customer satisfaction reaches 85% for three consecutive months).

CLARITY

Organisations have buzzwords and frameworks that serve as abstractions from reality. These are often useful shortcuts in communication between experts. But it is also in these

areas that misunderstandings happen, and where sloppy thinking hides. If psychological safety is not in place, this is also where messengers hide to avoid the bullet, and unpleasant truths get obfuscated.

Demanding plain language and calling out areas where specificity is lost is fundamental to ensuring high-quality decision-making. This does not mean that anecdotal, qualitative, weak-signal data should not get a look in, or that every statement needs fully robust analytical underpinnings. Rather, this is about clarity of messaging and transparency about why the supporting beliefs are held, about the assumptions that underpin the views, and the author's confidence level in each. This is best achieved by demanding short, clear long-text papers with transparency on certainty levels. Long-text focuses on communicating key messages and allows for equivocation in a way that highly packaged slides do not. Too much time is also wasted on slideware, which should therefore be limited to selected key supporting exhibits. Senior leaders calling out fluff, abstractions, implicit assumptions and unclear certainty levels helps ensure the organisation gets used to dealing in clarity.

NO INFORMATION SILOES

Too often information is closely held in organisations for reasons other than real confidentiality needs. Yet withholding information leads to inefficiencies all across an organisation: NDAs serve to reinforce fiefdoms as much as protect truly confidential initiatives. All employees are bound to confidentiality in their employment contracts. This is sufficient to allow almost all information to be shared. The default should be that all information is made available across the organisation. Top management deliberations, discussions and outcomes should be shared across the entire executive cohort, with the expectation that each takes responsibility to seek out further information as necessary. This information should also be shared with less senior employees who need to understand the wider organisational landscape as part of their role. Historical financial information should also be shared across the organisation.

Three categories of information should continue to be closely held: (a) customer confidential information, (b) share-price-sensitive information (financial forecasts, current financials, M&A), and (c) selected corporate initiatives. Explicit NDAs should be in place for each of these, although NDA owners should expect to justify the existence of the NDA. In each case, the NDAs should be opened to any employee with a reasonable "need to know"

claim. Supplier NDAs, or NDAs entered into with customers, will also need to continue to exist.

This approach to information transparency often requires a “hard reset” of the organisation’s default model. Making detailed historical financials and operating KPI actuals available across the organisation often serves as a symbolic act to represent the change. A “bonfire of the NDAs” can also be cathartic and necessary in some organisations. Clear communications, that the default on information-sharing is yes for all but the three categories outlined above, helps. IT also needs to understand this default aspiration in its plans, even if reflecting this approach in tooling may take a long time. Ultimately this is also a symbolic act towards employees: we trust you with this information and believe that you will use it for the good of the company.

ABSOLUTE CLARITY ON ACCOUNTABILITY AND DECISION RIGHTS

Who gets to make this decision? Is that binding? Should we invite Jane to this meeting? Does Doug get a veto? Lack of clarity on who owns what decision creates inefficiencies all across an organisation. At best it merely leads to meetingitis. At worst it leads to decisions that get reversed or ignored.

Clarifying the decision rights of senior executive roles, and the role of different governance forums up to and including the board of directors, is a first step. In doing so, many forums may have unclear roles and decision rights. Wherever possible these should be removed, with single-point executive accountability preferred. Where fora are retained, wherever possible these should be advisory, with a single executive retaining decision rights. This means, for example, that the CEO would be the decision-maker in the ExCo or equivalent, rather than allowing diffuse accountability at that level. Clear thresholds should also be established, e.g. any decision having more than 500m EV impact is a board decision (or more precisely a Chairman decision, with the full board engaged in an advisory capacity).

Many decisions will require alignment between more than one function. Accountability should not be shared. Rather, the additional functions need to be informed or have a veto on the decision on a case-by-case basis. Simply making a point of formalising the RAPID or RAID framework at the outset of any cross-functional work typically clarifies any

misunderstandings at the outset. Making these frameworks a regular part of the corporate language goes a long way to ensuring accountability is always explicit and therefore lived.

Wherever possible, decision rights should be pushed down the organisation, close to the customer and the frontline, to accelerate decision-making. Wherever possible, accountability and the possibility for discretion should also be built into frontline roles themselves. This allows common sense to trump procedural dogma in the pursuit of delivering great customer outcomes. This both requires and symbolises trust in frontline staff.

Both top-down accountability and bottom-up accountability change can usefully run in parallel: clarifying responsibilities for the former, and increasing discretion for the latter. With these two in place, and RAPID / RAID language and single-point accountability expectations in between, and clear objectives (see conversation 7, Performance architecture), a culture of accountability develops.

Building an execution culture is a major undertaking. You may be lucky and already have some of the elements in place. You may have inherited an organisation with historic strengths in one or a few of the pillars, so it may be a renovation job. Or you may be facing a full rebuild. Without acting explicitly on these pillars, you are at the mercy of the organisation's random walk, or a few bulldozer executives able to get stuff done in spite of the organisation rather than with it. Narrowing the culture debate down to this small set of themes makes acting on culture tangible and tractable. A regular execution culture conversation sets the frame for driving sustained progress in this area.

As a first step, an employee survey is probably required to diagnose some aspects of execution culture. This should be kept as brief as possible. It does not need to be all-employee, although sampling across the organisation is helpful to "localise" pockets of strength and weakness.

Psychological safety:

1. Do you feel comfortable expressing a dissenting opinion or bringing bad news to your line manager?

2. If you moved to a new role in the organisation with a typical manager, how comfortable would you feel expressing a dissenting opinion or bringing bad news to your line manager?

Customer-orientation:

1. Have you seen leadership prioritise customer needs over other priorities?
2. Do you know what customers need from you?
3. Does your team act on this and prioritise it?

Clarity:

1. Do leaders in your business speak in plain English with you?
2. How much corporate bullshit, buzzwords and acronyms are common in your part of the business?

No information siloes:

1. How easy is it for you to get information you need to do your job?
2. If you need to get information from another part of the business, how easy is it, or do you expect it would be?

Absolute clarity on accountability and decision rights:

1. Are you afforded discretion to do what is right for customers?
2. Do you know who is responsible for making decisions that affect your work?
3. Are decisions taken in your area communicated and acted upon?

The results of this survey should be used to prioritise execution culture interventions. It is difficult to act on more than one execution culture lever at a time, so identifying the biggest opportunity areas should be the priority, recognising the thresholding nature of psychological safety. After diagnosis, execution culture conversations should focus on execution of interventions, reinforcement requirements, and the timing of introducing any further actions.

The “execution culture” conversation provides a grip on culture and allows clear, prioritised action to accelerate the organisation’s ability to execute. Regularly coming back to these priorities, monitoring progress, and deciding when to kick off further interventions is the focus of ongoing “execution culture” conversations.

07 / 12

RIGHT PERFORMANCE ARCHITECTURE

Do the right things get executed in your organisation? Do decisions flow through into operational plans? In most organisations they do not. This is because decisions do not typically connect explicitly with the five core processes that “formally” drive what gets done.

Five core processes define what gets done in an organisation, and make up an organisation’s performance architecture:

- A. The financial planning process
- B. The capital allocation / strategic initiative process
- C. Target setting and scorecards
- D. The objectives cascade
- E. Performance management

A. THE FINANCIAL PLANNING PROCESS

What would next year look like if we took no action? Many customers would still be customers; prices would go down (or up) based on agreed contracts; some customers would leave; we would not invest in acquiring or retaining customers; input prices would rise (or fall); most employees would still be in place and would receive inflation adjustments to their wages, while attrition would mean a number would leave; most assets would still be in place, albeit one year more depreciated, and some would reach end of life. This picture, focused on “exposures”, is the starting point of financial planning. For most businesses, this picture represents a financial out-turn materially worse than this year’s. This picture also carries some uncertainty, primarily based on forecasting the flow-through of exposures into the business (e.g. will customer churn be the same as prior years?). These uncertainties need to be captured by providing a risk / opportunities overlay, ideally probabilistic.

And so we get to work. We invest to acquire new customers or retain old ones and to improve our mix (in refreshed propositions, channels, and so on). We act to support pricing. We renegotiate with our suppliers. We hire new staff. We replace end-of-life assets that

underpin the existing business. With these actions layered over our “exposure picture”, we have a “momentum plan”. But we also carry greater risks and opportunities associated with our actions (e.g. we think our new proposition will win 100k customers, but there is a 10% chance we could win 150k). These should flow through to the risk / opportunities overlay.

B. THE CAPITAL ALLOCATION / STRATEGIC INITIATIVE PROCESS

Over the top of the “momentum plan” we also invest in initiatives that place bets on the future, seek to reposition the organisation, or seek to improve how we operate. Some of these initiatives may pay back near-term, but others will have much longer-term impact. Still others may not create incremental value but remain required to avoid a much less attractive “counterfactual impact” (e.g. if I do not invest in health and safety, the reputational impact on the business should an accident occur would be disproportionately high vs. the investment). While a business would ideally fund all value-creating initiatives, particular care is required to ensure that counterfactual-based cases are not overlooked, and that long-payback cases are heavily reviewed given the impact they have on cashflow profile. Where high-uncertainty, long-payback cases are proposed, we should look for opportunities to self-fund these, i.e. couple them with short-term payback cases to cover the near-term cash burn. These strategic initiatives carry the most risk and opportunity. We need to capture the wider range of upside and downside in our risk / opportunities overlay, with an additional focus on accelerator and off-ramp moments in these initiatives to allow us to double down or cut our losses. Success in these initiatives should also be tracked, with regular post-mortems conducted to ensure lessons are learned from past failures and successes.

C. TARGET SETTING AND SCORECARDS

Bottom-up, the financial out-turn expectation for the Group is the “momentum plan” with the capital allocation / strategic initiative process projects overlaid, and a risk / opportunity adjustment to ensure a symmetrical risk / opportunity profile around the target. With a small additional contingency, this should flow through to the market guidance midpoint, with high / low ranges provided by the risk / opportunity overlay. (While this may need to be translated back to other metrics, internally this needs to be run on a cash basis.) Caution should be taken to avoid situations where attaining guidance is achievable only by overachieving on opportunities or minimising risks. Either guidance should be adjusted

down, or further initiatives identified to bring the guidance number and risk-adjusted outturn back in line.

This plan should also form the basis for executive remuneration at both unit level and overall Group level, as it provides a clear read across into threshold, target, and overachievement.

Where significant uncertainty persists, and only in exceptional circumstances, there is an alternative model. This is based on taking top-down market expectations and handing out targets to units to ensure beating external expectations, while holding a large central contingency. This decreases central control and creates a context whereby the unit is expected to do “whatever it takes”, while signalling that the centre does not believe unit plans. While this can drive performance (and also frees up significant planning time), it can also create performance-at-all-cost dynamics and reduce transparency across the organisation. It is a short-termist measure and model, that largely undermines the “Ready to Act” culture suggested in the previous section.

Some organisations run hybrid top-down / bottom-up models. This typically leads to asymmetric risk / opportunity profiles, as bottom-up forecasts are negotiated up to align with top-down expectations (often reflecting the central perception that units are sandbagging their targets, which is more frequent in sales-led organisations with significant variable pay at stake). These plans need further work to overlay additional initiatives that bring the risk / opportunities balance back to symmetrical. Where this is not possible, the top-down expectation may need to be tempered.

D. THE OBJECTIVES CASCADE

Everything up from the “exposures” picture (including exposure risks and opportunities) requires management. Wherever possible there should be a single owner for each driver of the plan, embedded in the line organisation. The biggest-impact initiative needs to be identified and clearly flagged as the top priority (“Star programme” or equivalent nomenclature), as well as a handful of other programmes as needed (no more than a top ten per business unit, covering momentum realisation, strategic programmes, and risk mitigation and opportunity realisation). These priorities should be widely shared to help ensure prioritisation across the organisation.

Programmatic overlays can occur, but these should be exceptional, only for very significant initiatives, with clear steering and reporting, clear mechanisms to ensure resourcing, funding and execution, and should be no more than six months in duration. Any programme that would need to run longer should be embedded in the line.

The owner of an initiative should be set a “what needs to be achieved” target (with a measure and timeline), within what constraints (time, money, resources, “without lowering customer satisfaction”), and with a clear explanation of the “why”. The “how” should not be specified and is to be left to the discretion of the person carrying the objective. To the extent they want or need to break the initiative down further, they are free to cascade the objective down the organisation. The “how” is always at the discretion of the person receiving the objective. Once a “how-plan” has been developed, this should be presented back up the line (back-brief). No individual should carry more than two top-down objectives, and where there is more than one, the relative prioritisation should be agreed explicitly. In objective-setting conversations between line managers and employees, no more than three objectives should be developed, and one should come from the employee themselves to allow space for bottom-up ideas and agility.

Objectives should be clearly visible and searchable, e.g. through integration with the corporate email directory.

E. PERFORMANCE MANAGEMENT

If the plan captures the large moving parts and ensures execution, the forecast translates this into a financial schedule showing month by month when the impacts are expected. The forecast should be “rolling” and provide a minimum of 12-month-ahead forward read, and should ideally also cover crystallisation of the risks and opportunities as well as delivery of the elements of the plan. Reviewing actual performance against forecast is an opportunity to see whether the expected impact is flowing through, and to identify corrective actions. These actions should flow through into financial plans, capital allocation and objective cascades as identified above. The frequency of these reviews depends on the “clock speed” of the sector. If significant volumes of customer deals are done every month, a monthly review is necessary. If the sector is based on fewer, larger deals, quarterly may suffice. These reviews should be kept short and focused: explaining any gaps, and reviewing and agreeing any corrective action required and the implications thereof.

LIVING THE PERFORMANCE ARCHITECTURE

Historically, most of these have been annual processes and therefore out of date almost as soon as they have been completed. Today the same risk holds, as most of these processes remain manual, based on multiple spreadsheets and lots of manual coordination across units. The ability to update estimates and flow through impacts is impeded by tooling. Yet software tools exist that allow the aggregation of information across a Group into financial plans, with all the requisite overlays and integrations. Putting one of these tools in place to provide a dynamic performance architecture is a key enabler for managing and driving performance in a large organisation. This allows these processes to move to an “agile” footing: things can be updated as and when change is needed, not based on waiting for the next update. Projects start and finish, new objectives can be handed out, new priorities set, and the system should reflect all of this in real time.

Having financial plans that move up and down significantly over time makes setting expectations challenging. Twice-annual “freezes” should be considered to check on progress and direction and to set guidance and incentives.

So where are you on this journey? A few questions to get your diagnostic started:

A. The financial planning process

1. Do you do financial planning top-down or bottom-up?
2. Does your central contingency reflect this? (Small for bottom-up; large for top-down.)
3. Do you separate out “exposures” from “momentum” and “strategic initiatives”? Can you show how each shapes your plan?
4. Do you have an explicit risk and opportunities process? How do you ensure that your plan number is a likely outturn?
5. How does a change in a unit get reflected into our plans?

B. The capital allocation / strategic initiative process

1. Do you run a distinct capital allocation / strategic initiative process looking across the Group at opportunities for capital deployment?
2. Do you separate out investments required to underpin the core business (maintenance capex) from value-creating investments, value-creating vs. counterfactual, and long-term high-uncertainty?

3. Do you ensure that long-term high-uncertainty initiatives are self-funded through matching short-term return investments?

4. Do you conduct regular investment post-mortems?

C. Target setting and scorecards

1. Is there a clear link between our bottom-up plans and guidance?

2. If negotiations happen between top-down and bottom-up plans, how do we ensure that our plans remain risk-balanced?

3. How are planning and remuneration linked?

D. The objectives cascade

1. How are financial plans and objectives linked?

2. Do we allow freedom on “how”?

3. How are bottom-up / team-generated objectives reflected in objectives?

4. How are objectives made visible across the organisation?

5. Are the most important initiatives visible, and highest priority for all?

E. Performance management

1. Do we have a rolling forecast view?

2. What is the frequency of performance reviews? Why?

3. Do we keep the scope of reviews on the “big moving pieces”?

4. How much time is spent preparing for performance reviews? Have we created a cottage industry of “everything” slide-packs for reviews?

5. Do we have a frank performance conversation, or hide behind excessive detail?

The performance architecture conversation requires putting in place each of the key pillars.

This is a substantial programme and will take significant organisational focus to achieve all of the elements. Selecting which areas are the highest leverage for the organisation, and

how best to phase the transformation, should be the key initial focus. Meanwhile,

performance conversations need to increasingly embed the spirit of the desired

performance architecture to ease and accelerate the transformation.

PART C**Decisive action**

Having understood external expectations and ensured that the organisation is able to act, we need to ensure that the organisation takes decisive action.

This requires a differentiated view of the market, a clear view of the assets we wish to own, a clear view on how we wish to position and compete (business unit by business unit), the right people in the right place, and the right interventions on the “factory” of the business (i.e. operations and technology).

The aims of these conversations are to ensure:

1. A differentiated view on value opportunities
2. Clarity on future shape and industrial logic for the Group
3. A clear programme of activities driving value in each business unit

08 / 12

DIFFERENTIATED READ OF THE MARKET

What sources of “truth” exist for the markets we operate in? In some markets there are well-defined third-party sources that serve as good-enough sources on the market. Nonetheless, some businesses maintain their own internal market definition and invest significant time and effort explaining differences vs. external sources. For all the positives of “a better market view”, negotiating the market view up or down becomes a cottage industry and a significant distraction.

To the extent that external stakeholders and competitors largely point to the same source of truth, there is little value in using a different source. While it can be true that third-party sources mis-qualify some areas of market, and this may create opportunity, it is often small and outweighed by the loss of focus from internal negotiations regarding the market. (Since internal market views tend to feed into performance targets and therefore remuneration, these negotiations tend to be very involved.)

While debating the top-line picture adds little value, there is significant value in driving the debate towards (a) a customer lifetime value view, and (b) via a direct cost and cost-to-serve (including use of balance sheet assets) down to a cash-contribution picture. This analysis tends to show up value “pockets”, where long-term customer value is misjudged in the market, and where the de-averaged costs of serving a segment make segment profitability high or low. A particular focus should be placed on unpacking the distortions created by different cost-allocation approaches for fixed costs and assets: less “blanket” allocation keys often show up pocket value opportunities.

This is a dynamic picture. Profitability opportunity shifts over time as customer behaviour changes, new competitors emerge, new offerings create new expectations, new technologies create new ways of adding value, and competitor plays shape where value lies. Each of these needs to be tracked and integrated.

Developing and maintaining an explicit perspective on the market from a value perspective is key to driving organic out-performance and ensuring robust strategy choices.

09 / 12

A CLEAR CORPORATE STRATEGY

Setting the right corporate strategy for a multi-business Group is a different challenge to setting the strategy for each of the units. The key questions are first about establishing a dispassionate view regarding the existing business portfolio. The starting point should be that each and every business needs to justify its role in the Group ongoing. History and past performance do not make any assets “untouchable”.

Key questions to be answered:

1. What different businesses are we in? How does this look from the customer perspective?
2. What is the logic for the portfolio of assets we own to be owned by us? What synergies exist across the assets? What dis-synergies would we crystallise if we were to separate them?
3. Would any of our assets be a better fit to other owners?
4. Have any of our assets peaked, and are they potentially worth more to other owners?

5. What is the realistic timeline for us to exercise any portfolio-related options, given buyer universes, carve-out times, macro-cycles and so on?
6. Given the direction of travel in the market, are there assets available that would allow us to better meet existing or emerging customer needs (e.g. by providing new capabilities, having clear synergies with the existing business, or providing a quicker path to market than building organically)?
7. Do we enjoy sufficient market support to not need to self-fund growth-oriented portfolio moves (e.g. via increased borrowing, equity issuance, using equity as currency), thereby allowing us to accelerate our transformation?

It is not unusual for there to be a long tail of underperforming or non-core assets to be cleaned up in a large Group. Doing so is not strategic, but it is a matter of good housekeeping. Even if proceeds are limited (or non-existent for shut-downs), doing so has clear signalling value as well as freeing up management time and resources. Getting on with this is a no-regret move.

Making more substantial moves, whether divestments or acquisitions, can take a long time. Allowing the business to understand plans in either direction can lead to performance distortions at the operating level. These conversations should therefore be closely held amongst a very small number of people at the corporate centre. Managing the overall equity story of the Group can be challenging through these phases: while certain phrases can signal the intent (“dispassionate value-oriented custodians of our assets”), ambiguity needs to be retained.

10 / 12

DISTINCTIVE BUSINESS UNIT STRATEGIES

To determine a unit’s strategy, we need to understand the unit’s starting point, the market it operates in and its attractiveness, the reality of our position within the market, how much momentum we have, and our own operations and assets.

1. STARTING POINT (INSIDE-OUT).

Unpacking performance within a unit is the key starting point for strategy. Which existing customers, products and geographies generate the most value (at a cash level)? What is the reason for the spread? How has this evolved over the last three years, and how do we expect

it to evolve and why? What actions are required to strengthen our fulcrum and address pockets of underperformance?

2. MARKET ATTRACTIVENESS (OUTSIDE-IN).

A market is attractive if it allows a return on capital. Growth per se does not make a market attractive. A market may also be partially attractive, i.e. if only some market participants earn a return. This is frequently the case in markets with high fixed costs: prices often normalise to a level where only #1 and #2 players earn a return. Assessment of market attractiveness, and attractive positions within it, needs to be dispassionate, as it sets the foundation for many of the choices we have.

3. POSITION.

A business's market position is inherited. Shifting position is very hard. It typically requires (a) a market discontinuity to exploit (or a differentiated insight about customer need), (b) inorganic moves, or (c) sustained out-execution on the basics leading to trading to a better place. Being "differentiated" is not enough to underpin (c), unless the differentiation can be demonstrated to lead to either strengthened customer preference or higher price realisation. By and large, unless a compelling case can be made for a window, including creating such a window through disruptive moves (e.g. shrinking the market to take a higher share, or aggressive market expansion moves) (a), or an acquisition (b), the most likely path is (c). This requires investing top talent in the unit and significant patience. Ongoing segment participation should also be reviewed, and other options considered, given that this is a high-risk path and may be low reward (see corporate strategy and portfolio above).

4. MOMENTUM.

Do our customers feel we are offering value for money? The value frontier moves all the time, and where a disconnect opens up between satisfaction in proposition (not just product, but across all touch-points) and satisfaction in price, momentum is at risk. For a period this can be compensated for through aggressive trading (e.g. promotion activity), in effect "over-trading" vs. the strength of the proposition and customer satisfaction in it. This leads to an erosion of trust (usually visible in customer satisfaction metrics), and if allowed to persist, to a momentum stall. The stall can be addressed by lowering prices or by enriching the proposition, both of which are typically margin-eroding. Avoiding momentum stalls requires regular proposition enrichment (based on features that truly add value to

customers) and commensurate price adjustments. The low-frills alternative to this should also be explicitly considered (i.e. fewer features for a lower price). Any unit strategy therefore needs to be explicit on value-for-money satisfaction in each segment it serves, and how it plans to further enrich it, especially if price rises are planned: a “more for more” needs to be explicitly underpinned through tangible initiatives. This is the foundation of sustained business growth: the relentless pursuit of adding more value (or the perception of more value, since value is in the eyes of the customer) to customers, thereby allowing us to win more customers and deepen relationships with existing customers. Where possible, these new proposition enrichments should be developed with a lead customer, and then rolled out more broadly. In other words, corporate venturing and innovation activities should be driven at the coal face, not in the ivory tower.

5. PRODUCTIVITY AND ASSETS.

Unit plans should also involve initiatives that improve productivity, and investment in assets that strengthen their ability to deliver on customer expectations (see conversation 12, out-executing on the basics below).

Generically, unit strategies articulate the choices we have made in each area. These choices need to be coherent, form an integrated whole, and be translated into a programme of initiatives. These typically cover: (1) actions to strengthen the profitability fulcrum and address pockets of weakness; (2) actions on position (although out-execution on the basics is often not made explicit); (3) momentum actions (new propositions, value for money, strengthening customer experience); (4) productivity and key asset enhancement; (5) actions on performance architecture or execution culture that are particularly pertinent to the unit (per conversations 6 and 7). There is value in representing these different priorities in a single strategy “slide” for the unit that allows frequent repetition throughout the organisation. It should be held stable until conditions change or a change of strategy is approved. To the extent that unit strategies can be meaningfully “rolled up”, there may be value in an overall corporate-level strategy slide. In many cases the differences between unit priorities are too great to make this meaningful.

The strategy should also be translated into a prioritised set of initiatives with clear top-level owners (the beginning of the objective cascade articulated in conversation 7). It also needs to interlock with the financial planning process (also conversation 7). New initiatives can be

launched whenever needed to further accelerate the strategy: this is a dynamic process. The strategy should then be translated into a “what we have decided not to do” list that should also be shared and made explicit across the unit.

Finally, the strategy should be translated into a simple “if in doubt, prioritise this” statement or mantra, such as “customer experience always comes first regardless of cost”, or “efficiency is the most important thing, but where possible seek to create connection with customers”. These simple mantras ensure that actions in the field reinforce the strategic intent of the business. These should represent the “kernel” of the strategy.

11 / 12

RIGHT PEOPLE IN THE RIGHT PLACE

Putting the right people in the right place is a key enabler of executing at pace. There are two elements: the right operating model and the right individuals. To some extent these are interdependent: the organisation also needs to reflect the individuals you have available to you. By and large, though, changing an organisation to reflect individuals should be avoided. It tends to remove clarity of structure.

A. THE RIGHT OPERATING MODEL

A lot can be achieved without changing the operating model. An operating model change creates significant disruption to the organisation and refocuses staff internally. As such it should be avoided wherever possible.

There are three reasons to undertake operating model changes, in spite of the disruption created:

1. Accountabilities are diffuse as a result of the structure.
2. Key strategic initiatives are impeded by structure (and a short-term programmatic overlay cannot address this).
3. After large M&A activities, where effective integration requires operating model changes (a special case of 2).

(1) The optimal operating model should ensure that distinct businesses (through the eyes of the customer) are managed separately, and that P&L owners own as much of their P&L as possible. Where a P&L consumes a service from another part of the business (where cross-

unit synergies justify a matrix), this should be negotiated on a commercial arm's-length basis, and the P&L should also be free to consume third-party services (although the Group-wide impact of such changes also needs to be taken into account). Central cross-charges should be minimised.

(2) Driving large-scale initiatives across functions does not work, unless on a short-term basis with significant sponsorship. As such, to deliver these initiatives, leading the change with governance is the most effective. Once the initiative is owned by the line, with key constituents in the same unit, these initiatives can be driven through the right execution culture and the right performance architecture (conversations 6 and 7).

Changing the operating model should also trigger a spans-and-layers review as a matter of course. Large organisations tend to suffer from a drift into middle management, with a corresponding loss of role clarity and accountability. To the extent that operating model changes trigger a top-down cascade of appointments, reviewing role sizes and requirements is a natural refresh moment to undo the impact of this drift.

B. THE RIGHT INDIVIDUALS

Through conversation 5, “Aligned top team”, and conversation 7, “Right performance architecture”, we have identified the key roles in the organisation (P&L owners, key strategic initiative owners, owners of key initiatives leading to the “momentum plan”, owners of large risks and opportunities), and established Group ownership of the leadership talent pool.

Most roles should be seen as approximately three-year postings, although some may naturally have shorter timeframes. In large organisations, most initiatives take 18 months to show results, so three years allows for a full cycle of diagnostic, action design, implementation, early results, and results. While prior experience (including outside the organisation) should be one consideration in appointments, so also should learning agility and track record of getting things done. Erring on the side of stretch assignments should be the default, with an eye to developing a bench of executives with well-rounded skillsets able to be succession candidates for the most senior organisational roles. A robust Group-wide dialogue regarding where best to allocate talent across the needs of the organisation is the key requirement.

These dialogues should also identify whether new leadership talent needs to be introduced, with what skillsets, and through what roles. They should also identify performance issues, or individuals that have peaked, and whether the organisation's needs are best served retaining the individual or supporting them in transitioning. These should be dispassionate, robust discussions.

While the above defines the talent approach at the level of the corporation, this approach should cascade down into BUs and smaller units below.

12 / 12

OUT-EXECUTING ON THE BASICS

Operations and technology are where customer outcomes are delivered, and where most of the organisation is engaged.

The word “operations” is used broadly here. It covers not just factories and warehouses but also customer service call-centres, sales teams, stores, and fulfilment partners. In this conversation, rather than look at operations functionally, we look end-to-end at the system in terms of delivering outcomes for customers (e.g. through an end-to-end process lens: prospect-to-order, order-to-cash, trouble-to-repair, installation-through-end-of-life, as suitable for the organisation). Forcing the end-to-end view is what distinguishes this conversation from more operational reviews within businesses and functions.

Each end-to-end process can be considered through two lenses:

1. Do they work?
2. Do they deliver acceptable customer outcomes when they do work?

For an end-to-end process to work (1), (a) it needs to flow end-to-end with limited deviation from the agreed process (right first time), and (b) with as few manual touchpoints as possible (straight-through processing).

For a process to deliver an acceptable customer outcome (2), (a) it needs to take into account customer needs, both rational and emotional (SCARF provides a guide here as articulated above), (b) dimensioning needs to reflect demand volatility and a customer-suitable target performance level, and (c) if the process fails, it needs to be recovered well.

Performance against each of these needs to be tracked on an ongoing basis vs. agreed targets. The targets themselves need to be set dispassionately, and be informed by customer feedback and complaints, with an explicit assessment of acceptable levels of failure in the system. The base assumption should be that customer expectations continue to rise and that this needs to be reflected in the targets. The operations cost-envelope is largely an outcome of the target dimensioning, even if greater efficiency should be achieved year-on-year through the use of technology. A watchful eye is needed here to ensure that cost savings are genuine productivity gains, not achieved by removing redundancies that ensure resilience in the face of demand shocks. There is an implied tension here that needs to be surfaced explicitly, and may require deeper engagement with customers, and potentially other stakeholders, to resolve.

Driving performance against these targets requires root cause analysis (RCA), with explicit focus on acting on rate- and performance-limiting steps while driving sustained progress across the system. Human interventions, especially where linked to front-line staff discretion (see execution culture), should be preferred as they are typically quicker to enact. However, technology programmes are also needed to drive sustained improvement. The business cases for such investments often struggle to pass thresholds, given that much of the value is in avoiding customer pain (typically hard to quantify, and hard to link to financial impacts such as churn). Yet falling behind rising customer expectations is a “customer debt” just as surely as failing to refresh and maintain code creates “technology debt” and compromises either current or future outcomes. Both need to be explicitly discussed and addressed in reviewing investments in operations. Strong executive support is needed to ensure these investments are made.

To the extent that the problem being targeted is well described through data (often not the case when the customer is involved, or only partially), machine learning and AI may also serve to accelerate improvement. Their use does, however, need to be very targeted and should be handled with caution to avoid loss of focus on the human aspects of the system design.

Are these issues for the corporate centre? Clearly not in all cases, and not for every small unit. But the corporate centre does need to set the expectation that every business unit actively looks at its operations through end-to-end processes and through the customers’

eyes. The centre does need to keep an eye on this area for large units that have an impact on customer or stakeholder perception of the whole. Customer feedback and executive-level complaints should serve as an early warning sign that operations require greater scrutiny.

Steering the 12 conversations

Each of the 12 conversations outlined above needs explicit focus as a regular part of the corporate calendar, both in terms of ensuring that the right conversations are happening across the Group, and in terms of discussing the substance of each.

This could be organised differently to reflect different organisational and leader personalities. Our hypothesis is that dedicating one week a quarter to each conversation ensures that each gets appropriate focus and attention. This does not preclude bringing back analytical findings and discussions on the issues at other times. The merit of this approach is that it guarantees focused time on each conversation, and it also sets a cadence for the business to discuss, act and then review. It also creates clarity for all participants and stakeholders of each conversation about when they are expected to bring updates and refreshes.

More important than cadence is the tone of these conversations. These should be explicitly fact-based and challenging, based on joint exploration of the issues, with a focus on surfacing implicit assumptions. The CEO and / or their delegates need to ensure issues are surfaced openly, that a robust debate occurs, and that clear decisions are made. The outcome of these conversations should be shared across the wider top team of the organisation.

The right attendees for each conversation will vary, but each discussion should be kept to a limited size to allow robust dialogue, with the needed decision-makers in attendance. We do not anticipate that these discussions happen at an Executive Committee of the organisation, except in exceptional circumstances.

Where to start

Each of the 12 conversations needs to run in a large corporation. There is no option to pick and choose. In time, all will need to be up and running.

Within each conversation, there are more choices about what areas to prioritise. The right set of priorities will vary by organisation.

Combined, adjusting to the model outlined in this paper potentially creates a very significant programme of change for the organisation. This needs to be carefully sequenced to avoid overload.

By and large, the sequence of the conversations as written should serve as a guide to sequencing. Strengthening engagement with the outside world helps rewire the organisation's view of itself. Putting in place the "ready to act" enablers significantly accelerates the rate at which execution can happen.

The 12-conversation framework itself also provides a guide to how to design this change and ensure its execution. The intent is to create an agile, self-optimising business system. There is no destination, just a business system that allows the corporate to thrive in uncertain times.

