Making Peer Groups Effective: Lessons from BP’s Experiences

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The formation of ‘peer groups’ within a company can bring together managers from different units for knowledge sharing and mutual learning. Yet such groups tend to deliver modest benefits rather than helping to transform the company’s performance. BP, however, set up a system of peer groups and claims to have derived major benefits from them. This article attempts to find out why. Among the lessons learned are the importance of the composition of peer groups, the need for a performance culture with clear deliverables, the value of self-management processes, and the role of top management support. Peer groups are suitable for encouraging collaboration in companies that wish to preserve business unit autonomy and avoid strong corporate functions. But peer groups are less suitable for performance optimisation than for performance improvement, and are less able to bring about some types of collaboration. Therefore different sorts of peer processes may be needed by different companies and at different stages in their development.

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Introduction

In recent years, many companies have established peer groups, affinity groups, communities of practice and BDP (Best Demonstrated Practice) networks. These groups, which cut across the formal line reporting structure, bring together managers from different units and provide a forum for discussion of common issues. For example, functional managers in areas such as HR or IT, who might otherwise feel isolated from their colleagues in other operating units, may meet periodically to promote knowledge sharing and mutual learning. Some experts have claimed that these groups are ‘the new frontier’, the key to the challenges of the knowledge economy.

We have found that many managers have become increasingly disillusioned with peer group processes. After some initially productive meetings, they often become process driven, with the meeting schedule dictated more by a regular calendar than by business benefits. Members of the group show different levels of commitment to collaboration, and those with most to contribute
frequently assign a low priority to doing so. Furthermore, peer groups are typically informal, and lack ‘teeth’ to enforce collaboration between their members. ‘Over time’, said one manager, ‘our peer processes have become more about huddling together for warmth than making a real business impact.’

In a large US food and agriculture corporation, the senior management encouraged operating units to set up peer groups to improve cross-company collaboration, but in most cases left decisions about the brief and composition of the groups to the units involved. More than 200 peer groups were established over the following two years, focusing on issues such as common customers, new product and service development, strategy co-ordination, and local sharing between units located in the same regions. Operating unit managers were enthusiastic about the peer groups and devoted an average of 20 per cent of their time to them. But despite some successes, there were also frustrations. Managers complained that there was insufficient time and resources to make the peer groups truly effective; that peering activities did not receive enough reward and recognition; and that peer group members often had too little knowledge about the other operating units in the group. In the words of one business unit head: ‘I sense a tension between the expected results of the individual businesses and the collaborative efforts necessary for success. I think people want to work together more, but the focus is more on figuring out how to get their own businesses on track versus collaborating or peering. There is now a fair bit of scepticism about the willingness of the businesses to truly work collaboratively.’

Despite the increasing prevalence of peer processes, it therefore seems that in many companies they are delivering only modest benefits, rather than helping to transform performance. BP, however, claims to have derived major benefits from its peer group processes. BP’s peer groups had a number of unusual features. They were formally recognised parts of the organisation design rather than informal networks. They focused on line managers with profit responsibility for each business unit, not on functional managers. They had clear deliverables, not more nebulous purposes. And they were empowered to make decisions, not simply to act as forums for meeting and discussing.

This article attempts to draw lessons from BP’s experiences. We begin by analysing how BP’s peer group processes worked from the early 1990s to 2001, drawing out their key features to show how and why they were so effective. We go on to discuss recent changes to BP’s processes, which provide further learning about when peer group processes work best. We conclude with the lessons that other companies can learn from BP.

How BP’s peer group processes operated up to 2001
Peer groups were first established in BP’s oil and gas exploration division (or BPX). In the early 1990s, BP was facing severe performance problems, and John Browne, then managing director of BPX, was seeking ways of improving performance. (See sidebar: BP: the context.) One important initiative was disaggregating BPX into around 50 largely autonomous, profit-responsible business units, in order to increase accountability and simplify control. The business unit leaders agreed tough annual ‘performance contracts’ with Browne and were held personally accountable for delivering on these contracts. A second initiative was the establishment of ‘peer groups’ of business unit leaders, with the intention of promoting mutual learning and collaboration between business units. Both initiatives proved highly successful, and were subsequently extended to other parts of the company after Browne became CEO of the whole company in 1995.

There was no fixed blueprint that laid out how BP’s peer group processes were intended to operate. Rather, the way in which peer groups worked evolved over the period up to 2001, and the details differed across divisions. This flexibility prevented peer groups from falling into a stale routine and allowed them to respond to different circumstances in each division. Nevertheless, their underlying purpose and processes remained constant. We shall describe the main common characteristics of these processes, moving on subsequently to some important modifications introduced from 2001 onwards.
BP: the context
In the late 1980s, after a period of unsuccessful diversification, BP was refocusing on its core businesses of oil, gas and chemicals. In 1987, it had shed the last of its government ownership, taking on a considerable burden of debt in the process. The company had a large and influential corporate head office and powerful regional and country management teams, as well as four product-based business streams. Performance was moderate, with return on capital in 1989 at 11.2 per cent, and the culture did not stress tight personal accountability for results. In 1990, under Bob Horton, the new CEO, BP embarked on a ‘culture change’ programme.

The culture change programme was intended to reduce the power of central functions and regional management groups, and to decentralise more decisions to newly-empowered business units. These business units would both be more responsible and more accountable for performance. The idea was to instil a can-do, fast-moving, high performance culture into BP.

Although the culture change programme was not universally welcomed, it began to take root. Ninety per cent of head office committees were eliminated and head office staff numbers fell from more than 2000 to 350. But by 1992, falling oil prices, reduced margins and the global recession, together with BP’s high level of debt, created a financial crisis for the group. Partly as a result, but also due to his abrasive personal style, Horton was ousted from the CEO role in 1992 and replaced by David Simon.

Simon’s more diplomatic style was a significant change from Horton’s, but he continued to pursue the culture change programme. Simon’s slogan to communicate his goals was ‘PRT’ — Performance, Reputation, Teamwork. On the performance front, there was a major cost reduction drive. Between 1992 and 1996, BP transformed its cost base, with its total headcount falling from 97,650 to 53,150, while sales went from $58.85bn to $69.78bn and profitability rose from a loss of $811m to a profit of $3.98bn. But Simon wanted to combine a decentralised, performance-driven culture with enhancing BP’s reputation and working together as a team.

John Browne, who headed BPX under David Simon, found a practical means of balancing the business unit-focused performance drive with encouragement of teamwork. Browne believed there were substantial opportunities for the business units to raise their performance, but that they would only be able to do so if they were much more able and willing to learn from each other. The business unit leaders needed to become more aware of best practices being implemented in other business units and more motivated to help each other to address the challenges they faced. Accordingly, he established tough personal performance contracts for the business unit leaders, but complemented them with the peer group process, described in this article, which promoted mutual learning and collaboration. The approach proved successful, and, after Browne became corporate CEO in 1995, it was introduced throughout BP.

In the late 1990s, BP began a series of mergers that transformed the size and spread of the company. The largest mergers were with Amoco in 1998, with Arco and Burmah Castrol in 2000, and with Veba’s retail and refining assets in Germany and central Europe in 2002. Through a process of integration and rationalisation after these mergers, BP’s net income rose from $3.98bn in 1996 to $6.92bn in 2002. By 2002, BP’s profitability was among the highest of the international oil majors.

1. Formal component of organisation design
The decision to set up peer groups was taken by John Browne and the Executive Committee (ExCo) of each BP division. ExCo consisted of the CEO of the division and four or five other senior divisional managers (group vice-presidents). ExCo mandated the establishment of peer groups and
decided on their composition, taking into account the areas in which it believed that collaboration would be most important and fruitful (see below).

Peer groups were therefore a formally recognised component of the organisation design, with support from top management, not informal groups set up at the discretion of lower levels of management or the participants themselves. This gave the peer groups status, which was important to their effectiveness.

2. Composed of profit-responsible business unit leaders

Peer group members were the profit-responsible business unit leaders (BULs), not functional managers. This meant that decisions taken in peer groups carried the authority of the senior line manager in each business unit. Each BUL was able to take account of his or her own business unit perspective in peer group discussions, providing a means of surfacing and resolving possible conflicts between peer group and business unit priorities.

By involving BULs directly in peer groups, BP made sure that the peer groups would address the most important business issues and had the authority and power to get things done in each business unit.

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3. Peers facing similar challenges

Experience with the peer groups showed that it was important for the members to face similar challenges. After trying various groupings, BPX, for example, eventually decided that the best basis for grouping was in terms of the maturity of oil fields. So there were four peer groups: early stage (access and exploration), new production (ramp up), steady income (plateau), and later life (declining). There were common activities and business challenges at each of these stages, but differences between stages. In the downstream, peer groups were also formed around business units with similar challenges (e.g. the retail business units in Europe or North America). Typically, peer groups had around 10 members: small enough to allow each member to feel personally involved, but large enough to produce a diversity of views and the opportunity for mutual learning.

Peer groups whose members face similar challenges have the potential to understand each others’ businesses better and to provide more valuable mutual assistance. For example, early stage exploration business units can share know-how about new exploration techniques or about establishing good relationships with local governments, while later life production business units can exchange ideas about maximising cost-effective extraction of oil from mature fields. By giving careful attention to the composition of the peer groups, so that the members had much that they could potentially learn from each other, BP was able to make the meetings issue-driven and productive.

4. Each peer with a clear and stretching performance contract

A vital background to the operation of BP’s peer groups was the performance culture of the company, established during the 1990s and exemplified by the business unit performance contracting process. Each business unit had a clear but stretching set of targets for the coming year. The targets, laid out on a single sheet, covered key financial and production goals such as net income, cash flow, capital expenditure and production levels. They also covered key business priorities and milestones in areas such as health, safety and the environment, cost reduction programmes, management team development, and opportunities for collaboration with other oil companies. The goals were driven both by a bottom-up view of what the business thought it could deliver and also by a top-down view of what should be possible and what the group needed to fulfil its overall goals. The bottom-up view was generated by the business unit planning process. Then the
business unit’s plans were reviewed with ExCo, which had an overall stream objective to meet and a view of what each business unit should be capable of delivering. After strenuous negotiations, some stretching targets were agreed. As one ExCo member stated: ‘BULs will usually not know at the beginning of the year how they are going to achieve the results they have promised.’ Actual results achieved by each business unit were monitored closely by ExCo, in detailed quarterly review meetings. Both the performance contracts and the results achieved were transparent to John Browne, as CEO, and BULs were meant to feel that their contracts were ultimately with him.

BULs’ performance contracts provided specific goals and personal accountabilities that made it both desirable and necessary for mutual learning to take place in the peer groups. Otherwise BULs were not likely to be able to deliver on their contracts. The sharp edge of this performance culture provided a key motivating force behind all the peer group activities.

5. Clear and stretching collective peer group performance targets

After the individual business unit performance contracts had been agreed, there were further meetings between ExCo and the peer groups, in which ExCo introduced an additional level of performance stretch for each peer group. In other words, ExCo would call for a level of performance from each peer group collectively which was superior to the aggregate of the (already stretching) individual business unit performance contracts. After discussion, each peer group was expected to agree clear collective targets, which peer group members were jointly committed to delivering. Some divisions referred to these targets as a ‘performance contract’ for the peer group; other divisions reserved the term performance contract for business units, where there was an individual BUL accountability for delivery. In any case, the goals for the peer group were clear and the collective commitment to delivery was strong. Peer groups then met four times a year with ExCo to review progress against targets. These meetings were important in establishing a discipline of delivery.

The additional stretch in the peer group targets made it even more imperative for peer group members to work together. In order to achieve collective peer group targets, it was necessary for the best performers to help the weaker performers to raise their game. Unless weak performers were willing to learn from their more successful colleagues, they would not only be unlikely to deliver on their own contracts, but would also hold back the peer group as a whole. Equally, unless the strong performers were willing to give time to helping others, the peer group would struggle with its collective goals. Of course, business units might be strong in some areas (e.g. productivity) but weak in others (e.g. health and safety), so that most business units would be both contributing and receiving assistance. So-called ‘peer assists’, in which one BU provided help to another, therefore became widespread in BP. Whether the issue was best practice in inventory control for forecourt stores, bringing new refinery equipment on stream faster, or achieving more effective post-merger integration, peer assists, rather than seeking advice from corporate experts, became the norm in BP. Managers accepted their obligations to help each other, and would carve out time to do so. Devoting time to peer assists was not just good citizenship; it was also motivated by BP’s performance culture. There was a close link between the prevalence and acceptance of the peer assist process and the pressures created by stretch targets, for individual business units and for peer groups.

6. Peer challenge

As part of the process for agreeing a performance contract, each BUL would be ‘challenged’ by the other members of the peer group. In other words, the peers would press each other to adopt targets
that were suitably stretching. Given the composition of the peer group, the peers would have a good understanding of each others’ businesses and a sense of their performance potential. Indeed, in terms of detailed knowledge, they were often likely to be able to offer a more thorough challenge than ExCo could. What is more, ExCo expected ‘peer challenge’ to be open and robust, and would not tolerate BULs who failed to participate in the process in this spirit. Peer group members too had good reason to push each other for more performance, in order to deliver on the peer group’s overall targets. Peer challenge also applied to capital appropriation requests (see below).

Peer challenge therefore supported and reinforced the more traditional hierarchical process through which ExCo stretched business unit targets and performance. As one BUL remarked: ‘The power of the peer group process is that you are challenged by people who know your business as well as you do.’ This resulted in targets that were both more realistic and more stretching.

7. Peer groups as self-governing

Between ExCo review meetings, peer groups met at their own discretion to decide how they could deliver their targets. For these meetings, peer groups did not have hierarchical leaders who determined how they should work. There was usually a ‘convenor’, a sort of primus inter pares picked from among the peer group members by ExCo. The convenor had a responsibility for setting up meetings and creating an agenda, and was usually influential due to personal experience and capabilities, but had no formal power over the other members. Rather, the peer groups were self-governing. Peer challenges, mutual assistance and other initiatives depended on the group’s individual members and their own decisions about how to work together, not on strong leadership from the next level up in the hierarchy.

Self-governance enhanced feelings of collective responsibility for results (‘our decisions, not theirs’). It also made the whole process depend less on direction from senior management, whose detailed knowledge might not have been sufficient to make the difficult operating trade-offs or see where mutual assistance could be beneficial. Self-governance was also helpful in promoting open dialogue between the peers and avoiding the sort of game-playing to impress a hierarchical boss that so often undermines group processes. Several managers claimed that much of the most useful sharing took place during informal social contacts between members rather than during meetings themselves. ‘The peer groups were liberating and empowering’, said one manager. ‘They helped to reduce hierarchy.’

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8. Peer groups with power over capital allocation

It was part of BP’s capital expenditure authorisation process that business units needed the support of their peers for their proposals (peer challenge of capital expenditures). This meant that BULs must be able to convince well-informed colleagues of the desirability of their capital spending plans. In addition, as peer groups sought ways of delivering their performance targets, it could emerge that, by cutting back spending in some business units and increasing spending in others, overall results could be improved. Over time, peer groups acquired considerable power to reallocate capital between their members if they agreed that this would enhance performance.

Because the peer groups had a good understanding of each others’ businesses, they were well placed to arrive at the best allocation of capital between them. By allowing peer groups some powers over capital allocation, BP gave additional teeth to the peer groups. This power to reallocate capital between members, was a particularly unusual feature of BP’s peer groups, which we have not found in any other companies.
9. Rewards for peer group members dependent on collaboration

Individual rewards for peer group members depended significantly on how effectively they worked together. The bonus system in BP was related not only to business unit performance, but also to peer group and division performance. Results achieved by the business unit against its performance contract were the most important factor, but it was not possible to achieve a high bonus by driving up your own business unit’s results, while collective peer group and division performance languished. Peer review (360° feedback) also played an important role in individual performance assessment. More fundamentally, managers who were not willing to help others and who demonstrated non-collaborative behaviours found that their career progress came to a halt. ‘There is no future for non-collaborators in BP,’ stated one BP board member. Despite the emphasis on individual business unit performance, teamwork and collaborative behaviour were important in determining managers’ career progress and rewards.

Several BP managers claimed that the effectiveness of the peer groups depended on establishing the right collaborative attitudes and behaviours within the company. If personal careers and rewards had depended largely on individual business unit performance, it would have been hard to motivate managers to give time and energy to mutual help. But, by aligning personal rewards with peer group collaboration, BP reinforced the importance of teamwork.

10. Senior managers close to peer groups

Although peer groups were self-governing, ExCo members kept close to their functioning. First, they met quarterly with each peer group for a formal performance review. (See point 5 above). Second, each ExCo member was ‘tagged’ to certain peer groups. Although the peer group reported formally to ExCo, the tagged ExCo members spent more time informally with their peer group convenors and other members, and were more fully briefed about how things were going in each of their peer groups. Third, transparency of information in business unit plans and results for all senior managers prevented consolidation from concealing true performance contributions.

It was vital to the whole process that ExCo was close enough to the peer groups to judge suitable targets and to assess the quality of collaboration being displayed by all the members. Targets needed to be stretching, but achievable. And ExCo needed to be able to reinforce collaboration by rewards and sanctions that were based on a real understanding of who was contributing what to the peer group processes.

Summary

BP’s peer groups were a powerful and effective means of achieving mutual co-operation and learning in the period from the early 1990s until 2001. As such, they were important to the delivery of BP’s demanding performance improvement goals.

The effectiveness of the peer group process depended on the behaviours of the BULs, which were motivated by several factors. First, the peer groups were set up and supported by top management and composed of key line managers (BULs) drawn from similar businesses that faced common challenges. Second, they were focused on delivery of specific targets within a strong performance...
culture. Third, they relied heavily on self-management and mutual challenge by the peers involved to achieve open dialogue, mutual assistance and ownership of decisions. Last, they were underpinned by an organisational context, created by top management, that rewarded collaborative behaviour and team players (See Exhibit 1). As a result of these pressures, the BULs were genuinely willing to search for performance improvement opportunities, commit to peer group targets and help each other to reach them. As one BP manager put it: ‘The process was a cunning web of stick and carrot.’ Although several other companies’ peer processes have some of the BP features, as a package the BP processes are highly distinctive.

Exhibit 2 brings out the wide variety of ways in which peer groups can operate. BP is located down the left-hand side of each contrast. Other companies tend to be closer to the right-hand side on some or most contrasts. Thus, informal networks of functional peers, sometimes called communities of practice, are probably the most common form of peer process. They can have value in sharing ideas and problems, but typically have less power to make things happen.5 Also, peer groups that are not strongly focused on target delivery, often the case with informal functional communities of practice, are less energised and more prone to become talk-shops. Peers meeting together with a strong hierarchical leader, as for example in an executive committee of regional heads who all report to the chief executive of a global business, do not always challenge each other as openly or feel the personal ownership that was characteristic in BP.6 And companies in which collaboration is not seen to be appropriately rewarded by senior management inevitably undermine ‘win/lose’ co-operation, in which one business must make some sacrifices in order to achieve a greater overall corporate gain. By contrast, BP’s combination of line peers, with a strong performance delivery culture, but a largely self-managing process, was unusually effective.7

Changes in BP’s peer processes since 2001
Since 2001, BP has made a number of important modifications to its management processes. These changes include disbanding the peer groups. Why would a company that had achieved such notable success through its peer groups decide to replace them?

Reasons for changes
BP executives give various reasons for the changes:

- Successive mergers during the late 1990s increased substantially the company’s size, geographical spread and number of profit centres. These mergers also resulted in a management group with more diverse backgrounds. The previous management processes had been designed for a smaller,
more cohesive BP and changes were needed to recognise that the company was now very different from what it had been in the mid-1990s.

- During the 1990s, BP grew rapidly through mergers and performance improvement. By the early 2000s, there was a desire to shift the emphasis on to top-line, organic growth, as there would be few, if any, substantial further opportunities for growth through mergers and subsequent rationalisation.

- BP’s performance and profitability had greatly improved by 2001. The ‘low hanging fruit’ in terms of performance improvement had now been picked. Stretch targets were becoming harder to meet, with further improvements dependent on optimisation of operations around the world.

- The emphasis on business unit autonomy and accountability energised the company during the 1990s and was a major factor in delivering performance improvements. But there was a feeling that business unit autonomy might now have gone too far. In order to achieve organic growth and optimise performance in the enlarged BP, it might be necessary to strengthen functional, regional and business group management.

- Over time, the peer groups had taken on more tasks, such as people management and HSE, in addition to their basic performance delivery role. Managers throughout the company were also spending a higher proportion of their time on ‘peering’ and ‘peer assists’. As one manager in BPX put it: ‘Peer groups had been so successful that we eventually asked them to do too much.’

- Last, the need for change was reinforced by the fact that BP was forced to admit in 2002 that its publicly-announced production targets were over-optimistic and would not be met. This embarrassing announcement resulted in a substantial fall in the share price. BP’s senior managers concluded that the performance contracting process had caused over-optimism and an excessive focus on certain key targets (including production) to the detriment of others, and that the process needed to be modified.

In sum, changes in BP and in the issues it faced led to a reappraisal of its management processes. From late 2001 to early 2004, some significant changes were introduced.

**Management process changes**

In 2002 the peer groups were disbanded. Some of their functions were taken over by new entities called Strategic Performance Units (SPUs) and, in the upstream, by new Great Operator (GO) teams. There was also a greater emphasis on functional management; a new, more explicit statement of BP’s ‘Management Framework’; and a fresh approach to targets.

The SPUs are groupings of business units. In the upstream, these groupings tend to be around geographical areas (e.g. Gulf of Mexico, North Sea), to allow for better co-ordination of BP’s exploration and production activities in the region, taking account of political, fiscal and infrastructure issues. BP felt that these regional issues were important and had not received sufficient attention with the previous peer group composition. In the downstream, the SPUs are global business groupings, each with a different business model, such as lubricants, refining, retail and marine. In these business groupings, BP believes that global co-ordination across different regions is paramount.

The business units themselves have also been redefined as larger units, with a reduction from around 140 business units to only 50. These larger business units typically consist of about three to five smaller profit centres, called Performance Units. This structure, with fewer, larger business units made up of more, smaller front-line performance units, is a means of dealing with the increased size of BP.

The composition of the SPUs is, therefore, different from the peer groups, but their use to achieve alignment and mutual learning across business units is similar. However, the SPUs are more clearly part of the line management hierarchy, and each SPU reports to a group vice-president (GVP), who is personally accountable for the results of the SPU.
The GVP is responsible for strategy development and resource allocation and is personally accountable for performance delivery, as well as for co-ordination across the SPU. The new structure, shown schematically in Exhibit 3, gives senior management (the GVPs and the Business Stream CEOs) a stronger challenge and leadership role than previously. Together with the increased size of the business units, it is also intended to give more emphasis to long-term growth and business development as well as to short-term performance delivery.

In the upstream, the GO teams, which include representatives from business units and performance units, focus on best practice and knowledge transfer in different functional areas such as exploration, drilling and wells, project management and operations. They were set up by the Business Stream ExCo, to identify worldwide best-in-class performance in each area, and to move all performance units up to and beyond this level.

The GO teams in the upstream are part of a renewed emphasis on long-term functional excellence and standardisation in BP. At the corporate level, GVPs who lead corporate functions, such as IT, HR, HSE, Public Affairs and Brand Management, have been given more power to impose functional investment decisions on business unit managers, demand adherence to corporate policies, and manage the careers of functional specialists working in the business units. For example, BULs can no longer unilaterally decide to cut training or advertising budgets in order to reach bottom-line targets, and must conform to corporate policies on the use of IT hardware and software. Functional challenge is also supplementing peer challenge. Functional Co-ordinating Groups (FCGs) have been set up for all the main corporate functions. These bring the GVP of the function together with GVPs from each business division (and sometimes from other closely-related functions), under the chairmanship of a BP managing director, to approve the function’s strategy and resource allocation decisions and to resolve any conflicts between business and functional views. The purpose of strengthening the functions is to take more advantage of economies of scale and scope in the enlarged BP. While functional managers generally welcome these changes, there remains some scepticism among business unit managers about whether all of the functions will actually deliver increased benefits.

In 2003 BP produced a ‘Green Book’, laying out explicitly the management framework or principles that were meant to guide the company’s management processes. The Green Book sets out
the responsibilities, delegated authorities and accountabilities within the new structure, including the increased powers of the functions and the correspondingly more circumscribed role of the BULs. Previously the BULs had extensive autonomy to decide how to deliver on their performance contracts. Now the BULs do not have responsibility for centralised functional policies and decisions, and are only held accountable for the results of decisions they do control. The Green Book is intended to make individual accountabilities crystal clear, to show how line/function conflicts will be resolved, and to describe the behaviours expected of managers in BP. Making the management framework much more explicit and detailed is meant to help BP managers understand how the company’s structure and processes are supposed to work. This has become increasingly necessary because of the enlarged size of BP and greater diversity of corporate backgrounds. An explicit management framework is also helpful for a large company in addressing external concerns about governance.

Making the management framework more explicit helps managers understand how the company’s processes are supposed to work

The last major change has been in the nature of the performance contracting process. As one manager put it: ‘We have moved away from the idea of BHAGs without logic or underpinning to targets underpinned by realism and resource.” 9 The old stretch targets, which could only be met by BULs learning from each other, have been replaced by targets which remain tough, but are the product of more detailed planning concerning the functional and operating initiatives as well as the investments required for each business unit. Any additional stretch in the targets for the SPUs is held by the GVP rather than apportioned among the BULs, and the GVP is responsible for looking for opportunities to meet it. This more conservative and painstaking approach to targets is a reaction to the over-optimism in the 2002 production targets. Business units are also judged against a wider range of targets than previously and there is more emphasis on progress towards five-year targets rather than one-year targets.

The key changes to the previous peer group processes are shown schematically on Exhibit 4. The new processes give more emphasis to functional managers and functional sharing and less to profit-responsible line managers. They are less driven by stretch performance targets and by collective goals and accountabilities, and they depend more on GVP challenge, direction and hierarchical leadership. But there continue to be personal rewards and strong support from top management for collaboration and mutual learning.

Reflections on BP’s management process changes since 2001

To understand the effectiveness of BP’s peer groups up to 2001 and the subsequent changes, it is important to set them in BP’s changing context of organisational challenges and priorities.

During the 1990s, BP was working through a so-called ‘culture change’ programme which involved empowering profit-responsible line managers to take decisions and reducing the power of previously large centralised functions and regional management levels. The emphasis was firmly on decentralisation to quasi-autonomous business units, with correspondingly strong accountability for performance. At the same time, there was a drive to improve performance from unacceptably low levels, and a belief that suitably motivated BULs would be able to find ways of doing so, particularly if they were willing to learn from and collaborate with each other. The number of BUs facing similar challenges was large enough to provide productive sharing opportunities, but not so large that dialogue between BULs would be an inefficient means of sharing. BP’s peer groups, coupled with the stretch performance culture, were an effective means for BULs to identify and act on the performance improvement opportunities available through co-ordination and sharing, while preserving the emphasis on business unit autonomy.
After 2001, the corporate emphasis shifted. Now it is less about delivery of short-term, bottom-line business unit performance improvement and more about functional optimisation and organic growth to achieve industry-leading performance. BP senior management believes that these goals will not be achieved simply by motivating autonomous and accountable BULs to help each other voluntarily, and that self-managing peer groups driven by a stretch performance culture are no longer the best way of addressing current challenges. This conclusion is reinforced by the enlarged size and spread of BP and its increased number of profit centres, which make peer group dialogue a less efficient means of achieving sharing and co-ordination. Hence, business unit autonomy is being circumscribed by stronger corporate functions, and co-ordination and growth is being driven by upper levels of management, who themselves have personal accountability for the long-term performance of their groups.

Although the reasons for the new management processes are evident, it is worth recognising that the changes bring with them their own dangers. For example:

- Over time, will the shift away from business unit autonomy reduce line management’s ability and commitment to deliver planned performance?
- Will the increased functional role lead to conflicts between functional and line management priorities, and slow down the decisions needed to improve performance? Will greater functional powers result eventually in over-mighty functions that don’t deliver?
- Will the new approach to stretch targets and collective goals make for less motivation to share? Will there be a gradual run down in the energy levels generated through the previous performance culture?
- Will the increase in hierarchical leadership result in less openness and ownership of targets? Will there, in due course, be a need to rekindle business unit ownership, peer challenge and self-direction?

Managers in BP confidently expect further management process changes as the company attempts to strike the right evolving balance between the contrasts shown on Exhibit 2. It is especially interesting to note that in mid-2004, a number of the BULs in the E&P division decided that they wanted to meet in a self-managing group to help each other deliver performance targets, thereby reintroducing some of the features of the previous peer groups.

Lessons learnt
BP’s experience suggests that self-managing groups of line management peers can achieve a great deal in the right circumstances. They are a powerful means of promoting co-ordination and
learning, provided that there are enough, but not too many business units with real potential to share, that they are motivated by a performance culture, and that there is enough scope for performance improvement to permit stretch targets to be readily achieved through mutual sharing. Allowing the peer groups to be largely self-managing can also be useful in promoting commitment and a sense of personal responsibility among the members. For peer groups to succeed, the corporate context must support peering and reward collaboration as an essential precondition.

Allowing the peer groups to be largely self-managing can promote commitment and a sense of responsibility among the members.

BP’s positive experiences with peer groups in the 1990s contrast strongly with many other companies whose peer processes proved less valuable. The peer processes that achieve little consist of informal networks, whose members have little of real business value to share, embedded in a weak performance culture with little emphasis on collective goals, and where senior management do not reward collaborators. In particular, bringing together managers from businesses that are not similar and who have little to learn from each other will almost always be a waste of time. Where such meetings are mandated by senior management, the peers involved will privately resent having to participate and may well only make contributions that they believe will advance their standing with the senior manager leading the group.

The recent changes at BP, however, imply that the company sees limits to what peer groups can accomplish. Some types of co-ordination and mutual learning may be difficult to achieve through voluntary self-management in peer processes. If the task is to get a number of business units to adopt common standards, it may be too difficult to rely on voluntary peer pressure, as some or all of the businesses will incur costs to move to the new standards. If the challenge is to fine-tune policies, practices and operations across businesses, mutual adjustment and negotiation in a peer group may be too slow and inefficient, especially in large companies with many businesses involved. It is likely that these difficult links will require some leadership or involvement by functional or senior managers to be successfully and efficiently accomplished.10

But the functional and upper level managers need sufficient insight and personal skills to give appropriate leadership, otherwise the standards and policies imposed may not be beneficial. If, for example, senior managers impose common marketing policies in businesses that have different target markets, they may achieve a reduction in marketing costs, but lose even more in terms of market share or price realisation. Heavy-handed co-ordination dictated by upper level managers can lead to unduly high compromise costs for some businesses and can also demotivate business unit managers. In companies whose upper level managers do not have a good understanding of the needs and opportunities in each business, it may be best to rely on peer groups for co-ordination.

A further learning point concerns the value of a performance culture. Too often, peer groups do not have sufficiently clear deliverables, and, as a result, are ineffective. By contrast, BP’s performance culture was essential for its peer groups’ success. Indeed, the peer groups became a vital part of the performance management process. One ex-BP manager, who had been heavily involved in the peer groups and was a strong advocate of their worth, told us that he had not been able to institute a similar process in his new company: ‘We set up the groups and the meetings, but, without a performance culture like BP’s, they never achieved much.’

But we have also seen that a performance culture can bring dangers of its own. Performance cultures give managers strong motivation to deliver on the targets by which they are measured. For motivational reasons, a few, simple, outcome-based measures are preferable, as they give focus and simplicity. But such measures can lead to unbalanced decisions, with an excessive focus on the

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measured targets. For example, next month’s profit or sales targets may take precedence over investments that are necessary to build the business for future years. Another problem with performance cultures is that they may create a climate of overconfidence, in which managers commit to unrealistic objectives. Stretch targets are likely to do harm if they cannot be reached in ways that are consistent with the long-term health of the business.

Last, it is evident that different sorts of peer processes may be needed by different companies, and at different stages in a company’s development. As argued above, it is necessary to take account of the number of businesses in the company and the similarities between them; the extent and nature of performance improvement opportunities; and the difficulty of the co-ordination tasks faced. It is also important to recognise the desired evolution of the power balance between senior management, business management and functional management. Self-managing peer groups place the onus of co-ordination on the lower level managers who make up the peer groups, and are compatible with an organisational dynamic that emphasises decentralisation. This may be a matter of pushing accountability down the organisation or it may reflect a desire to limit the powers of intermediate layers of management. But if the organisational dynamic is concerned to establish clear personal accountabilities at senior management levels and/or to build on the skills and judgment of senior managers, self-managing peer groups will run against the grain. This conclusion was well summed up by John Browne: ‘Things keep changing. People do not sit with one way of doing something for a very long time because, if you did, the chances are you would be competed out of business. And besides, you learn because nobody can get it right first time. You learn about what is right and wrong about a management system.’

References


2. Our views about peer groups are based on research carried out during the period 2002–2004, including interviews with about a dozen companies including BP. Our research was, however, primarily with BP, as BP’s processes seemed unusually interesting and successful.


4. In BP, the four divisions (Exploration and Production or Upstream; Downstream; Petrochemicals; Gas, Power and Renewables) are referred to as Business Segments (previously Business Streams). The divisional Executive Committees are now called Senior Executive Teams (SETs).

5. See, for example, John Seely Brown, Minding and mining the periphery, Long Range Planning 37, 143–151 (2004) which discusses Xerox’s communities of practice.

6. Mitsuru Kodama believes that what he calls ‘strategic communities’, formed and led from middle management ranks, are the best way to search openly for new strategies in difficult-to-predict environments where there is likely to be a need for a process of search involving trial and error. He discusses NTT DoCoMo as a case example. See Transforming an old economy company through strategic communities, Long Range Planning 35, 349–365 (2002).

7. Partner meetings in some professional firms approximate to this mode of operation.

8. There has also been some increased emphasis on regional management for BP’s four regions: Americas, Europe, Asia, and Africa, Middle East and Russia.
9. ‘Big Hairy Audacious Goals.’
10. For a fuller, more detailed discussion of difficult links of this sort, see Michael Goold and Andrew Campbell, *Designing Effective Organizations*, Jossey-Bass (2002).

**Biography**

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