Performance Management and Measurement - the experience of British multiple retailers 1920 to 1970

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Abstract

Business performance management and measurement (PMM) systems are often viewed as relatively recent phenomena, responding to the failure of historical practices which prioritised financial measures. Emerging at the start of the 1990's, the topic has proven popular among both academics and practitioners alike; Kaplan and Norton's article on the "Balanced Scorecard - Measures that Drive Performance" is the third most cited Harvard Business Review article since the 1950's.[1] However, despite the subsequent research, PMM systems have not lived up to their early promise and there have been recent calls for a complete re-think of the discipline. Contributing to the debate on its future direction, this thesis explores how firms have measured and managed their performance in the past. It describes the cases of three British multiple retailers and analyses the organisation structures, processes and measures that they used to manage performance between 1920 and 1970. The findings raise questions about some of the core principles and assumptions that have underpinned PMM research over the last 25 years. They show that before 1950, far from being imposed through command and control processes, performance was managed collaboratively where the objective was not control but learning. They highlight the importance of socio-cultural factors and support the view that PMM systems should be considered social systems. They challenge whether measures deserve the central role that they are assumed to take in a modern PMM system. Finally, the findings show the importance of informal practices used by managers and directors and question whether these, rather than formal structures and processes, offer the best opportunity to understand performance holistically.

[1] "Decades of Influence", *Harvard Business Review*, November 2012.

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Preface

The aim of the thesis is to take a current business issue and then, through the examination of historical sources, identify insights which improve our understanding of the issue. It is based on Gaddis' conviction that the purpose of history is "to interpret the past for the purposes of the present with a view to managing the future" and reflects the concerns raised by Scranton:

> "I believe that unless business history reframes its question sets and restocks its conceptual imaginary through sustained critique, the field may well become self-extinguishing, a consequence of holding fast to visions of a past that rest mute in relation to present circumstances and looming dilemmas in business and society."[2]

The current business issue relates to *business performance management and measurement*. Performance management and measurement (PMM) is a broad term which includes all of the structures, processes and performance measures that a business uses to achieve its objectives. It is a topic which emerged in academic literature in the early 1990's although its roots stretch back much further. It still raises issues because despite the thousands of academic papers written on the topic, we still don't fully understand how businesses should manage their performance.[3] Some of the most published researchers in the field argue that the discipline is at a "cross-roads", that "our understanding of this field is far from complete" and requires "a complete re-think".[4]

In order to improve our understanding of PMM systems, the thesis will examine how three British firms, all multiple retailers, managed and measured their performance between 1920 and 1970. It will do this by using a modern framework

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[2] Gaddis, *Landscape,* 11*;* Scranton, *Beyond Chandler*, 429.

[3] Bititci *et al*., "*Challenges*", identified more than 200,000 articles published between 1980 and 2010.

[4] Bourne *et al.,* "*Emerging Issues*", 117; Bititci *et al*., "*Challenges*", 318.

to document the constituent elements of a PMM system in each of the firms.[5] Based on the analysis of the results, the thesis will present those findings as, firstly, challenges to our current views on PMM systems and, secondly, potential areas where academics may look for answers.

The thesis is set out as follows.

Chapter One is the introduction and compromises three sections. The first sets out the aims and objectives of the thesis. It does this by exploring the literature on PMM systems to identify the issues that firms currently have in managing performance. These issues are presented as research questions. The second section explores the definition of a PMM system. The third section explains the methodology that has been used to answer the research questions. It explains why a historical approach is particularly useful to understand a topic as broad but interconnected as PMM. It then justifies the choice of industry (multiple retailing), the three firms used in the analysis (Marks & Spencer, Boots the Chemist, WH Smith and Sons) and the period of the review (1920 to 1970). The section concludes by introducing a framework and justifies why it is a useful tool to analyse the cases.

Chapters Two to Four comprise the case studies. Each is based on archival research supported by existing literature. Each chapter will start with contextual background information about the specific retail sector in which the firm operated and a summary of the firms development from its founding to 1970. The bulk of each chapter will then document the structures, processes and measures they used to manage performance using the framework introduced in Chapter 1. Analysis is included within each section and the principal findings are drawn together in the conclusion.

The final chapter returns to the research questions and uses the findings from the case studies to identify those insights which may be relevant to modern practitioners. Insights are drawn not from the differences but rather the similarities

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[5] Ferreira and Otley, *Extended Framework*.

between each other and over time. However, given the relative narrow range of the industry sector (multiple retailing) and the small number of case studies, the insights will be expressed as challenges to current thinking rather than new theory.

The findings are significant and challenge some of the central principles that have underpinned research over the last 25 years. They show that far from being imposed through command and control processes, performance was managed collaboratively where the objective was not control but learning. They show that performance measures, rather than being at the heart of the system, were at best just one of several contributors and at worst considered misleading and a distraction to learning. The case studies also show the importance of socio-cultural factors in managing performance, often overlooked in PMM literature. Finally, the case studies provide insights into the informal practices used by managers and directors to understand the performance and suggest that they were at least as important as the formal structures in managing performance

Chapter One: Introduction

The aim of the thesis is to take a current business topic, in this case, performance management and measurement systems, and through the examination of historical sources, identify insights which could lead to improvements in our current understanding of the topic.

This first chapter will explain the current issues associated with PMM systems, identify specific research questions prompted by these issues and explain the methodology used to answer these questions. It is set out as follows.

The first section introduces the specific aims and objectives of the thesis. It starts by explaining the origins of PMM systems and how the thinking about the systems has evolved over the last 25 years. It will explain that despite the volume of research, several fundamental areas remain contentious. The section finishes by exploring three of these areas and raises three questions which the thesis will attempt to answer.

The second section explores the definition of performance management and measurement. It follows rather than precedes the section on the evolution of PMM systems as the definition has evolved as the thinking has evolved. Indeed, the definition is still contested.[6] Part of the problem lies in the distinction in the literature between performance *measurement* and performance *management.* Articles switch between the two, sometimes with no regard to the title of the article.[7] Confusion is not helped by the number of terms and associated acronyms used during the last 25 years to describe similar things: Contemporary Performance Measurement, Collaborative Performance Management, Business Performance Measurement, Performance Measurement Systems, Performance Management Systems, Integrated Performance Management, Integrated

[6] Demartini, *System.*

[7] Bititci *et al., Challenges*; Bourne *et al., Emerging.*

Performance Measurement.[8] While the focus of the thesis is on the broader concept of performance management which includes performance measurement as one variable, the review of literature will consider both terms recognising the cross-overs in the literature and the belief held by some that the two are inseparable anyway.[9] The term *performance management and measurement* (PMM) will therefore be used to include literature which covers either or both of the terms.[10]

The final section in the chapter explains the methodology that has been used to answer the questions raised. It explains why a historical approach is particularly useful despite recognised limitations. It goes on to justify the choice of industry sector (multiple retailing), the specific case studies (Marks & Spencer, Boots the Chemist, WH Smith and Sons) and the period of the study (1920 to 1970). The section and chapter concludes with an explanation of a framework that has been used as a heuristic tool to help collate, analyse and present the findings.

Aims and Objectives

Origins of PMM

The literature on the historical development of PMM situates its origins in the evolution of management accounting and the gradual convergence with strategic and operational management.[11] By the late 1980's, the convergence led to academics starting to refer to a 'system' of performance measurement and the so-called 'revolution' began.[12]

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[8] Franco-Santos *et al., Contemporary*; Busi and Bititci, *Collaborative*; Franco-Santos and Bourne, *Examination*; Choong, *BPM*; Jazayeri and Scapens, *Business Values*; Demartini, *System;* Ferreira and Otley, *Framework*; Brudan, *Rediscovering Performance*; Bititci *et al., Integrated.*

[9] Lebas, *Performance*.

[10] Melnyk *et al. Fit for the future.*

[11] Bititci *et al.*, *Performance Measurement*; Brudan, *Rediscovering Performance;* Neely, *Evolution of performance measurement;* Bourne, *Handbook*.

[12] Eccles, *Manifesto;* Neely, *Revolution.*

The PMM literature adopts a traditional perspective on the development of management accounting. It is based on the work of Johnson, Chandler and in particular, Johnson and Kaplan's 'Relevance Lost' which is described as the "cornerstone in virtually all scholarly papers on performance measurement."[13] This literature reflects a contingent, rational approach to management accounting development which continues to influence the direction of research today.

In the 19th century, the growth in the size of businesses, increasing manufacturing complexity and geographical spread (e.g. railways) required more sophisticated ways to capture information about the costs of the business. It was more than just recording. Data on transactions and the development of associated ratios (cost per ton/ mile, operating margin) provided information on how those costs, the processes that generated those costs and the individuals who ran those processes could be controlled and improved.[14] This data was central to the successful running of the business. As Chandler notes in relation to daily cost reports in one of his case studies "these cost sheets were Carnegie's primary instrument of control.[15] Costs were Carnegie's obsession." The principle that activities could be measured, controlled and improved continued to develop through the scientific management movement and improvements in cost allocation methodologies.

Budgetary control emerged at the start of the 20th century as new operating models were developed to reflect the increasing complexity of organisational structures. Delegation of power and control required new ways to manage these units and led to the development of divisional forecasts, targets, budgets and their associated processes. These not only provided control over the divisions' activities but helped allocate resources and align management compensation using standardised methodologies.[16]

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[13] Johnson, *Du Pont; General Motors; Nineteenth century cost accounting;* Chandler, *Strategy and Structure; The Visible Hand;* Johnson and Kaplan, *Relevance Lost;* Bititci *et al.*, *Performance Measurement,* 310.

[14] Kaplan, *Evolution.*

[15] Chandler, *Visible Hand,* 267.

[16] Johnson and Kaplan, *Relevance Lost*; Kaplan, *Evolution*; Chandler, *The Visible Hand*.

Johnson and Kaplan famously argued that development in management accounting slowed/ stopped after the 1920's.[17] Post war, however, there was increasing convergence with other management streams. Operationally, in the 1950's, and influenced by Japanese quality management principles, there was greater emphasis on measuring the quality of manufacturing processes and the consequent reduction in product variability. The work drew on statistical techniques developed by a number of Americans, particularly Shewart and Deming.[18] The convergence of operational and accounting thinking continued to develop over the following 40 years as the practices were more widely disseminated in the West with the development of ideas such as Total Quality Management and Activity Based Costing.[19]

At a similar time, measurement literature also started to converge with the strategic control literature. For some time, it had been recognised that firms used non-financial measures to help understand performance. In France, a *tableau de bord* with a wide selection of measures had been used since the 1930's and General Electric experimented with using key corporate performance measures from the 1950's.[20] Although these widened the range of measures, the linkages, particularly with strategy, were not always explicit. Early strategic thinking, meanwhile, identified weaknesses in traditional financial measures in supporting the strategy.[21] A number of articles in the *Harvard Business Review*, among other journals in the 1970's and 1980's, developed the theme highlighting the impact of measures on creating short-term thinking, loss of competitiveness and lack of strategic focus.[22] In 1987, "Relevance Lost: the Rise and Fall of Management Accounting" was published arguing that performance measurement had failed to

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[17] Johnson and Kaplan, *Relevance Lost.*

[18] Bititci *et al.*, *Performance Measurement;* Brudan, *Rediscovering Performance;* Johnson, *Lean;* Busi *et al., Collaborative.*

[19] Johnson and Kaplan, *Relevance Lost.*

[20] Bessire and Baker; *Critical Perspectives;* Eccles, *Manifesto.*

[21] Drucker, *The practice of Management.*

[22] Banks and Wheelwright, *Operations v strategy*; Hayes and Garvin, *Tomorrow;* Hayes and Abernathy, *Decline*; Skinner, *Manufacturing*.

keep up with changes in the business environment and growth in the PMM literature exploded soon afterwards.[23]

This interpretation of its origins in the PMM literature follows a contingent, rational, efficiency based interpretation of development - improvements are made in response to the environment. It is consistent with an economic perspective which classifies managers as rational, economic men who adopt and adapt process innovations to achieve their objectives. It is consistent with a Chandlerian view that management organisation and processes evolved as managers responded to opportunities presented by new technology and new markets. It is consistent with the traditional, modernist approach to accounting developments - the idea that accounting is changed in order to make it better. There may be periods of inertia, as described above, but innovations will emerge over time which continue the progress. PMM is part of this evolution. Bititci *et al.* summarised this prevailing viewpoint (at least in the PMM literature): "Informed by Ansoff's (1984) historical perspective on global industrial, business and social trends, it is clear that the performance measurement field has developed in parallel and indeed, in response to the global trends."[24]

It is, however, a view not universally held by the sub-disciplines which comprise PMM. Management accounting literature, in particular, has more recently challenged the traditional perspective of change and reappraised the research of those who advocated it. In reviewing the literature on Chandler's "Visible Hand", John, for example, noted that "critics found troubling the extent to which Chandlerian business history was overly rationalistic, technology driven, and strongly detached from the booming, buzzing confusion of everyday life."[25] Similarly, Ezzamel *et al.* challenged the accounts of Johnson and Kaplan and Chandler by presenting an alternative to the development of cost accounting and the development of scientific management principles by situating it much earlier

[23] Johnson and Kaplan, *Relevance Lost.*

[24] Bititci *et al.*, *Performance Measurement*, 311.

[25] Chandler, *Visible Hand*; John, *Elaborations,* 99.

(the 1830's) in the Springfield Armoury and arguing its principal objective was to assert disciplinary power. [26]

Alternatives to the traditional interpretation of management accounting development emphasise the importance of organisational and social factors. Academics draw on social theories of Marx, Weber, Foucault and Giddens among others to help understand accounting's role in helping to constitute organisational reality.[27] The academics inevitably do not agree but represent a considerable body of research which contrasts with the traditional perspective of accounting development. Studies have emphasised accountings role in control and creating organisational coherence and systems of accountability, learning and communication. Accounting data is described as not an end but part of a feedback loop that shapes the organisation and the behaviours of those within it.[28]

This above summary is not intended to describe the full range of social, institutional and organisational perspectives on management accounting nor to offer a defence of any one theoretical perspective over the others. Instead, it is meant to highlight how a traditional view of management accounting has been challenged by introducing a social perspective on its development. In doing so, it highlights a gap in our understanding of how PMM evolved. A number of academics now recognise PMM systems as social systems which shape the behaviours of the individual and the organisation.[29] However, there has not been any reappraisal of PMM's origins. Reappraising how firms managed their performance in the past may provide some insight into the role of socio-cultural aspects on the various systems, processes and measures they used to manage their performance and will form one of the subsidiary research questions raised below.

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[26] Ezzamel *et al., Numbers.*

[27] Fear, *Thyssen.*

[28] In Fear, *Thyssen*, the appendix titled "Accounting as symbolic practice" provides a comprehensive summary. Useful summaries of management accounting research are also provided by Napier, *Accounts of Change* and Boyne, *Systems*; Johnson, *Former*.

[29] Gray et *al., Madness*; Melnyk *et al., Fit for the future;* Bititci *et al.*, *Performance Measurement;* Broadbent and Laughlin, *Conceptual model*; Bititci *et al.*, *Collaborative*.

The traditional perspective on the origins of PMM, however, raises a second question. The case studies quoted by Chandler, Johnson and Kaplan are a relatively narrow selection of the very largest US firms and primarily focused on the industrial sector.[30] The conventional narrative therefore provides considerable detail on cost accounting measures and processes in the supply sectors. Indeed, it is argued that demand based measures did not emerge until the 1950's.[31] However, this ignores the importance of marketing and sales in a number of US manufacturers including sales force oriented firms such as Singer.[32] Service businesses were also growing rapidly. Already by 1914, FW Woolworth had 1,000 stores and sales of almost $100 million.[33] Growth accelerated across the sector after that; between 1910 and 1929, the number of US stores which were part of a chain grew from 13,500 to 216,295 with 167,095 of the growth occurring after 1920.[34] By 1929, chain store sales represented 22% of all retail sales in the US.[35] While cost management remained important for retail stores, sales was the key measure of success.[36] If retail and other demand oriented sectors were not influencing how firms measured and managed performance from the 1920's, the question is why not?[37]

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30 Although Chandler, *Scale and Scope*, does include a chapter on Sears, it could be argued that the chapter does as much to refute the conclusions in the final chapter than support them given it took well over a decade to introduce the structural changes.

31 Bititci *et al., Challenges.*

32 Friedman, *Birth of a Salesman.*

33 Raucher, *Dime Store*.

34 Federal Trade Commission, "Chain Stores, Growth and Development of Chain Stores," Tables 34 and 36, Vol. I, U.S. Government Printing Office, Washington, 1932; Beckman and Nolen, *Chain Store.*

35 Beckman and Nolen, *Chain Store.*

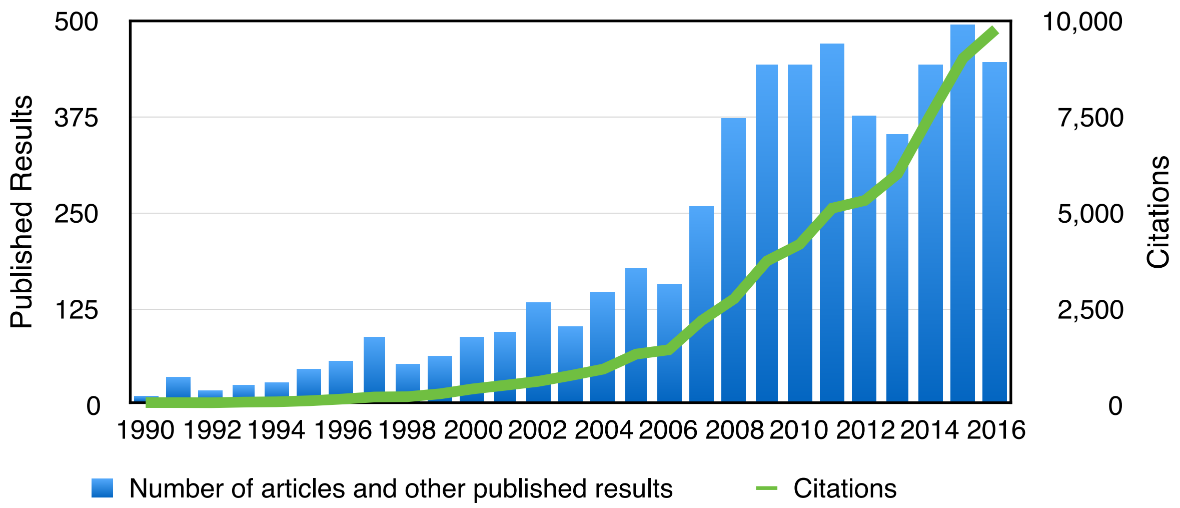
36 Raucher, *Dime Store.*

37 The importance of the service sector and multiple retail in particular is discussed further in the methodology section.

The Development of Performance Management and Measurement 1990 to the present

When Eccles called for a 'revolution' in performance measurement, the research community responded.[38] Just over 25 years later, PMM remains a "hot topic" within both academia and industry. Citation/ co-citation analysis supports this. Using the methodology adopted by Neely, Taticchi *et al.* identified 6,618 articles on performance measurement published between 1970 and 2010 with over 91% of those written since 1990.[39] Figure 1.1 uses a similar methodology but refines the search to include 'performance management' and 'balanced scorecard' and narrows the number of categories to only those focused on management. This reduced the results to 5,473. These results generated 62,303 citations.[40]

Figure 1.1: Citation analysis of PMM



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[38] Eccles, *Manifesto;* The term 'revolution' is regularly used to describe the development in PMM over the last 25 years (Bourne *et al., Emerging issues*; Busi and Bititci, *Collaborative;* Neely, *Revolution*)

[39] Neely, *Evolution;* Taticchi *et al.*, *New Contexts*.

[40] Web of Science accessed 26 January 2017 using the terms "performance management," "performance measurement" and "balanced scorecard" in the topic. Search limited to Web of Science categories management, operations research management science, business, business finance and public administration as a closer identification of articles in other categories highlighted a significant number which were not relevant to PMM. Results included published articles, proceedings papers, books, reviews and editorial material https://apps.webofknowledge.com

The volume partly reflected the multi-disciplinary nature of the subject with researchers from several fields contributing to the PMM literature. Of the 10 most cited articles, 3 were in ‘The International Journal of Operations and Production Management’, 2 in the ‘Harvard Business Review’ and 1 each in ‘The Journal of Marketing’, ‘Management Science’, ‘Journal of Accounting and Economics’, ‘Journal of Organisational Behaviour’ and ‘The International Journal of Production Economics.’

Over that period, the focus of the studies has evolved. More than 10 years ago, Neely identified a 5 stage loop in the development of PMM.[41] He believed that the next stage would lead to a return to the first stage. It is not clear that this has happened. The first stage, as described above, preceded the 1990’s and reflected the growing convergence but also frustration with traditional methods for measuring and managing firm wide performance.

The second stage, from the early 1990’s, comprised the development of frameworks to address the perceived shortcomings in performance measurement. Kaplan and Norton’s "The Balanced Scorecard: Measures That Drive Performance" was published in the Harvard Business Review and, based upon citation history, remains highly influential not only in terms of PMM literature where it is the most cited article but also in the wider business community - it is the third most cited HBR article since the 1950's and one of HBR's 10 must reads.[42] It was, however, not the first nor only framework. There have been 21 models or frameworks published between 1990 and 2007 of which 13 were published between 1992 and 2001.[43]

The third stage emerged from the mid-1990’s onwards and focused on implementation as companies applied the frameworks.[44] Among the most cited,

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[41] Neely, *Evolution.*

[42] Kaplan and Norton, *Balanced Scorecard*; "Decades of Influence", Harvard Business Review, November 2012. Harvard Business Reviews 10 Must Reads: The Essentials.” (2010) Harvard Business Review Press.

[43] Taticchi *et al., Measuring Business Excellence.*

[44] Bourne *et al., Designing.*

Kaplan and Norton proposed ways to translate strategic thinking into business plans using targets and rewards and included feedback and learning loops.[45] The questions raised about implementation, however, raised further questions about how these frameworks linked into the other performance management processes within the business and indeed, for those frameworks which focused on performance measurement, whether it could be separated from performance management.[46] Increasingly, the leading academics in the field referred to performance management as well as performance measurement.[47]

The fourth stage, from the late 1990's, was based on the results of empirical testing. Studies showed a 30% to 60% adoption rate for the balanced scorecard, the most well known of the PMM frameworks and adoption across a number of countries.[48] The studies, however, also highlighted mixed results experienced by companies and identified a number of problems experienced by them during implementation.[49] Not surprisingly, up to 70% of PMM projects fail.[50]

The final stage, a response to problems companies were experiencing, was a questioning of the theoretical validity of the frameworks. Neely anticipated this would result in a return to the first stage and a reanalysis of the core assumptions.[51] Despite the vast literature produced since then, however, it is not clear that this has happened. Much of the literature has instead focused on revisiting stages 2 through 4. New frameworks have been developed and more empirical research has been done. PMM has also narrowed and deepened. Sub-fields have emerged with dedicated literatures on SMEs, the non-profit sector and

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[45] Kaplan and Norton, *Strategic management system.*

[46] Lebas, *Performance measurement.*

[47] Busi and Bititci, *Collaborative;* Bourne *et al., Designing*; Otley, *Framework;* Bititci *et al., Integrated.*

[48] Neely, *Evolution*; Rigby, *Management tools;* Speckbacher *et al.*, *German speaking countries*, Arena and Azzone, *Empirical Study*.

[49] Neely, *Evolution;* Ittner and Larker, *Coming up short;* Bourne *et al.*, *Designing.*

[50] Franco-Santos and Bourne, *Management of Operations.*

[51] Neely, *Evolution.*

networks and also on specific cross functional processes including sustainability, project management and risk management.[52]

The narrowing and deepening has been criticised by some who argue that research has become too specialised, separately analysing the different components of PMM without sufficiently explaining the linkages and interactions.[53] Stringer found that less than 10% of the 120 empirical studies examined displayed an integrated approach to the study of performance management.[54] Despite these concerns, research has identified a number of benefits generated by PMM over the last 30 years. Franco-Santos *et al.* conducted a review of the consequences of introducing measurement systems in organisations.[55] Based on 76 papers published between 1992 and 2011, studies have shown its importance as a heuristic tool which helps integrate management processes, its strength in communicating the intentions of senior management, particularly in aligning strategy across the organisation and, in creating an on-going dialogue about the success of the strategy. These contribute to organisational learning at all levels within the organisation and have a positive impact on the behaviours of employees by improving employee engagement in the creation and execution of the strategy as well as engagement in the performance of the business as a whole. Success was, however, contingent on a number of factors, the most significant of which related to implementation of the system; the way it was designed, developed, used and updated with several studies highlighting how difficult this can be.

Although the literature identifies a number of areas where PMM has made a positive contribution, one fundamental question remains unanswered - it is not clear whether a PMM system improves the financial performance of the business. Empirical studies have shown a positive impact, no impact or mixed results and there are equally inconsistent results in terms of their *perceived* impact on

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[52] Franco-Santos *et al., Contemporary;* Bititci *et al., Challenges for tomorrow;* Yadav *et al.*, *Research Trends*; Taticchi *et al.*, *Measuring Business Excellence.*

[53] Bourne, *Learning;* Franco-Santos and Bourne, *Examination;* Yadav *et al.*, *Research Trends;* Choong, *PMS.*

[54] Stringer, *Empirical.*

[55] Franco-Santos *et al.*, *Contemporary*.

performance.[56] The inconsistent results may reflect the difficulty isolating the impact of PMM on an organisations results from other factors - an excellent PMM system cannot compensate, at least in the short term, for market disruption, poor strategy execution or a disruptive culture. However, the inconsistent results also question whether PMM is *capable* of delivering the benefits originally anticipated. Some of the most published authors of the last 25 years continue to highlight weaknesses in our understanding of PMM and the need for a complete rethink of how we measure and manage performance of organisations in the future.[57] A reexamination of the core assumptions which underpinned the original research, as Neely had predicted more than 10 years ago, is now long overdue.[58]

As already explained, the thesis will contribute to the debate by updating our understanding of how firms in the past managed the performance of their business over the long term. The literature, however, highlights three areas which are particularly contentious. These three areas are reviewed in more detail below and specific objectives, through research questions, are raised at the end of each section.

PMM and change

Throughout the last 25 years, the literature has assumed that the PMM system needs to be dynamic and adjust to changes in the internal and external environment. It is consistent with the interpretation of PMM's origins which argues that ways of managing performance evolved in response to changes in the wider business environment and changes in general business trends.[59] It is broadly consistent with the traditional view in the related field of management control where managers are classified as 'rational economic men' who adopt and adapt management accounting developments in order to deliver their desired outcomes,

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[56] Bourne *et al.*, *Emerging issues;* Melnyk *et al.*, *Fit for the future*; Franco-Santos *et al.*, *Contemporary*.

[57] Bourne *et al.*, *Emerging issues*; Bititci *et al.*, *Challenges for tomorrow*.

[58] Neely, *Evolution.*

[59] Bititci *et al., Challenges; Brudan, Rediscovering*.

such as profit maximisation.[60] The concern for PMM systems is that if they do not change as the environment changes, they risk becoming irrelevant or incoherent; the whole system undermined as measures no longer reflect current priorities and users build alternative mechanisms for managing performance.

When PMM frameworks were developed, they included feedback loops and the knowledge created from the system was intended to influence subsequent strategic and operational decisions. The knowledge, however, could also be used to change the design infrastructure of the system (PMM processes or measures) and also how it is used in the business.[61] It was described as a way of promoting continuous improvement.[62] Even as frameworks have been abandoned, there is still a widespread recognition that PMM systems need to be dynamic, adjusting to changes in the wider business environment and ensuring alignment between strategy and measures.[63] Several commentators have argued that it has become more important as the rate of change has increased.[64]

In practice, however, companies have struggled to keep measures up to date, to adapt them following organisational change and to reflect the dynamic business environments in which they operate.[65] Research suggests that businesses bear some of the blame, Ittner and Larcker, for example, highlight the short-cuts firms take in adopting "boiler plate solutions partly out of laziness and thoughtlessness."[66] However, criticism is also levelled at the academic community who have struggled to offer solutions. Practitioners have complained that PMM

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[60] Described by Luft, *Historical theorizing*; Modell, *Accounting Change*; Napier, *Accounts of Change*.

[61] Ferreira and Otley, *Framework;* Kaplan and Norton, *Mastering*; Lebas, *Performance Measurement.*

[62] Lebas, *Performance measurement;* Ittner and Larcker, *Coming up Short.*

[63] Melnyk *et al., Fit for the future;* Choong, *Meeting the Measurement Needs*; Ittner and Larcker, *Coming up short*.

[64] Ferreira and Otley, *Framework;* Bititci *et al., Challenges.*

[65] Bourne *et al, Learning*; Franco-Santos and Bourne, *Examination*; Bourne *et al, Dynamics;* Neely, *Evolution;* Otley*, Management Control*

[66] Ittner and Larcker, *Coming up Short,* 89.

literature contains too little guidance, that it is too simplistic, mechanistic and prescriptive.[67] The criticism may reflect the nature of much of the research. While the academic community agree that performance management systems need to be dynamic, too often their research assumes a static environment and there are few longitudinal studies.[68] There has also been insufficient explanation of what 'dynamic' really means. Perhaps, not surprisingly, there continues to be calls for more field research to examine how PMM systems evolve in response to changes in the external environment.[69]

The requirement for a PMM system to be dynamic has more recently, however, been challenged. Research with a large practitioner panel offered a more nuanced view. While organisations recognised they were operating in more dynamic environments and this was reflected in their strategies, firms *chose* not to change their measures. For the researchers this presented a surprising paradox - why would companies choose not to change their measures when their strategy changed.[70] They concluded that the linkage between strategy and measures was not binary and that other factors and issues needed to be considered. In particular, they found that firms choose a mix of specific and general measures and the choice was linked to the level of uncertainty about the outcome. They concluded that where there is a high degree of uncertainty about the future, broad, general measures allow more flexibility than specific measures and therefore do not need to be changed if the environment changes. The same argument could be applied to processes (particularly reward processes where firms could choose to reward for specific outcomes or more general outcomes).

Observing how measures and processes change over time allows further insights into PMM practices. Did firms prefer general measures and broadly defined

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[67] Melnyk *et al., Fit for the future.*

[68] Neely in forward to Taticchi, *New Contexts.* Stringer, *Empirical*. PMM is not alone in this. Research on the closely related management control systems has similarly been criticised for the failure to conduct longitudinal field studies (Berry *et al. Emerging themes).* They highlight, however, that such research involves considerable resources.

[69] Bititci *et al., Challenges*; Berry *et al. Emerging themes.*

[70] Melnyk *et al., Fit for the future.*

processes which allowed flexibility or did they use specific, tightly defined measures and processes which were aimed at achieving a precise outcome? This leads to a specific objective of the research:

> "How did the PMM structures, processes and measures change as the strategy and external environment changed?"

In answering the question, the focus is not on the process of change itself. This already has an extensive literature. Rather, the focus will be on identifying the extent and type of change to processes and measures and how information was then used differently in the organisation.

Measurement in a PMM system

The answer to the paradox posed by Melnyk *et al.* may reflect another challenge to a core assumption - perhaps measures are not as important to managing the performance of the business as the PMM literature assumes.[71]

When Eccles launched his 'Performance Measurement Manifesto', the focus was firmly on measurement.[72] Kaplan and Norton's "Balanced Scorecard" similarly placed measurement at the centre of their system.[73] Throughout the rest of the 1990's the vast majority of published research continued to focus on performance measurement.[74] However, there has also been a regular and persistent call for a greater focus on performance *management.*[75] Authors highlighted the difficulty separating out measurement from management and Lebas went further: "performance management precedes and follows performance measurement, in a virtuous spiral and performance management creates the context for

[71] Melnyk *et al., Fit for the future.*

[72] Eccles, *Manifesto*.

[73] Kaplan and Norton, *Balanced Scorecard*.

[74] Neely in forward to Taticchi, *New Contexts.*

[75] Bourne et al, *Emerging*; Ferreria and Otley, *Framework*; Broadbent and Laughlin, *Conceptual Model*; Neely, *Evolution*; Otley, *Performance management*; Lebas, *Performance measurement*.

measurement, so they are not separable."[76] Kaplan and Norton's own publication history reflected the changing emphasis. Their early work continued to focus on measurement (1993: "Putting the balanced Scorecard to work") but they soon linked measures to management (1996: "Using the Balanced Scorecard as a Strategic Management System") and just over 10 years later had dropped any reference to measurement in the title altogether (2008: "Mastering the Management System.").[77] Recent studies continue to emphasise the difficulty separating the two but performance measurement still dominates the literature comprising 70% of the relevant articles published in the last seven years.[78] Twenty years after Lebas highlighted the impossibility of separating out measurement from management and 10 years after Kaplan relegated references to measurement from his article titles, "how performance measurement is and should be used to *manage* the performance of the enterprise" is still considered an emerging field albeit the most important.[79]

The prioritisation of measurement over management creates a risk for those who seek to improve the performance of their business. It can lead to the assumption that measurement de facto leads to performance or, at least, is an/the essential part of a performance management system. Frameworks such as the 'Balanced Scorecard' which use measures to link the separate elements of the system reinforce these views. However, there is a small but influential minority who challenge the importance of measures in managing the performance of the business. Field studies have shown that at a local level, performance measurement is secondary to performance management, especially when the business is in crisis mode.[80] Johnson and Broms went further suggesting that

[76] Lebas, *Performance measurement,* 34.

[77] Kaplan and Norton, *Putting*; *Using*; *Mastering.*They continued to refer to balanced scorecards within the overall process but they were relegated to just one of the tools in a wider system.

[78] Web of science database for the 7 years to the end of 2016.

[79] Bourne *et al*, *Emerging.*

[80] Lebas, *Performance measurement;* Euske *et al., International.*

measurement is not necessary to manage a high performing business or can even have a negative impact.[81]

Academics have challenged the role of performance measurement on both practical and epistemological grounds. Practically, broadening the range of measures, elevating their importance and linking them as part of a wider system has proven hard to do. Studies suggest companies have experienced difficulties linking the different elements of the PMM.[82] Ittner and Larcker found nearly 80% of companies did not (or could not) link the improvement in non-financial measures with future results.[83] Taticchi similarly described a 'knowing-doing' gap where companies struggle to translate variations in performance measures into appropriate actions.[84]

Problems are linked to the nature of what is being measured. Some drivers of performance, such as employee capability and behaviours do not lend themselves easily to measurement. Measuring culture is even harder. Proxies may help communicate intent but lack validity, reliability or both.[85] However, even 'accurate' measures are prone to subjectivity - 'sales growth' may be sourced from the audited accounting records and regulated by accounting standards but companies often prefer 'underlying' sales or 'like for like' sales in reporting performance, both liable to subjective definition.[86] Actionable timeframes also differ. Strategic investment to improve employee capability through training or recruitment may take months or years to produce a measurable improvement while the impact on sales of an investment in advertising may be measurable almost immediately.

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81 Johnson and Broms, *Beyond Measure*.

82 Franco-Santos *et al., Contemporary;* Yadav *et al.*, *Research Trends;* Choong, *PMS;* Franco-Santos *et al.*, *Production, Planning and Control*; Nørreklit, *The balance.*

83 Ittner and Larcker, *Coming up short.*

84 Taticchi, *New Contexts*.

85 Melnyk *et al.*, *Emerging issues*; Micheli and Mari, *Theory and Practice*; Franco-Santos *et al.*, *Production, Planning and Control*.

86 In retail for example, should like for like sales include stores in the process of being expanded or refurbished. Should products segments being exited be excluded. For new stores, how long should their sales be excluded - after one year or after the store achieves maturity.

Reviewing both through the same mechanic is difficult if not impractical. Measures cannot therefore be blindly accepted as 'truth' but require interpretation.[87] Interpretation requires managerial capability.

Some of these problems could be resolved by replacing measures with other ways to evaluate performance or by accepting a lower standard of accuracy for some measures. However, literature suggests that there are epistemological issues which make this difficult. Measures are associated with ‘truth’ and measurement is considered necessary as performance is not an objective reality.[88] The sentiment is reinforced by business clichés such as "the numbers never lie", "what gets measured gets done" and "if you can't measure it, you can't manage it."[89] Micheli and Mari trace the association of 'measurement' and 'truth' back to the Galilean assumption that the World is written in mathematical terms and the role of the academic is to measure what is measurable and make measurable what is not.[90] Measurement therefore becomes a search for the truth. They argue that while the natural sciences have abandoned the idea, seeing measures as forms of insight, the social sciences still hold onto the outdated way of thinking. Measures can therefore become an end in themselves, demonstrating control. They are also considered a *necessary* pre-cursor to understanding and consequent action, as implied by the above clichés. More measures can become synonymous with more knowledge and more accuracy can become synonymous with better knowledge. Neither are necessarily valid assumptions and promote a perceived conflict between *accuracy* (having all of the data to make the right decision) and *adequacy* (having sufficient data to make a decision quickly).[91]

The findings are echoed in related fields. In strategy, Mintzberg has long been a vocal critic of the role of measures in management and provocatively challenged

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[87] Boland, *Interpretive Act.*

[88] Wholey, *Evaluation*.

[89] A google search of these terms highlights how wide spread they are across business news sites and consultants sites.

[90] Micheli and Mari, *Theory and Practice*.

[91] Gray *et al., Measurement Madness*.

advocates to "try to measure the performance of measurement, instead of assuming it is wonderful?"[92] In education, Todd Rose, has recently called for the "End of Average" and argues that averages are 'useless' as they create the illusion of knowledge and reveal little about the performance of individuals.[93] While he specifically refers to education, he raises questions which are applicable to PMM - it too is focused on learning about how individuals perform whether that is employees or separate operating units within an organisation.

There is some recognition of these problems in the PMM literature. Johnson argued that measures are not an absolute condition in their own right but an emergent property of systemic relationships.[94] Firms need to focus on the relationship between measures as well as the measure itself. More recently, there are calls for a pragmatic view of performance measurement and a need to engage with the intent of KPI's and not view them exclusively as evidence of real performance.[95] The home page of the *Performance Management Association* even refers to "the madness of performance measurement."[96] However, with so much of the current literature exclusively focused on performance measurement rather than performance management, there needs to be a greater understanding of how organisations have used measures over time in their organisations.

This leads to a second specific objective of the thesis:

> "How did the firms use measures to understand performance?"

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92 "Some half truths of management" www.mintzberg.org/blog/half-truths-management (22 March 2017).

93 Rose, *End of Average*.

94 Johnson, *Former*. Johnson has increasingly engaged with system thinking and, in particular, features of natural systems.

95 Micheli and Mari, *Theory and Practice;* Bourne *et al., Emerging.*

96 http://www.pmaconference.co.uk/index.html (3 March 2017). The page has subsequently been changed.

Answering the question allows us to challenge whether measures are the central element of a PMM system or just one of several tools available for a firm to manage its performance.

PMM and culture

The third core assumption reflects how PMM literature describes its own origins and the ways it subsequently developed. The origins of PMM, as noted above, are portrayed as a rationalistic response to changes in the external environment. The focus on frameworks/ models as well as the insistence of placing objective measures at the heart of any system highlight how this assumption continued to influence the subsequent development of the discipline. The difficulty that firms have faced in implementing and using PMM systems challenged that assumption and criticism that scorecards and similar tools create a reductionist, mechanical approach to performance management which ignores the cultural influences.[97] Academics now increasingly recognise the complexity and view PMM systems as social systems which are both shaped by but also shape the behaviours of the individual and the organisation.[98] Despite this, and while the literature has acknowledged the importance of social systems and culture, it remains an area which remains relatively under-researched.[99]

Of the literature that does exist, much is focused on how PMM affects the culture and behaviours of the organisation or how the dominant culture in the organisation has an impact on the PMM system.[100] These studies reflect a values based approach to culture - "how we do things around here" - where the culture is a way for individuals to manage the unexplainable and uncontrollable.[101] A similar

[97] Bessire and Baker, *Critical Perspectives*.

[98] Gray *et al.*, *Measurement Madness;* Melnyk *et al.*, *Fit for the future*; Bititci *et al.*, *Challenges*; Broadbent and Laughlin, *Conceptual model*; Bititci e*t al.*, *Collaborative*.

[99] Bourne *et al.*, *Emerging issues*; Franco-Santos *et al.*, *Contemporary*; Bititci *et al.*, *Collaborative*.

[100] Locke and Latham, *Goal setting*; Ordonez *et al.*, *Goals gone wild;* Jazayeri and Scapens, *BAE Systems*; Bititci *et al.*, *Collaborative;* Henri, *Organizational culture*.

[101] Schein, *New Awareness*; Bower, *Will to Manage* adapted in McKinsey Quarterly, 2003.

approach for this study would be problematic as these studies assume that a PMM system is already in place and it would be anachronistic to assume that in this research. In addition, latest thinking on culture challenges the values based approach. In what has been described as a 'second wave' of cultural analysis, culture is repositioned as a 'toolkit'. Actors and organisations draw upon this toolkit on a mix and match basis to assemble cultures and influence behaviours in order to achieve desired outcomes.[102] Culture can therefore be considered as a resource, a constitutive tool, used by organisations to meet current objectives. From a PMM perspective this is significant - it suggests that firms could use culture to manage performance. This is largely ignored in the PMM literature. Ferreira and Otley, for example, do not include 'culture' in their PMM framework as, they argue, it is largely beyond the control of management.[103]

In the context of PMM, the focus in this study is, therefore, on *how* (or if) the organisations use their cultures to influence how performance is delivered. Particular focus will be placed on how culture was used to unite the separate elements of the system. In modern PMM systems, the performance measures are used to link all of the separate elements of the overall system.[104] However, work completed by Euske *et al.* showed that across international settings, organisational culture, rather than measures, was the only unifying force across the supply chains they studied.[105] They did not explore, however, the extent to which the culture was managed by the organisation.

This leads to the final objective of the thesis.

> "What role did cultural factors play in how performance was managed within the firms?"

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[102] Giorgi *et al.*, *Many Faces* ; Weber and Dacin, *Cultural construction*.

[103] Ferreira and Otley, *Framework*.

[104] Franco-Santos, *et al., Contemporary.*

[105] Euske *et al., International.*

Having, identified the principle aims and objectives of the thesis, the following section explores the definition of PMM. The definition helps establish the scope of the review. However, it also illustrates that the discipline still struggles in determining what exactly it is about.

The definition of PMM

Definitions have always been contentious within the field and not helped by the on-going debate about performance management versus performance measurement. This was not surprising 20 years ago when the topic was in its infancy and a leading scholar could argue that it is "often discussed but rarely defined".[106] However, 20 years later, there is still no consensus on the definition, although this no longer reflects a lack of definition but rather a range of definitions.[107] Part of this is caused by the multi-disciplinary nature of the subject: strategists refer to strategy in their definitions, psychologists to behaviours. It is useful, however, to explore definitions in some detail as they help define the boundaries of the discipline and also where those boundaries are contested. Ferreira and Otley's definition of performance management is broad and therefore open to criticism but deconstructing it provides the opportunity to understand the main areas of consensus and contention:

"the evolving formal and informal mechanisms, processes, systems, and networks used by organisations for conveying the key objectives and goals elicited by management for assisting the strategic and on-going management through analysis, planning, measurement, control, rewarding and broadly managing performance and for supporting and facilitating organisational learning and change".[108]

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[106] Neely *et al. System design,* 80.

[107] Demartini, *System;* Franco-Santos *et al.,Towards a definition*, identified 17 definitions across the 337 papers they reviewed.

[108] Ferreira and Otley, *Design and use*, 264.

The separate elements in their definition can be deconstructed as follows:

‘Evolving formal and informal’.

The term recognises the fluidity of performance management in terms of time but also in the techniques both organisations and individuals use in managing performance. Some frameworks, including the balanced scorecard, have been criticised for excluding informal controls. And, although the importance of informal measures is recognised in the literature, there are still calls for more field based research which examines them in practice.[109] The combination of formal and informal measures also highlights the importance of both the institutional factors which create formal performance management systems and the role of individuals who drive informal performance management.[110]

Similarly, there is a broad consensus that evolution is a core requirement of a performance management system. As noted above, however, keeping systems dynamic has proven difficult in practice and needs further consideration as there is evidence that the failure to update systems may not reflect operational capability but be a rational choice contingent on the complex interdependencies.

The inclusion of concepts such as evolution and informality, however, poses a challenge to researchers. Processes evolving over time are difficult to study using contemporary cross sectional methods whilst informal records are less likely to be retained over time hindering longitudinal studies. Stringer found 28% of the 120 field studies she examined were longitudinal but defined 'longitudinal' as more than two years.[111] Only one study could be described as long-term. The researcher returned after 15 years to find that while the formal processes had changed little, there was considerable change in the informal processes - a significant finding

[109] Berry *et al.*, *Emerging themes;* Stringer, *Empirical;* Frow *et al.*, *Strategic behaviours.*

[110] Boland, *Interpretive Act*; Scapens and Macintosh, *Structure and agency.*

[111] Stringer, *Empirical.*

given the importance of evolution in the literature and lack of informal processes built into frameworks.[112]

'mechanisms, processes, systems and networks.'

The words are frequently used interchangeably but highlight the breadth of techniques organisations use to manage performance. It also highlights that a performance management system is an umbrella term which includes a number of existing sub-processes, many of which have a long history. Brudan identified 'operational management', 'individual management' and 'strategic management' as the core sub-processes with the first two tracing their history to the early 19th century and the latter to the mid 20th century.[113] Notably, Ferreira and Otley do not use the term "integrated" when describing these mechanisms and processes. Bititci argues that integration is a key dimension within the umbrella process and integration is also implied in Kaplan and Norton's closed loop system.[114] Franco-Santos and Bourne also highlighted the importance of integration between strategy and operations and failure to integrate processes is highlighted as a key reason for PMM failure.[115]

'*key objectives and goals elicited by management for assisting the strategic and on-going management*.'

Selectivity, a key dimension in terms of measures, also applies to the objectives and goals being measured. Much of the literature argues that PMM is primarily focused on managing strategy and traces origins to Drucker.[116] Kaplan and Norton emphasised that performance management is about managing strategic objectives which originate as part of a closed loop management system, are operationalised

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112 Stringer, *Empirical.*

113 Brudan, *Rediscovering.*

114 Bititci et *al.*, *Integrated;* Kaplan and Norton, *Strategic management system.*

115 Franco-Santos and Bourne, *Examination*; Ittner and Larcker, *Coming up short*; Bourne *et al.*, *Designing*.

116 Drucker, *The Practice of Management.*

and cascaded through the organisation (see also Bourne *et al*, Ittner and Larcker).[117] Ferreira and Otley argue that performance management systems need to be broader than just strategic implementation and must provide for a spectrum of activities, a view also reflected in earlier accounting literature and the *tableau de Bord* which is considered by some as an early fore-runner of the balanced scorecard.[118] All agree, however, that the objectives and goals are not just financial.

The challenge remains, however, in identifying when an objective or goal becomes "key." Limiting the number by focusing on just strategic objectives ignores the reality of where senior management focus lies and could lead to inflexibility - especially when new issues arise outside the strategy setting timetable, issues which need a quick response or which require local decision making.[119] However, too wide a definition renders the overall process impractical and unmanageable - evidenced in one company with 300 measures on their 'Executive' dashboard.[120] Lebas argues that objectives are specific to the situation and that the identification of them is an essential function of management.[121] His conclusion was based on case studies he performed with Euske *et al.* which showed that firms tend to focus on one particular measure at a time but that measure changed over time, was influenced by the wider context and case specific.[122]

'*analysis, planning, measurement, control, rewarding and broadly managing performance*.'

Again, Ferreira and Otley have been deliberately broad, but the list highlights the range of techniques employed by organisations and individuals to manage

117 Kaplan and Norton, *Strategic management system*; *Mastering*; Bourne *et al.*, *Designing*; Ittner and Larcker, *Coming up short*.

118 Ferreira and Otley, *Extended framework*; Anthony, *Framework*; Bessire and Baker, *Critical analysis.*

119 Melnyk *et al.*, *Emerging issues*.

120 Ittner and Larcker, *Coming up short*.

121 Lebas, *Performance measurement.*

122 Euske *et al.*, *international setting*.

performance. There are also omissions - motivating and communicating, for example could be added while ‘rewarding’ is contentious.[123] The term ‘control’, while prevalent within accounting literature, is just one of several terms, as is ‘measurement’.

Targets are also not explicitly referred to but Ferreira and Otley include them as part of planning, measuring and rewarding later in their article. The broader literature identifies targets as a critical part of a performance management system.[124] However there are on-going debates about how stretching those targets should be and whether they should be linked to individual rewards. Targets for non-financial performance elements can be particularly controversial due to subjectivity and can undermine the whole system.[125] Johnson provides a dissenting voice on targets controversially arguing that "the idea that business operations can be understood and controlled with quantitative targets, even target costs, rests on flawed logic and erroneous science.”[126] Targets, like measures, can become an end in themselves and prevent a deeper understanding of the causes of the costs.

The breadth of the list highlights the challenge posed to performance management researchers - if they limit their research to just one or two elements such as measurement and rewards, or just one function’s activities, such as marketing, they ignore the interaction that these elements and functions have with other processes and the rest of the organisation. Criticism has been levelled at researchers who fail to recognise the multi-functional nature of performance management which requires the researcher to be multi-functional as well.[127] Stringer's review of 120 field studies identified only 9 studies which included all

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123 Sobótka and Platts, *Managing without measuring*; Locke and Latham, *Goal setting gone wild*; Ordonez *et al.*, *Goals gone wild*; Franco-Santos and Bourne, *Production, Planning and Control;* Ittner and Larcker, *Coming up short*.

124 Stringer, *Empirical*; Otley, *Performance management*.

125 Franco-Santos *et al.*, *Contemporary*.

126 Johnson, *Journey*, 18.

127 Bourne, *Learning*.

elements of a performance management system and not all of these examined the interconnections in any depth.[128]

'*organisational learning and change*'.

The idea that facilitating organisational learning and change is the purpose of a performance management system is not universally held. Bititci *et al.* claim that 'control' is the principal purpose identified in the literature although they too argue that 'learning' is more important.[129] Learning and change is certainly the explicit purpose in Kaplan and Norton's closed loop process and it supports Lebas' view that performance management is principally future driven - lessons generated by the process are fed back into the organisation to improve future performance.[130] A future and learning focused management system is not new - Paul Mazur, describing the role of a 'controller,' may have noted that "it is only recently that such a history [of financial measures] has been either analysed to discover means of improvement or used as a basis for future planning" but he was writing in 1927.[131] However, the difficulty in turning information into learning and then actions, the "knowing-doing" gap, is well documented and strongly linked with organisational capability and culture.[132]

The definition makes no mention of cultural and behavioural factors and this has drawn some criticism.[133] As noted above, culture will form part of the investigation in this thesis.

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128 Stringer's *Empirical* analysis was based on Otley's, *Performance management,* framework which identified 5 areas of a performance management system.

129 Bititci *et al.*, *Collaborative*.

130 Lebas, *Performance*.

131 Mazur, *Principles of Organisation*, describing the role of the controller in US retailing. At the time there was much debate about whether the controller was just "keeping score" or should more actively participate in the management of the business.

132 Taticchi, *Measuring Business Excellence*; Bourne *et al.*, *Designing*; Franco-Santos and Bourne, *Production, Planning and Control;* Brudan, *Rediscovering*.

133 Broadbent and Laughlin, *Conceptual model.*

The purpose of using the literature to deconstruct Ferreira and Otley's definition is not to narrow down the researchers remit, something Bourne argues academics in the field have been guilty of but rather to highlight how broad PMM can be.[134] The difficulty that academics have in defining the term therefore, is not because the topic is still new and emerging (Brudan) or because the field has not been professionalised (Neely) but because the term *cannot* be defined (Lebas).[135] His argument is that the exact definition is case specific, defined by management and therefore dependent on context. For any given firm, therefore, performance management is not all of the characteristics described by Ferreira and Otley above, which may be unmanageable, but any combination that management choose to use. Although this increases the difficulty in conducting a case study, it may reveal unforeseen connections between systems and structures. And, while some features will be described which may prove irrelevant to the research questions, patterns will be uncovered which had not been identified before.

Methodology

This section explains the methodology used to answer the research questions. Firstly, it will explore why a historical approach is particularly useful to provide insights on a topic as broad but interconnected as PMM. It will start with a discussion on what 'history' and a 'historical approach' are before discussing why they may be useful in this study. Secondly, it will demonstrate why multiple retail is a particularly fruitful area for research. In doing so, it will provide some context on the problems multiple retailers faced, the growth in multiple retail and the innovative environment in management practices this created, particularly in the 1920's and 1930's. This will be followed by an explanation of why the three case studies, Marks & Spencer (M&S), Boots the Chemist (Boots) and WH Smith and Sons (WHS) were chosen. In doing so, it will also show which other retailers were initially investigated before being rejected. The chapter concludes by explaining the framework which was used as a heuristic tool to collate, analyse and report the findings.

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[134] Bourne, *Learning*.

[135] Brudan, *Rediscovering*; Neely, *Evolution*; Lebas, *Performance*.

Why history?

Justifying the use of a historical approach as the basis for this thesis is complicated because both the terms 'history' and a 'historical approach' to research are difficult to define. Godfrey *et al.* argue that history is perhaps beyond definition and that historians have become sanguine about answering the question 'what is history?'[136] Part of the problem lies in what Walsh described as the ambiguity inherent in the term 'history': "It covers (a) the totality of past human actions and (b) the narrative or account we construct of them now."[137] The two are not independent. We cannot know the 'totality' of past human actions. Only a fraction of past actions have been documented and even those may not be reliable - we often don't know the intentions (or competence) of those who documented them. Writing history requires interpretation but in doing so, we apply our own judgements influenced by our own biases and a knowledge of what happened next. This history we then write may not be recognisable to those that lived it.[138] Some have therefore challenged whether writing history is even possible? Schein described history as methodologically inaccessible, "fantastically complex, difficult to unravel."[139]

And yet, we cannot ignore it. Even Schein used history in his research. We still refer back to those sociologists and economists whose own work was informed by history. Histories still get written and read and there are repeated calls from other academic disciplines for more historical research as forthcoming special issues in the *Strategic Management Journal* and *Organisation Studies* testify.[140] One benefit

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[136] Godfrey *et al., Organisational History.*

[137] Walsh, *Philosophy of History,* 14. Also included in Rowlinson et al., *Research Strategies*; Sewell, *Logics*; Callinicos, *Theories.*

[138] Mordhorst, *Arla*; Gaddis, *Landscape*. Evans, *Defence*.

[139] Schein, *Organisational Culture, 303.* Quoted in Rowlinson and Hassard, *Invention.*

[140] "History and Strategy Research: Opening Up the Black Box" (https://orghist.com/2016/10/11/smj-cfp-history-strategy-research/); "Uses of the Past: History and Memory in Organisations and Organising" (https://www.egosnet.org/jart/prj3/egos/data/uploads/_cfp_journals/CfP_SI_OS_dl_2016-05-31.pdf).

of historical studies is that it offers a different methodological approach, a counterweight to the hypothesis testing, positivistic, data driven methodologies prevalent in the social sciences.[141] History, despite its own flaws, allows us to think differently.[142] This is particularly relevant where prevailing social science methodologies and frameworks have failed to provide the answers to questions consistently raised. In retail, which is the industry sector used in this study, Stephen Brown's critique of the retail marketing literature concluded that all of the theories and models could be combined, were inter-dependent, while none, satisfactorily, could stand on their own. Indeed, he attacked the theories as failing to even meet the criteria for formal theory, suffering from poorly defined concepts and developed from a descriptive rather than explanatory basis. He concluded that there needs to be a new way of thinking which reverts back to a simpler fact base analysis of what is happening.[143] Brown did not call for more historical studies in retailing but others have.[144] As one of them noted, the contribution that history can make to our understanding of the present is not so much in providing a template for how retailers should operate now nor in identifying the origins of some path dependent route to the present. Rather, it is an investigation of practices within their own historical context which helps identify questions current researchers need to consider and points them in the direction that they may want to look for answers.[145]

The criticisms levelled at retail by Brown could be similarly levelled at the PMM literature. Yet unlike in retail and other social sciences, there have not been any recent calls for more historical studies on PMM. This is curious given PMM's

[141] Decker *et al. Business Histories.*

[142] Gaddis argues history liberates us from determinism and presentism. Gaddis, *Landscape.*

[143] Brown, *Review and Synthesis.*

[144] Alexander, *Past, Present and Future;* Alexander, *Objects*; Hollander, *Rearview Mirror*.

[145] Alexander, *Prologue.*

origins in the historical works of Johnson, Kaplan and Chandler.[146] Especially as these works continue to be cited in PMM literature without engaging in the criticism they have subsequently received from historians.[147] Adopting a historical approach therefore offers potential new perspectives on current issues.

However, what is a historical approach? It has been described in broad terms as empirical research that uses remote sensing and a contextualist approach to explanation.[148] Its distinguishing feature is a commitment to primary archival research, in this case, the archives of M&S, Boots and WHS.[149] It is a broad description but this allows different methodological frameworks depending upon the type of knowledge the historian is trying to produce.[150] Following Rowlinson *et al.*, the thesis adopts an analytically structured approach which bridges narrative and analytical schema.[151] In this approach, the sources are subordinate to the concepts. This thesis uses a framework to capture these concepts and this is explained in more detail below. As an approach, it differs from many business histories which focus on the actions of the owners and directors.[152] Instead, it places the organisation structures, processes and performance measures at the centre of the analysis recognising their importance in shaping the firm's competencies in managing their performance.[153]

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[146] Johnson, *Cost Accounting;* Kaplan, *Evolution;* Johnson and Kaplan, *Relevance Lost;* Chandler, *Scale.* There have been a small number of longitudinal studies based upon fieldwork but these do not constitute "historical studies." Stringer, *Empirical*, noted that of the 120 case studies that she reviewed on performance management between 1990 and 2005, only 3 were longitudinal and covered all aspects of a PMS. Longitudinal, by her definition, was more than 3 years.

[147] Bititci, et al., *Challenges,* continues to cite them. Johnson himself now disagrees with how management accounting is seen as a central element of effective performance management (Johnson, *Lean Dilemma; Former).*

[148] Ingram *et al., History*; Gaddis, Landscape.

[149] Godfrey *et al., Organisational History.*

[150] Decker *et al. Business Histories.*

[151] Rowlinson *et al*, *Research Strategies.* They quote Chandler's work as an example.

[152] Including all of the secondary literature on the three case studies in this thesis.

[153] Nelson and Winter, *Evolutionary Theory*, argue the importance of organisational routines in shaping competencies. Fear's, *Thyssen,* follows a similar approach.

There are two features which make a historical approach to PMM particularly appropriate. Firstly, a performance management system is complex. It encompasses a range of different processes and measures operating across structures within the business and managed by different functions.[154] These operate both systematically and systemically to deliver the objectives of the business. The large number of variables creates a messy, complex system where it is difficult to separately identify dependent and independent variables. This complexity has hindered research with much of it too compartmentalised, focusing on only some elements of a performance management system and ignoring complementarity, an essential element of performance management systems.[155]

Secondly, there is a strong temporal element. Firms have to manage both short and long term performance simultaneously. They also have to be future focused, measuring current activities to gauge whether future objectives will be met. The impact of investment in reward programmes or staff training on the performance of the business, for example, may not materialise for some time. Performance management systems are also not static (or not supposed to be according to the literature), they are reciprocal activities which evolve to reflect changes in the business and its environment. How PMM systems change over time provides insights into the nature of a PMM system. PMM field study research highlights the value of returning to a case many years afterwards and documenting the changes. However, further examples in the literature are rare.[156]

Historical research is suited to understanding both features. Historians consider themselves to be particularly interested in the interdependency of multiple,

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[154] Those who take a narrow functional view (e.g. study the management accounting of a firm) focus on vertical structures and processes and can ignore interactions with structure and processes operating in other functions. This is a weakness of much of this literature. Adopting a broader perspective by looking at cross functional processes (e.g. PMM) shows that the role of processes can be wider than otherwise described in the literature (e.g. management accounting is not just about control but also about learning).

[155] Stringer, *Empirical,* found that only 9 of the 120 field studies on PMM systems covered all aspects of a PMM system. Criticism of the narrowness of research has also been made by Bourne, *Learning;* Choong, *Needs;* Ittner and Larcker*, Assessing Empirical Research;* Merchant *et al. Disciplinary Constraints.*

[156] Stringer, *Empirical*, cites the 15 year gap between Otley's first and second reviews of practices at the British Coal Board and the important differences found.

complex, causal factors over time.[157] As Bloch argued: "History seeks for causal wave-trains and is not afraid, since life shows them to be so, to find them multiple."[158] Based on the views expressed in recent literature, an historical approach starts with the empirical evidence rather than a theory or assumption based on a single causal factor. Understanding of its significance emerges as it is compared temporally to antecedent and subsequent developments and situated within a contemporary external and internal context.[159] Change or persistence over time allows for qualitative judgements on the structures. Judgements are expressed as 'generalisations' which historians embed in their narratives.[160] Care, however, needs to be taken with these generalisations when applied to present issues. Historians are said to be particularly wary of using their findings to develop theory given the importance they place on context with both time and place influencing decisions.[161] What they can offer academics and practitioners facing current problems is to show that "it need not be this way" and, by presenting how and why things were done in the past, can help current practitioners challenge their own assumptions.[162]

The limitations of using historical analysis to explore current business issues are amplified in this case study because it is based on a relatively narrow industry sector (British multiple retail) and examines only three firms in that sector. The following section explains why both the sector and the three firms are particularly relevant. However, the thesis will not make definitive conclusions on modern PMM systems. Rather, it will provide examples, make arguments, construct generalisations and ask questions which will help current theorists and

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157 Suddaby *et al*, *Historical Institutionalism*; Gaddis, *Landscape*.

158 Bloch, *Historians Craft,* 194.

159 Whadhwani and Bucheli, *Future;* Steinmo, *Historical;* Suddaby *et al*, *Historical Institutionalism.*

160 Steinmo, *Historical.*

161 Fear, *Mining*. A possible exception arises where history influences the theory such as path dependency - 'history in theory' as Kipping and Üsdiken, *Theory*, describe it.

162 Fear, *Mining*.

practitioners to become more historically sensitive and to challenge the assumptions they may hold about PMM systems.[163]

Why multiple retailing?

Multiple retailing has been chosen to investigate PMM practices because, as a service industry, it offers an alternative to the manufacturing bias prevalent in the PMM literature and, secondly, because of its rapid growth and the nature of the management problems it faced, it was highly innovative in developing management practices in the first half of the 20th century.

The conventional PMM narrative describes the focus of pre-1960's PMM on the supply side; costs needed to be minimised, work was primarily manual and management systems were based on prescriptive, standardised procedures and controls.[164] However, this understates the importance of the 'demand side' and the service sector on PMM practices from the 1920's. A focus on sales and the customer requires companies to look externally and be more flexible to changes in local markets and over time. While even manufacturing businesses had well established sales teams and had developed sophisticated selling techniques before 1920, the PMM practices associated with their sales teams have been largely ignored in the PMM literature.[165] Furthermore, the evidence suggests that the service sector was quicker to develop their management processes than manufacturers, especially in Britain. Chandler and Gospel both highlighted the lack of managerial development in British manufacturing firms before the 1950's.[166] It was not until the Second World War, with the extension of mass production methods, the impact of tighter labour markets and the strengthening of trade unions that British firms developed their corporate structures and hierarchies. Even then, the development only started in the 1950's and only became significant

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[163] Kipping and Üsdiken, *Theory;* Whadhwani and Bucheli, *Future;* Rowlinson *et al. Research Strategies.*

[164] Bititci *et al., Challenges*; Bourne, *Handbook*; Johnson and Kaplan, *Relevance Lost*; Ansoff, *Implanting*.

[165] Friedman, *Birth of a Salesman,*

[166] Chandler, *Scale and Scope*; Gospel, *Markets*.

in the 1960's.[167] However, within service oriented firms and multiple retailers in particular, structural changes took place much earlier. Commercial bankers, which like retailers had to manage high volumes of transactions and large numbers of distant branches, undertook widespread organisational change in the 1920's and were early adopters of new technologies.[168] Multiple retailers were also expanding rapidly in the 1920's and needed to develop new organisation structures as discussed below. The focus on manufacturing businesses in the existing literature largely ignores these developments.

The second reason to use a service sector was that it was growing rapidly and generating innovative management practices strongly linked to performance management and measurement. Between 1870 and 1930, the service sector was growing much faster than manufacturing - for every 100 US workers involved in production/ distribution in 1870, that number had increased to 271/ 877 respectively by 1930.[169] Multiple retail was growing particularly fast. Table 1.1 shows the growth of multiple retailing in Britain and the United States between 1900 and 1950. The data are not comparable between Britain and the United States because of differences in what constitutes 'multiple' - the British data only includes those firms with 10 or more stores while the US data defined them as two or more, to 1930, and four or more thereafter. Co-operative chains and departments stores are excluded. However, despite the differences between the British and American definitions, the data illustrate the rapid growth in multiple retailing in both countries to 1930 and then some reversal in the United States in the number of stores if not the share of total sales.

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[167] Gospel, *Markets*.

[168] Bátiz-Lazo and Wardley, *Banking on Change*; Wardley, *Commercial Banking.*

[169] Friedman, *Birth of a Salesman*

Table 1.1: Growth in multiple/ chain stores in Britain and the US 1900 to 1950					
	Britain		**United States**		
	Number of Stores part of a Chain (10 stores or more)	**Share of all retail sales (%)**	**Number of Stores part of a Chain (2 stores or more)**	**Number of Stores part of a Chain (4 stores or more)[a]**	**Share of all retail sales (4 stores or more)(%)**
1900	20,901	3.0 - 4.5	4,500	n/a	n/a
1910	36,314	6.0 - 7.5	13,500	n/a	n/a
1920	45,315	7.0 - 10.0	49,200	n/a	n/a
1930	66,488	12.0 - 14.0	216,295	159,638	22.2
1939	83,500	18.0 - 19.5	n/a	132,768	24.0
1950	84,658	18.0 - 20.5	n/a	105,109	22.8

Note that dates are not comparable. In the United States, data for 1930 relates to 1929 and 1950 to 1948.

[a] The decline between 1928 and 1948 largely reflected a decline in filling stations (24,593 fewer) and grocery stores (28,419 fewer).

Source: British data from Jefferys, *Retail Trading,* 20 and 61. US data for 2 store chains from Beckman and Nolen, *Chain Store.* Their source was Federal Trade Commission investigation into Chain Stores, 1932. 4 store chains and share from Lebhar, *Chain Stores*, Table 8. His source was the US Department of Commerce, Bureau of the Census.

The growth and the particular problems multiple retailers faced contributed to a highly innovative period in management structures and practices. Multiple retailing offered several scale advantages. Centralised and specialised head offices allowed buying efficiencies, driving down purchase cost while also providing buyers with direct access to manufacturers and knowledge of the latest products. Administrative functions could also be consolidated, creating synergies.[170] However, multiple firms' head office's were distant from the customer and where the sales were made. They were distant from the store manager who was responsible for maintaining the relationship with the customer, controlling much of the costs (salaries) and safeguarding the most valuable assets (inventories and property). This put them at a disadvantage to local competitors. As one contemporary academic commented “the store manager is the personal representative of an impersonal organisation; the independent store owner is the

[170] Beckman and Nolen, *Chain store*.

personal representative of a personal business."[171] The problem of distance compounded the problem of pace. Retail was a fast moving business where decisions had to be made quickly or independent competitors, often selling the same product, could take share through discounts or promotions well before information even got to Head Office. As another contemporary noted:

> "The business is in constant flux…. The retail business requires a motion-picture method of recording which shows what has happened, is happening, and likely to happen; and corrective steps must be taken to-day to protect the future - tomorrow."[172]

Both the rate of growth and the problems faced by the multiple retailers generated considerable innovation in management practices. In the US, The National Retailers Dry Goods Association was founded in 1911 and by 1935 represented 5,480 stores employing 700,000 people.[173] Its role was to disseminate industry best-practice. It established a 'Bureau of Research and Investigation' and ran a number of Conventions on an annual basis for Controllers (from 1919) and Store Managers (from 1923).[174] Academics were keen collaborators with the firms. From 1919, the Harvard Business School co-ordinated the collection of data on retail store performance through the Harvard Bureau of Business Research (HBBR). In an early form of benchmarking, the HBBR collected operating cost data from different retail sectors and soon expanded this to sales and gross margin information.[175] The Harvard Business Review included 43 articles on retailing in its first 10 years of publication (1922 to 1932). Harvard also produced its first series of retail management case studies in 1922.[176] The pace of change meant that these

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[171] Hayward and White, *Chains Stores (1928)*, 377.

[172] Mazur, *Principles of organisation*, 144.

[173] Testimony of Samuel Reyburn of the NRDGA to the Members of Ways and Means Committee 1935 http://www.ssa.gov/history/pdf/hr35reyburn.pdf

[174] McNair, *retail distribution.*

[175] For example, although the 1919 report published on retail drug stores was entirely on expenses, the 1920 version included both sales and gross margin statistics. (Harvard University Bureau of Business Research published reports 1919 and 1920).

[176] David, *Problems*

were revised and expanded in 1926, 1930, 1931, 1937 and 1957.[177] The preface to the 1931 edition highlighted the innovations: “The last dozen years in retail trade in the United States have witnessed a remarkable growth of new policies and methods of management.” McNair then quoted a number of innovations - “standard classification of accounts, retail inventory method, unit control, stock-sales ratio, open-to-buy, price lining, model stocks, mark-down control, machine tabulation, shopping news, radio broadcasting, stylist, quota bonus, blind check, unit packing” which, he argued, had not existed 15 years before.[178] The pace of change led one academic to comment, almost despairingly, that "control mechanisms in large retail establishments are at present in such a state of continuous flux that it seems almost futile to attempt a consideration of the subject in a book."[179]

While much of the academic literature emerged from the United States, many UK retailers were close observers of US developments. The arrival of Gordon Selfridge in 1909 is credited with introducing a number of retail management practices to the UK department store particularly relating to organisation and control.[180] The first Woolworths store also opened in 1909 exposing UK multiples to US chain store practices. By 1920, they had 83 stores across Britain.[181] British retailers visited the US to learn from US practices. Simon Marks of Marks & Spencer visited the US in 1924 and again in 1928, where he specifically looked at “problems of organisation.”[182] Harrods hosted a conference in 1926 where they

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177 McNair and David, *Problems*; McNair, *retail distribution*; McNair and Gragg, *retail store management;* McNair *et al. Problems in Retailing;* McNair *et al. Cases.*

178 McNair and Gragg, *retail store management,* preface v.

179 Hodge, *Retail Accounting,* preface x.

180 Lancaster, *Department Store*.

181 Walsh, *When the shopping was good*. Woolworths had 1,111 stores in the United States at the time (Lebhar, *Chain Stores)*.

182 Sieff, *Memoirs,* 70.

shared practices with American department store owners.[183] Managers at Boots regularly visited the United States to understand how they operated.[184]

While these innovations had started to emerge from 1900 onwards, by the early 1920's, they were gaining traction across the United States and also in Britain. The rate of innovation declined in the 1940's.[185] However, observing how retail firms managed and measure performance in the 1920's and how they subsequently developed, helps us understand which were important to firms in the past and over time.

Why Marks & Spencer, Boots and WH Smith?

The research questions will be answered using a comparative case study. The primary purpose of using a comparative case study was not to identify the differences in the PMM approaches of the firms but rather the similarities. In doing so, the intention was to establish certain principles used in managing and measuring performance which transcended the differences in each firm's historical development, competitive pressures, ownership structures and organisational cultures.

Three cases were chosen. The number was limited to ensure that the PMM structures could be examined in sufficient depth to understand, where sources allowed, how *all* aspects of a PMM system operated over an extended period of time.[186] The topic is broad and the study covers a long period of time (50 years).

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[183] In both Boots and M&S, managers regularly visited the US in the 1920's and 1930's (details provided in relevant chapters below). In 1926, Harrods hosted a conference which included heads of American department stores (Retail Research Association: Store Owners Conference at Harrods May 22 - 29 1926).

[184] See section on Boots.

[185] Harvard produced only one volume of retail case studies after 1940 but five beforehand (see above). Furthermore, many of the innovations included in McNair and Gragg, *retail store management,* still operate today such as retail inventory method, model stocks, open-to-buy.

[186] In her review of 120 field studies examining PMM systems, Stringer found only nine which covered all elements of a PMM system and only three of these were longitudinal (2 years or more) Stringer, *Empirical*.

Based on initial work in the WHS archive, it soon became clear that a wide range of sources would need to be consulted; few procedure manuals existed and even then, provided little insight into how performance was managed in practice. Restricting the number of case studies to only three, however, limits the conclusions that can be drawn. Sigglekow argued that generalising from only a small number of case studies is not convincing unless the results are truly exceptional or truly representative.[187] However, the small number still allows us to raise questions about how PMM systems operate now and also to point academics and practitioners to where they may find answers.

The criteria for choosing the case studies had to be broad given that they all needed to be operating for an extended period of time and have similar scale and geographical spread to ensure that they faced similar managerial problems. Finding cases from the same retail sector was not practical given that they tended to be dominated by one or two firms.[188] However, evidence also suggests that the largest multiple firms saw their competitors not necessarily as those which sold the same products but rather those who operated in similar locations and competed for a share of the same customer's expenditure. In Boots' first corporate plan published in 1978, they compared their performance not to other chemists but to M&S, WHS, Woolworths and Sainsbury's.[189] In 1957, a report by external consultants commissioned by WHS compared their performance to M&S, Boots and Woolworths.[190]

Based on secondary literature, a shortlist of potential multiple retailers was created and more detailed research, including visits to their archives, narrowed down the original list of six to three. All of the firms operated in different retail sectors but dominated the ones they were in. They faced different competition and were

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[187] Sigglekow, *Persuasion*.

[188] In chemists goods, two firms had 88% of all branches of those firms who had more than 25 branches in 1950 (Jefferys, *Retail Trading, 387*) and the biggest (Boots) acquired the second largest in 1968.

[189] BTC 2555/1 The Corporate Plan 1978.

[190] WHS 802 - Analytical and Comparative Studies in Company Performance and Finance: Economics Intelligence Unit 1957.

subject to different regulatory frameworks. Reasons for the choices are provided below.

Marks & Spencer: Although the smallest of the three chosen firms at the start of the period, M&S was to become the second most profitable retailer in the World.[191] It was recognised in the period for its managerial competence.[192] Simon Marks was a keen innovator in managerial practices and looked to both the United States and continental Europe to learn about new organisational practices.[193] The firm reorganised several times during the 1930's and 1940's and undertook a much publicised 'simplification' project in the late 1950's which touched its PMM practices.[194] It also operated in a less directly regulated market than either Boots or WHS which were more directly affected by resale price maintenance. The archive has a large collection of sources relating to the organisation although significant parts of it are restricted (Board and Executive Meeting minutes, personnel files). There is also a wide range of secondary literature including the memoirs of both Israel and Michael Sieff as well as corporate histories.[195]

Boots: The market leader in the retailing of chemists goods, Boots was taken-over by an American firm in 1920 and introduced management structures and processes based on those of the parent company in the early 1920's. The firm therefore provides an insight into, what were considered at the time, the latest retail management techniques. The

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[191] "Sieff's despair at lack of 'probing' at M&S" *Retail Week*, 18 June 2004, https://www.retail-week.com/sieffs-despair-at-lack-of-probing-at-ms/1714678.article.

[192] In 1962, Simon Marks was the first non-American to receive the Tobé Award for contributions to retail ("Marks and Spencer Limited." Financial Times [London, England] 14 June 1963: n.p. Financial Times. Web.); In 1974, M&S was the subject of a detailed Harvard University case study (A04/117 I Harvard Business School Case Study 1975 and 1979).

[193] He visited the United States in 1924 and 1928 to learn about retail organisation (Sieff, *Memoirs*). He reported in the 1933 AGM that he had visited retail companies in the United States, France and Germany "Marks and Spencer Ltd." Financial Times [London, England] 18 May 1933: 4. Financial Times. Web.

[194]"Simplification for Efficiency" *The Manager*, June 1959.

[195] Sieff, *Memoirs*; Sieff, *Don't Ask*; Rees, *St Michael*.

archive has a comprehensive range of sources although there are also restrictions on Board Minutes and salary information of named individuals. There are two books written about Boots but both have limitations which are discussed further in the introduction to the Chapter.[196]

WH Smith: Like Boots, it was the market leader in its retail sector (bookselling and newsagents). It was, however, older than the other firms. WH Smith still operated as a partnership in 1920 and its two most senior partners had joined in the early 1890's.[197] It managed its business largely in the same way as it had in the previous century and therefore provides an insight into a more traditional form of performance management. The archive is extensive and has few access restrictions. It also contains a number of oral reminiscences which provide insights into how the business was managed from the early 1920's. The company history is comprehensive but its focus is on the activities of the firm rather than its structures and processes. It is also largely uncritical of the firm and the decisions it made.[198]

The following three were considered but rejected

Sainsbury's: As a grocer, they represented a retail sector which faced different challenges from the other firms. However, archive visits are limited to once a week, has limited cataloguing and it became clear after several visits that the sources were insufficient to construct a comprehensive picture of the PMM systems.

Woolworths: As an American retailer which had only arrived in Britain in 1909, Woolworths would have provided potential valuable insights into

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196 Greenwood, *Cap*: Chapman, *Jesse Boot*.

197 WFD Smith joined in 1891 and CH StJ Hornby, a close friend, in 1893. Hornby remained a partner until 1946. Wilson, *First*.

198 Wilson, *First*.

modern American PMM practices. However, the archives were not available for public review during the research phase of the thesis.[199]

The John Lewis Partnership: This firm constituted a potentially interesting business model as ownership of the firm was transferred over to its employees in 1928 by the owner, Spedan Lewis.[200] It was subsequently run by the employees as a partnership. While the archives contain a comprehensive set of relevant sources, the firm was slow to expand and only acquired its third store in 1933 and therefore did not operate as a multiple retailer (more than 10 branches) for most of the period.

Table 1.2 provides a summary of the three case study firms. The chapters on each of the firms provide more details about the origins of the firms and the sectors in which they operated.

The thesis covers the period 1920 to 1970. The start of the period was chosen as it coincided with the increased focus on retail management practices in both the United States and Britain as described above. Furthermore, it avoids analysing the impact of the war on the operations of the business which, while relevant for firms which employed so many, adds further complexity to the analysis and is less relevant to problems firms face today.[201] Finally, the date was also influenced by the sources themselves. Boots was acquired by United Drug in 1920 and started to introduce new management practices soon after. Two important sources, their house journals *The Beacon* and *The Bee,* were only published from 1919 and 1920 respectively. 1920 was also the year that WHS celebrated, incorrectly they soon found out, their centenary. The sources surrounding the associated events were a rich source not only in understanding the current practices but also how they had (or had not) changed over the last century. Although the M&S case study

[199] The University of Reading only announced the acquisition of the Woolworths archives 9 March 2017.

[200] Cox, *Spedan's partnership*.

[201] The impact of the post-war period is, however, covered. Changes in society brought about by the war had a potential impact on how firms managed their businesses - particularly on WHS which relied on cultural factors to influence performance management.

also starts in 1920, it remained a small company until it started to expand at the end of the decade after it became a public limited company. There are also few archival sources before 1926.

Table 1.2: Summary of Case Studies

	M&S	Boots	WHS
Retail Sector	Variety but principally clothes	Chemists	Books, newspapers and stationery
Foundation	1884	1849	1792
Ownership	Private company to 1926. Public company thereafter.	Public company to 1920. Subsidiary of an American multiple retailer 1920 to 1933. Public company thereafter.	Partnership until 1929. Private limited company from 1929 to 1949. Public company thereafter.
Control - head of executive bodies	1917 - 1964: Simon Marks 1964 - 1967: Israel Sieff 1967 - 1972: J. Edward Sieff	1884 - 1920: Jesse Boot 1920 - 1932: George Gales 1932 - 1954: John Boot 1954 - 1960: JP Savage 1960 - 1967: FA Cockfield 1967 - 1970: KD Williamson	1891 - 1928: WFD Smith 1928 - 1948: WH Smith 1949 - 1972: D Smith
Control - membership of executive bodies	Israel Sieff (brother-in-law of Simon marks) joined the company full time in 1926. The Executive board was almost entirely composed of Marks/ Sieff family throughout the period.	John Boot (son of Jesse Boot) was Deputy Chairman 1920 to 1933 and effective head of UK executive board. Executive bodies primarily composed of directors who had been promoted from within the business.	Executive bodies entirely composed of family/ close family friends until 1948. Gradual introduction of external directors thereafter.
Sales (£'000)	1930: £3,605 1950: £52,591 1970: £388,843	1930: £9,830 1950: £36,253 1970: £214,381	1930: £4,457 1950: £12,564 1970: £42,039
Store numbers[a]	1930: 180 1950: 230 1970: 241	1930: 618 1950: 1,276 1970: 1,695	1930: 906 1950: 965 1970: 518

[a] Reflects complexity rather than size of business as M&S stores were larger than either Boots or WHS. WHS also had large numbers of bookstalls. In the 1960's all firms increased the average size of their stores but sales area data is not available. M&S did not regularly report their store numbers. 1930 data relates to 1934 and 1970 relates to 1968 as reported in the *Financial Times*.

Sources: M&S: Rees, *St Michael*; Financial Times. Boots: Chapman, *Jesse Boot*; BTC 461/ 462 Statistical Books. WHS: Wilson, *First*; WHS X 15 Aggregate statistics.

The end of the period was even more heavily influenced by the sources. Both Boots and WHS started to diversify in the early 1970's which took them both on a different trajectory strategically from how they had operated over the previous 50 years.[202] While the strategic changes raise interesting questions, they add further complexity to an already complex thesis. 1969 was also the year that David Smith resigned from executive responsibilities at WHS and the firm was run by someone from outside the firm for the first time since the business started in 1792.[203]

Although the period of analysis was 1920 to 1970, relevant sources have been examined outside those dates where they offered insights into the firm and the firm's operations. For example, Harvard University conducted a case study in 1975 on M&S and Boots published their first strategic plan in 1978.[204]

Collation, organisation and analysis of data

In order to collate and organise the data, a framework has been used as a heuristic tool. Using a framework in case studies presents a number of general risks, not least that it can imply a normative structure - a particular risk in a historical study where the concept of a PMM system did not exist. However, given the breadth of this particular study, the advantages are believed to outweigh the disadvantages; a framework will improve efficiency in collating and analysing information, ensure consistency when comparing the practices of different firms and aid completeness, ensuring that all aspects of PMM are reviewed for each firm studied.[205] Several PMM frameworks have been developed but, from the perspective of this study, they share a number of weaknesses. Many of them,

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202 Boots acquired the pharmaceutical company Crookes in 1971 ("Guiness sells Crookes to Boots." Financial Times [London, England] 27 July 1971: [1]. Financial Times. Web; WHS went through a reorganisation in the early 1970's, selling a third of the bookstalls, conducting a joint venture in Holland and they tried to buy Thomas Cook. (Various Financial Times articles on 24 August 1973, 6 October 1973, 24 January 1972, Financial Times. Web.)

203 *Newsbasket*, July 1969.

204 M&S A04/117 I Harvard Business School Case Study, 1975; BTC 2555/1 The Corporate Plan 1978

205 A failure of most PMM field studies (Stringer, *Empirical*)

including the Balanced Scorecard, describe a desired outcome rather than as-is processes.[206] They can ignore informal processes and focus too much on requirements of directors rather than the actions of managers.[207] They can also understate the importance of behavioural and cultural factors.[208] In 2009, Ferreira and Otley published a 12 point "extended framework for analysis."[209] It differed from the other frameworks as it was developed explicitly to document the structures, processes and measures used to manage performance.

Ferreira and Otley's framework is based on 12 questions. The first 8 questions help describe the separate elements of a performance management system from the strategy of the business, through the key performance measures to the reward system. The final four questions apply to the system as a whole - linkages, strength, use and change. The framework is broad recognising the importance of formal and informal processes, of the different roles of managers across hierarchical levels and the relevance of both objective and subjective measures. The framework evolved from an earlier 5 question model which, together with earlier iterations of this model, was the basis for several studies.[210] The current model has attracted some criticism for giving insufficient weight to social factors and doesn't address conflicts between short term operational measures and longer term strategic measures.[211] These are discussed in more detail below.

While the full 12 point model was used to organise the data for each of the case studies, in presenting them in this thesis, the framework has been modified. Table 1.3 shows the original 12 areas and how they have been modified for the purposes of presentation. Reasons for modifying the table are included after the table.

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[206] Kaplan and Norton, *Mastering*; Neely *et al*, *Performance Prism.*

[207] Taticchi *et al. Research Agenda*; Ferreira and Otley, *Framework*; Stringer, *Empirical.*

[208] Broadbent and Laughlin, *Conceptual Model*.

[209] Ferreira and Otley, *Framework*.

[210] Otley, *Management Control Systems*. It has been used in Stringer, *Empirical*, and she quotes a further four studies.

[211] Broadbent and Laughlin, *Conceptual Model*.

Table 1.3: Framework		
Ferreira and Otley 12 Point Framework [a]	**Modified framework**	**Questions**
Vision and Mission Key Success Factors	Objectives	What were the key factors believed to be central to the organisation’s overall future success and how were they brought to the attention of managers and employees?
Organisation Structure	Organisation Structure	What was the organisation structure and what impact did it have on the design and use of performance management structures and systems? How did it influence and how was it influenced by the management processes?
		Processes:
Strategies and plans Target Setting	Strategic planning, budgeting, forecasting and targeting	What strategies and plans did the organisation adopt and what were the processes and activities that it decided were required for it to ensure success? How did it go about setting appropriate performance targets for its key performance measures?
Performance Evaluation	Evaluation	What processes (formal and informal) did the business use to evaluate individual, group, and organisational performance? Were performance evaluations primarily objective, subjective or mixed? Where the processes different for short term and long term performance issues.
Reward Systems	Motivation	How did the firm motivate employees to deliver the performance of the business? What was the mix of financial and non-financial rewards?
Key Performance measures	Measures	What were the key performance measures? How frequently did they change? How were they specified and communicated and what role do they play in performance evaluation? Did they use a few or many? Were there significant omissions?
Information flows, systems and networks Strength and coherence	Linking the system	How were the separate structures and systems linked (if at all)? How strong were those links? How did they change over time?
PMS' use		*Included in the other questions*
PMS' change		*Included in the other questions*
[a] The order has been changed for presentation purposes.		
Sources: Adapted from Ferreira and Otley, *Framework*.		

The reasons for the changes were as follows and partly reflect weaknesses or gaps in the 12 point framework which emerged during completion of the studies:

(1) To avoid anachronistic concepts and simplify presentation, 'vision and mission' and 'key success factors' have been merged and renamed '*Objectives.*' The renaming is consistent with Otley's original 5 point framework which included 'Objectives' and did not distinguish between vision, mission and key success factors.[212] In their later version, they wanted to differentiate between broader, longer term objectives and shorter term more specific ones. For the purposes of presenting the findings, however, it was felt that they are so closely linked that to describe them in separate sections, several pages apart, was confusing. Therefore the broader term 'objectives' has been used.

Strategies, plans and target setting were also merged for presentation purposes. Partly reflecting conventions at the time and borne out by the sources, formal processes relating to strategy and planning were relatively less developed than other processes. Therefore, rather than have two short sections, it was decided to merge the two.

(2) To reflect more recent research. Ferreira and Otley acknowledge that reward systems include both financial and non-financial rewards and both formal and informal practices. However, they still link it with assessed aspects of performance. More recently, research has highlighted the importance of on-going motivation and that this need not be linked to measures or targets.[213] The term "motivation" has been used therefore rather than "reward" to reflect the wider focus.

(3) To reflect gaps in the existing 12 point framework. An early draft of Ferreira and Otley's paper was criticised for excluding organisational culture from the

[212] Otley, *Framework*.

[213] Sobótka and Platts, *Managing without measuring*.

framework.[214] They acknowledge the criticism but argue that culture is largely outside the control of the organisation and therefore does not form part of the description of the PMM system.[215] Preliminary research conducted on the WHS archives, however, suggested that not only did a firm's cultures and identity influence performance management practices but that the firm actively cultivated the culture.[216] Culture has long been recognised as an important element in a PMM system.[217] Literature on culture and identity has also recognised that they are constitutive, capable of being used to influence behaviours to achieve desired outcomes.[218] To reflect this, 'culture' has been considered explicitly within the framework. While it touches all aspects of a PMM system it has been included in the section 'Linking the System' as it was one element which helped bind the separate elements of the PMM system and created strength and coherence.

(4) For narrative purposes. Ferreira and Otley's last four questions can apply to all of the eight preceding questions (separately or in total). When collating data, it became difficult to document how the PMM 'changed' and how it was 'used' outside the first eight sections. For example, in documenting how the organisation was structured, it is necessary to also describe how the structure changed over time and the drivers of that change. 'Change' and 'use' were therefore documented twice in the framework. To avoid this in the presentation of the findings, both have been subsumed into each of the previous sections.

For describing the information 'flows' in the organisation and the 'strength' of the connections between the different elements of the PMM, a new section called 'Linking the system' was created. This allowed consideration of whether

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214 Broadbent and Laughlin, *Conceptual Model*.

215 They also argue that context is outside the control of the organisation and therefore have not included it either. In this thesis, the external context is provided in the background to each of the case studies.

216 See the Chapter on WHS. Particularly in the early 1920's, the sources show partners using several cultural tools (rituals, traditions, artefacts).

217 Euske *et al, International setting.* And, more generally, in management processes, Fear, *Thyssen*, Jones, *Unilever*.

218 Giorgi *et al. Many faces; Weber and Dacin, Cultural construction.*

all of the elements linked together to create a 'system' - whether the overall way they managed performance was stronger than the sum of the individual parts. Using a less specific title than Ferreira and Otley also allowed other factors which created linkages and conferred strength to be included - specifically organisational culture and identity as discussed above.

The following chapters use the framework to describe how each of the firm's measured and managed performance over the 50 years between 1920 and 1970. Each chapter has the same format. It starts with some context about the retail sector in which they operated and about each firm's own development before 1920. It also provides some background information about how each firm then developed over the next 50 years. The main part of the chapter then examines each element of the framework as described above using the questions in the final column as a way of analysing the findings. A conclusion summarises the key findings about how the firm managed performance as a whole.

Chapter 2: Marks and Spencer

Introduction

This chapter presents the case of Marks and Spencer. Like the other two firms in the thesis, Marks and Spencer was a successful multiple retailer that operated throughout the period and it continues to trade today. Like Boots and WHS, it traded in similar locations on the major shopping streets in towns and cities across Britain and, although not a direct competitor except for a small number of products, competed with the other two for a share of the consumer's expenditure.[219] Like the other two retailers, M&S also faced the same operational problems caused by a large number of operating units located far from Head Office. While it had fewer branches, they were generally larger and similarly scattered across the country. There were, however, some important differences from Boots and WHS. Firstly, they sold few externally branded products and instead their products bore their own brand name 'St Michael'. They did not, however, manufacture themselves and instead sourced products from suppliers with whom they retained close links throughout the period. Their PMM practices therefore extended beyond their own firm. Secondly, with their origins in variety store trading, they were less tied to a specific retail sector than either of the other two retailers and they had a broader product range than either Boots or WHS. This potentially exposed them to more competition but also provided more freedom to change their product offering and helped them avoid the restrictions of resale price maintenance. Thirdly, although Simon Marks was not the founder of the firm, he was largely responsible for completely restructuring the business and driving its growth until his death in 1964. He therefore represented a powerful entrepreneurial force, quite different from in the other two firms. In 1920, WHS was being run by the fourth generation of the founding family and, by the end of the year, Boots had become a subsidiary of an American company.[220]

[219] All three of the case studies sold, for example, small gift items such as leather goods.

[220] Wilson, *First*.

The principal sources were the company archives, the memoirs of both Israel and Michael Sieff and several company histories and journal articles.[221] The M&S Company Archive was created in 1984 to celebrate the 100th anniversary of the firm and is managed by the University of Leeds. It holds more than 70,000 items from 1884 to the present day.[222] The archives are open to the public with prior approval. There are more restrictions on the contents than in either Boots or WHS. All Board minutes are restricted, like Boots, but there are also restrictions on many of the private papers of the directors. In addition, there are relatively few sources relating to salary and other reward mechanisms in the archive.[223] Specific gaps are identified in the individual sections below. Sources were chosen by using the on-line catalogue and discussions with the archivists.[224] The latter in particular were helpful in identifying potential sources as using search words in the on-line catalogue was slow given the range of terminology used to describe documents and how this terminology changed over time.[225] By explaining the framework for the analysis, the archivists suggested several sources which had not otherwise come to light including a Harvard Business School case study on M&S completed in 1975.

The memoirs of Israel and Michael Sieff were important sources. They supplemented the primary sources and provided insights into the motivation behind decisions and described some of the informal management practices which are otherwise absent from the primary sources. However, both books can read as testimonials and other sources are used to verify their versions where available. The company history written in 1969 by Rees was also an important source,

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[221] Israel Sieff joined the firm full-time in 1926. He was Simon Mark's best friend and brother-in-law and succeeded Marks as Chairman in 1964. Michael Sieff was his son and worked in the firm between 1950 and 1979 (Rees, *St Michael*).

[222] Marks in Time, https://marksintime.marksandspencer.com/the-collection. Based on using the on-line catalogue, the majority of the sources in the archives relate to post-1980.

[223] This was confirmed in discussion with the archivists.

[224] Searches are based on inputting key words. Given that terminology changes between firms and over time, searching was a long process as different words were tried. There is also functionality which allows searching by theme but this was less useful given that the themes were broad.

[225] For example, using terms such as 'financial accounts', 'financial statements', 'financial reports' produces different lists of sources.

especially in relation to the development of the firm before 1920. The primary weaknesses of the book from the perspective of the thesis was its generally uncritical review of the activities of the firm and its focus on the key family members rather than the processes that operated within the business. He also relied on interviews with existing directors as the archive lacked sources at the time. It is not clear whether the book was influenced by the firm but Rees does acknowledge the support he received from the Marks and the Sieff families in writing the book.

The rest of the chapter follows the same format as the other case studies. It provides some context on the retail sector in which they operated (variety store trading). It is relatively brief as, compared to the Chemist or News trades, it remained a small sector before 1920 representing less than 3% of multiple store sales.[226] It is followed by a summary of the development of M&S over the period. The section focuses in particular on how Michael Marks conducted business between 1884 and his death in 1907 as his principles foreshadowed how his son was to develop the business between 1917 and 1964. The rest of the chapter explores how M&S managed and measured performance following the framework described in Chapter 1.

Background and Context

The Variety Store Trade

The development of variety store retailing is relatively less documented in the literature than other forms or retailing. Jefferys, whose comprehensive history of retail trading in Britain between 1850 and 1950 provides much of the detailed analysis still used today, devotes relatively little attention to variety stores. He focuses instead on product sectors (food, footwear, chemists) and refers to variety stores briefly in those sectors. He does, however, offer a definition of a variety store as a multiple shop retailer with 10 or more stores selling a wide variety of

[226] Jefferys, Retail trading, 69.

low-priced products under one roof. The products are usually displayed on open counters with little division between the sections.[227]

In Britain, the variety store emerged from the 'Penny Bazaars' and stalls that are first recorded in the 1860's.[228] These were primarily located in market halls rather than on High Streets. Mass-produced goods were on open display and sold by poorly paid shop girls to working class customers.[229] In the 1890's they started to grow in prominence as owners expanded the number of stalls they owned and opened shops on High Streets.[230] Prices remained cheap although not always at a penny and while they continued to grow, they did not match the growth of the specialist multiples. In 1909, Woolworths opened their first British store in Liverpool.[231] Woolworths, founded in 1879, was already the largest variety (dime store) chain in the US and still expanding rapidly.[232] There were fears that it would drive British variety store chains out of business.[233] By 1920, Woolworths had grown to 82 shops in Britain.[234] Woolworth's entry into Britain acted as a catalyst for the variety chain sector, especially after the War. Not only did they expand rapidly but, at least in the case of M&S, spurred competitors to grow as well.[235] In 1920, there were 300 variety store branches in Britain representing under 3% of multiple store retailing sales.[236] By 1938, this share had increased to nearly 20%

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[227] Jefferys, *Retail Trading*, 466.

[228] Morrison, *Woolworths*.

[229] Morrison, *Woolworths*.

[230] Jefferys, *Retail Trading*, 69.

[231] Walsh, *Shopping was good.*

[232] It opened its 1,000th store in 1914. The second largest, Kresge, had only 144 stores. Raucher, *Dime Store.*

[233] Morrison, *Woolworths,* 13 recounts a letter written by Frank Woolworth in 1909 which refers to one British chain with 130 stores which "is rumoured ready to give up and not fight us."

[234] Walsh, *Shopping was good.*

[235] Sieff, *Memoirs*, claims M&S's growth was partly driven by Simon Mark's fear of Woolworths expansion.

[236] Jefferys, *Retail Trading*, 69.

and the market was dominated by Woolworths and M&S.[237] The increased volume in the intervening years had been driven by a rapid increase in both the number of stores they operated and the average size of the stores. By 1939, Woolworths had 759 stores compared to 375 in 1930.[238] M&S meanwhile had 236 stores compared to 140 in 1926 but more importantly, had grown the amount of selling space to 229,164 square feet from only 38,034 in 1928.[239]

Variety store retailing was different from the specialist retailing of Boots and WHS. Initially it was based on fixed price points, such as a penny, and the shops focused on supply - sourcing the right range and highest quality of popular products under the price ceiling. Consequently, they offered a wide range of products and bought from a large number of producers. The customer experience was also different. Product was on open display and customers were encouraged to browse. Service, salesmanship, advertising and branding which were so important to specialist multiple store retailers were almost absent from the variety store retailers who thrived on the simplicity of their operations.[240] The need for operational simplicity remained a tenet throughout the period.[241] There was also less need for overt selling and they generally employed low-skilled and low-paid workers.

Over time, they abandoned fixed price points but remained focused on value for money and broad product ranges. By the 1930's there was some specialisation as they abandoned slower selling categories. This led to significant growth in their share of some retail sectors. In women's clothing, for example, variety stores played no part in the trade in 1920 and only a small part in 1930. However, by

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[237] Jefferys, *Retail Trading*, 70.

[238] Morrison, *Woolworths*, 68.

[239] M&S AO5/413F Annual Report of the Chief Accountants 1939; M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956: “Annual Report of the Chief Accountant 1950”

[240] Jefferys, *Retail Trading*, 70.

[241] “The War on Paper Bureaucracy” Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, on 22 May1975 (M&S A04/117 K Various Papers and Speeches)

1939 M&S sold as much as the multiple clothing retailers in underwear and hosiery and by 1950, nearly matched the multiples in skirts, dresses and coats.[242]

After 1940, the success of the variety chain sector becomes harder to separate from the individual success of Woolworths and Marks & Spencer, who dominated it. By 1970, Woolworths had 1,130 stores including three Woolco stores, an out-of-town shopping format and generated sales of £334.2 million.[243] M&S had less stores with only 241 but generated more sales with £338.8 million.[244]

Marks & Spencer 1884 to 1970

Although founded only one year after Boots was incorporated in 1883 and more than 20 years before WH Smith opened its first shop, by 1920 M&S was still a relatively small firm. However, over the next 20 years the business was transformed. It revamped its range of products and largely replaced its store portfolio - only 18 of its 236 stores in 1939 pre-dated 1926.[245] Operationally, it introduced management processes and structures borrowed from American retailers. Financially it easily surpassed the profitability of both Boots and WH Smith. By 1939, it was a very different business from only 20 years earlier. Table 2.1 shows the relative growth of M&S, Boots and WHS over the period of the study. The profit is post tax but pre-distribution of profits to shareholders or partners (in the case of WHS in 1920). The table shows the rapid growth of M&S and their ability to sustain the growth throughout the whole period.

Although M&S's growth occurred only from the late 1920's onwards, much of the success was based on principles which emerged between 1884 and 1920. The following paragraphs will provide some background on the organisational development of M&S, the operational development of M&S and a discussion on the importance of these early years on their subsequent development.

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[242] Jefferys, *Retail Trading*, 342.

[243] Morrison, *Woolworths*, 156. Sales from Boots' corporate plan (BTC 2555/1, 1978)

[244] M&S Annual Report and Accounts, 1970.

[245] "Annual Report of the Chief Accountant" 1939 (M&S AO 5/413)

Table 2.1: Distributable Profits (£'000s)				
	1920	**1940**	**1961**[a]	**1970**
Marks and Spencer	28	848	10,295	26,005
Boots	219	720	4,166	11,000
W.H. Smith	436	272	850	2,115

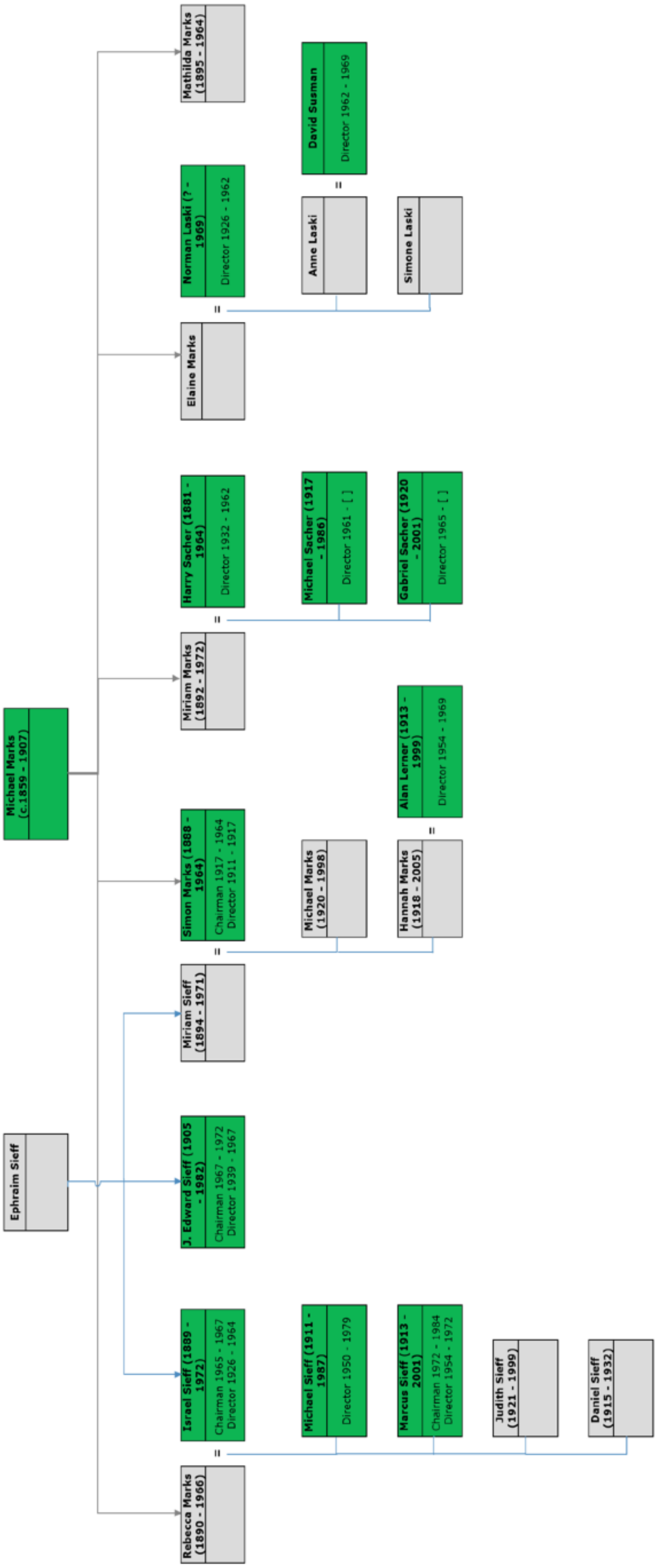
[a] WHS changed its accounting year in 1960. 1961 has been used to ensure a full year's trading

Source: M&S: Rees, *St Michael*; Boots from published annual accounts apart from 1920 (BTC Y 192); WHS from audited accounts to 1949 (X 141 to X 170) and published accounts thereafter.

The business was founded in 1884 when Michael Marks, a recent Polish immigrant, opened a market stall in Leeds under the banner “Don’t ask the price, it’s a penny.” The focus was not on a particular product category but sourcing any good value products which could be quickly sold on. Initial success prompted expansion as he opened further shops across the north of England. In 1894, he went into partnership with Thomas Spencer, a cashier at one of his suppliers (Dewhirsts). In 1903, the business became a limited company with capital allotted equally between the two of them. They both worked well together but Spencer retired in 1904 and died in 1905. Michael Marks died soon after in 1907. The trustees of their relative estates clashed and for the next ten years disputed over who controlled the business. When Simon Marks, the son of Michael, joined the Board in 1911, he found himself outnumbered following the resignation of one of the Directors. It was only after a series of court rulings in 1916 and 1917 that Marks secured control. In June 1917, he became Chairman, replacing William Chapman of the Spencer estate. Chapman and Spencer’s son were voted off the Board the following year.[246] The family retained control throughout the period. M&S became a public company in 1926 and Marks remained Chairman until his death in 1964. The executive board was dominated by the Marks and Sieff families. Israel Sieff, Marks' best friend since school and brother-in-law, joined the firm full-time in 1926 and succeeded Marks as chairman. Figure 2.1 shows the family tree of the Marks and Sieff families. As discussed in more detail below, the control of the board by the family and their closeness, particularly between Simon Marks and Israel Sieff, influenced how performance was managed throughout the period.

[246] Rees, *St Michael*.

Figure 2.1: Marks and Sieff Family Trees



Note: Directors shown by green boxes

Sources: Sieff family birth and death from www.geni.com, all dates of director periods from Financial Times electronic archive.

Operationally, the business grew steadily after 1894. By 1900, M&S had 36 branches of which 12 were shops rather than market stalls. By 1907 they had 60 branches and 140 by 1914 with less than 10% in market halls and arcades. Pre-tax profit also grew steadily from £7,000 in 1903 to £30,000 in 1914.[247] If the growth was slower than Boots or WHS, it reflected both internal and external factors. Internally, Simon Marks was frustrated with the Spencer preference for protection of the assets and income stream rather than growth. Chapman kept a tight control over stock and cash and the Board minutes note conflict with Simon Marks' buying policies.[248] However, the relatively slower growth before 1920 also reflected the industry. Variety store retailing was slower to expand than other multiple retailing in Britain as noted above.

Rapid expansion of the business occurred after 1926 when the firm became a public limited company and could fund expansion. The rise of Woolworths was said to be one reason for the expansion. Israel Sieff later recalled that Simon Marks was heavily influenced by the power of Woolworths and the transformation from the mid-1920's was at least in part driven by concerns that Woolworths success could drive the M&S business under.[249] Although their product ranges grew apart over time with M&S focusing on clothing and food, Woolworths remained a competitor over the period. This did not stop Marks from borrowing operational ideas from Woolworths.[250] They may have also actively hired Woolworths staff. There is a copy of a 1929 review of performance in the M&S archives from a Woolworths District Office addressed to one of their store manager's. By 1942, he was working for M&S and had clearly taken some of his old reports with him.[251]

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[247] Rees *St Michael*, 18 and 26.

[248] Rees, *St Michael*

[249] Sieff, *Memoirs*, 141.

[250] Marks adopted the 'Checking List' from Woolworths.

[251] This may have been an isolated incident but the letter, across 8 pages, provided an insight into how Woolworths managed its stores and also included the financial results of the store for the year. The employee (L. Cooper) was working for M&S in 1942 but it is not clear when he joined. (M&S S/1/22/3 Hartlepool Store Letter 1929 and S22/32 Wood Green 1942)

Table 2.2 below shows the growth of M&S between 1920 and 1970. The table is not intended to show the relative success of their PMM practices but rather to provide the context for the description of these practices which follows.

Table 2.2: Key statistics

	Retail Sales (£'000)	Profit available for shareholders (£'000)	Stores
1920	n/a	28	n/a
1925	n/a	40	140
1930	3,605	261	n/a
1935	11,398	805	180
1940	27,031	848	236
1945	18,104	806	n/a
1950	52,591	2,221	230
1955	108,375	4,468	n/a
1960	148,023	9,081	237
1965	219,791	12,856	n/a
1970	338,843	26,005	241

Sources: Retail sales from Rees, *St Michael*, except 1965 and 1970 which are from published accounts.

Much of the success of the business after 1920 appears to have been based on principles and practices that occurred between 1884 and 1920. M&S was a business which prided itself on its technological and operational innovation.[252] However, throughout the sources there are regular references to its own history and it appears to have played a central role in how they saw themselves internally and how they described themselves externally. There are repeated references to the legacy of Michael Marks, who died in 1907, and to the origins of the business

[252] See section on Objectives below.

in external speeches and internal correspondence.[253] Based on these sources, there are three themes evident in the first 40 years to 1920 which echo throughout the following 50 despite the evident changes in strategy and scope of the business.

First, Michael Marks formed close and enduring relationships with his suppliers and advisers. This may have reflected his first business ventures in Poland where he supplied clothing manufacturers with quality 'scraps'. In what was a low margin business, Marks relied on the trust that his customers had in the quality he was providing to ensure on-going orders.[254] As a retailer operating through 'penny bazaars' he was now the buyer but with the strictures of a fixed selling price, he worked closely with suppliers to source quality and innovative products to distinguish himself from the competition. This extended to advice and financial support. Isaac Dewhirst loaned Michael Marks the £5 which enabled him to start his business and Dewhirst recommended one of his own employees, Thomas Spencer, when Marks sought a partner in 1894. In 1970, M&S were still working closely with Dewhirst's to improve welfare and productivity.[255] And, Dewhirst's were still a supplier to M&S in 2014.[256]

Secondly, the bitter experience of fighting for control of the the business between 1911 and 1917 drew Simon Marks towards his family and friends. Following the court victory in 1916, Alexander Isaacs and Israel Sieff were appointed to the Board.[257] Marks had met Sieff at school in 1902 and they married each others

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[253] e.g. 'Thinking about the Business" Notes by Simon Marks 28.12.54 Reissued in August 1979 (M&S CR/C/2/80 Collated Business Reports 1950 - 1984), Speech by Marcus Sieff to unknown external audience c.1965 (M&S CR/B/2/3 Israel Moses Sieff speeches and notes), "The War on Paper Bureaucracy" Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, on 22 May 1975 (M&S A04/117 K Various Papers and Speeches)

[254] Sieff, *Memoirs*.

[255] Relationship with Dewhirst explained in Rees, *St Michael*; Productivity review was part of a memo to directors, 7/10/70 (M&S E 7/19 Corporate Governance Management Committee)

[256] Although there was some debate whether they would continue to do so as they looked to increasing sourcing of products to the Far East. https://www.drapersonline.com/news/ms-cuts-suppliers-as-efficiency-measures-take-hold/5062759.article

[257] Although Sieff did not become a full time director until 1926.

sisters. They remained close friends for the rest of their lives. Sieff followed Marks as Chairman after this death. Family remained the backbone of the senior management team throughout the 50 years between 1920 and 1970 and even where non-family members were promoted to the Board, they typically had worked for M&S throughout their careers.[258] This is discussed further in the section on Organisation Structure below.

Thirdly, Simon Marks inherited a strong sense of social responsibility from his father.[259] He is reported as saying that “I learned my social philosophy from Michael Marks and not Karl Marx.”[260] Michael Marks adopted a patriarchal attitude towards the business and a humane attitude towards his staff.[261] When he established his first premises in Manchester, he built a dining room and gave them a place where they could cook their food.[262] Israel Sieff attributed the attitude at least partly to the Jewish religion and its historic importance on patriarchal authority and responsibility.[263] This extended beyond their own company. The 1903 Articles of Association stated the intention ‘to support and subscribe to any charitable or public object, and any institution, society of club which may be connected with any town or place where the company carries on business.’[264]

How these themes influenced the objectives, the development of organisation structures and the performance management processes is discussed in the following sections. What becomes clear is that the performance management 'system' that evolved in M&S was strongly linked to the firm's origins and the principles which underpinned its early success. The finding suggests that modern

258 In 1964, the only two members of the new Management Committee who were not family members had been working for M&S since the early 1930’s (W.F Norris and B Goodman).

259 The actions taken by Simon Marks to improve the welfare of his employees is described in the Objective section below.

260 Rees, *St Michael*, 11.

261 Rees, *St Michael*, 23.

262 Sieff, *Memoirs*, 157.

263 Sieff, *Memoirs.*

264 Sieff, M, *Don't ask*, 224.

firms should be cautious in implementing new PMM systems without consideration of how their own practices have evolved.

Table 2.3 summarises the key dates in the development of the business and is for context purposes only.

Table 2.3: M&S expansion - key dates

Year	
1884	Firm founded by Michael Marks when he opens a market stall in Leeds.
1894	Michael Marks forms a partnership with Thomas Spencer.
1903	The firm becomes a private limited company.
1905	Thomas Spencer dies.
1907	Michael Marks dies. While Michael Marks and Thomas Spencer had worked well together, the next generation did not. There was ten years of disputes between the two parties only finally resolved by a court ruling in 1916 which gave control to the Marks family.
1917	Simon Marks becomes Chairman.
1924	Simon Marks visits the US to learn about US multiple retailing. He undertook several visits to the US thereafter but also visited retail stores in Europe.
1926	Firm becomes a public limited company.
1926	Israel Sieff joins the business on a full time basis as Vice-Chairman.
1928	Start of organisational improvements - new departments created in Head Office, product lines rationalised. Process took place over the 1930's and early 1940's.
1956	Operation Simplification. Resulted in the elimination of administrative paperwork and organisation manuals. On-going programme which continued in the early 1960's.
1964	Simon Marks dies. Israel Sieff becomes Chairman.
1967	J. Edward Sieff becomes Chairman.
1968	M&S overtakes Woolworths in Britain in both sales and profits.

Sources: Rees, *St Michael*; Sieff, *Memoirs; Morrison,* Woolworths, 156

Performance Management and Measurement

Using the same format as the other case studies, the following sections will describe each of the main elements of a PMM system as defined in the framework introduced in the first chapter. The assessment includes both description and analysis of the PMM structures, processes and measures. A conclusion draws together those points particularly relevant to the research questions.

Objectives of the Organisation

This section will describe the objectives of the organisation and consider how they were communicated to the organisation. It will also consider any changes to those objectives. In well performing PMM systems, objectives, organisation structures, performance management processes and performance measures should all be linked.

Unlike in the other two case studies, the objectives of the organisation are repeated throughout the sources by different people and aimed at both internal and external audiences. These sources show that the objectives remained consistent from the first Annual General Meeting in 1926 to at least, 1970.

A memo written by Simon Marks to his employees in 1954 and titled "Thinking about the Business" summarised these objectives. In introducing them he explained that they were not new and had been operating since before the war. The memo was reissued to senior management by the Chairman in 1979 as a reminder of the core objectives of the organisation.[265]

> "Our main effort before the war had been directed to the production of a wide variety of specialised goods of outstanding value at prices the public could afford to pay. That policy enabled us to build up a goodwill which is one of the company's most valuable assets. Our aim today is similar, to produce exclusive goods at inexpensive prices. The emphasis is more and more on quality, style and finish. Our organisation is geared to the carrying out of this conception by its specialist and technical approach to production, by the teamwork of our executives and their staff, and by the close and

[265] M&S CR/C/2/80 Collated Business Reports 1950 - 1984

unique relationship which we have with our suppliers. Thus the principles on which the business was founded do not change." (Lord Marks, 1954).[266]

The sources show that each of the objectives underlined in the quotation were repeated in both internal and external speeches and in internal memos by the directors. The statement identified *what* he believed was their core principle - "exclusive goods at inexpensive prices." At the first Annual General Meeting in 1927, it was explained as a policy to "give to the public the best value for the price paid."[267] It was repeated throughout the 1950's, 1960's and 1970's by the directors with only slight changes in wording - "inexpensive goods of quality", "a selected range of goods of high quality at reasonable prices," "improvement of the lines in value and quality."[268] It was summarised by the Vice-Chairman, Michael Sacher, to a Harvard researcher in 1975: "I think we have carved a market out here which is quality goods at lower prices."[269]

Marks' quotation also shows *how* they would achieve it. Marks referred to a "technical approach to production" and the sources demonstrate the application of the objective from the 1930's to the 1970's. Marcus J. Sieff explained to an external audience that "the application of scientific and technical work to the development and improvement of St Michael goods" was the second principle on which the business was based.[270] The Merchandise Research and Development Department was created in 1936 and by 1964 it employed 60 scientists.[271] In the

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[266] Notes by Lord Marks, 28/12/54 (M&S CR/C/2/80 Collated Business Reports 1950 - 1984) Author emphasis.

[267] "Marks and Spencer." Financial Times [London, England] 28 May 1927: 2. Financial Times. Web.

[268] 'The Principles of the Business' A lecture by Mr Marcus J. Sieff at Staff Supervisors' Meeting 25/2/1954 (CR/C/2/80 Collated Business Reports 1950 - 1984), Marcus J. Sieff, speech to external company c.1965 (CR/B/2/3 Israel Moses Sieff speeches and notes), Edward and Marcus Sieff, internal memo to Executive (21/2/69) titled "Achievement and Growth" (CR/B/2/2 Israel Moses Sieff: Business Papers).

[269] M&S A04/117 I Harvard Business School Case Study 1975, 36.

[270] Marcus J. Sieff, speech to external company c.1965 (CR/B/2/3 Israel Moses Sieff speeches and notes)

[271] Marcus Sieff, speech to external company c.1965 (CR/B/2/3 Israel Moses Sieff speeches and notes)

1950's, the in-house magazine included articles extolling the technical attributes of products under headings such as "A Million Air Bubbles under your feet - that's Micro-celluar" and "M&S Colour Matching Delighted the Experts."[272] Evidence from internal reports in the late 1920's and 1930's show that support functions regularly referenced technological improvements in their commentaries to the directors.[273]

Marks' reference to the importance of the "teamwork of Executive and staff" was also echoed in other sources. In a speech at the Royal Albert Hall in 1969, Marcus Sieff explained that it was achieved by developing good human relations which, they argued, also generated loyalty to the principles of the business, generated labour stability and acceptance of new and more modern methods.[274] Israel Sieff argued in another speech that the objective was based on the idea that theirs was "a very personal business" which put trust in their employees and treated them as individuals.[275] It was also reflected in the responsibility that the Executive put on themselves and Head Office colleagues to develop personal contact with store staff in order to improve communication and to get a better shared understand of the issues and opportunities that the business faced. As such, it was arguably the core element of the central M&S idea of 'probing' which emphasised that the only real way to understand the business was to visit stores and suppliers, talk to salesmen and women and personally inspect garments and produce.[276] M&S were also early and heavy investors in welfare which they believed fostered employee loyalty.[277] Later in his speech on the objectives of the business, Simon Marks

[272] *St Michael News* August and October 1955.

[273] "Confidential Report to the Directors on the Conduct of Administration" 1934, 1935, 1937, (E/7/24) and "Annual Report of the Chief Accountant", 1938, 1939 (M&S AO 5/413)

[274] Marcus Sieff in a speech given at the Royal Albert Hall in 1969 and reproduced by Harvard researchers (M&S A04/117)

[275] Israel Sieff speech to British-American Chamber of Commerce December 1965 (M&S CR/B/2/3 Israel Moses Sieff speeches and notes)

[276] 'Probing' is explored in more detail in the section on 'Evaluation' below.

[277] A welfare department was established in 1933 (M&S E/E1/3/2 Development of Organisation 1926 - 1948).

emphasised that "the loyalty and devotion of management and staff throughout the system" was one of the businesses greatest assets.[278]

The final 'great' asset explained by Marks in his speech was the "close and unique relationship which we have with our suppliers." The importance of these relationships was reflected in the first Annual General Meeting where the "Co-operation with British Suppliers" was one of the banner headlines in their presentation and it was also emphasised in Israel Sieff's speech at the meeting.[279] M&S had sought a different relationship with suppliers, working with them directly and cutting out the wholesaler.[280] Internal and third party sources support the close working relationship they had with suppliers. In 1951, in the notes of a confidential meeting between M&S and Corah, one of their largest suppliers, Corah recorded Sieff's closing statement:

> "The relationship between M. and S. and Corah was based on mutual confidence. There are no secrets between the two organisations and collaboration must be based on knowledge of each others problems. M. and S. having regard to their turnover would do anything possible to keep Corah's productive machinery working to capacity, and in turn Corah agreed to keep M. and S. in the forefront of competition."[281]

The relationships extended beyond knowledge sharing and manufacturing agreements. There is evidence that M&S were keen that suppliers adopted the same principles as themselves. Suppliers were expected to adopt a similar focus on technology and to promote human relations. They audited supplier employee welfare arrangements and they were also not afraid to chide them in their own

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[278] Notes by Lord Marks, 28/12/54 (M&S CR/C/2/80 Collated Business Reports 1950 - 1984)

[279] "Marks and Spencer." Financial Times [London, England] 28 May 1927: 2. Financial Times. Web. 4 Nov. 2016.

[280] This reflected the origins of the business as described above.

[281] From Corah company archives. "Confidential notes on meeting between Marks and Spencer's and Corah's, 1951" (University of Leicester archive RO/C19/1-3 [ROLLR: DE4788 Box 3])

magazine: “We tell all our Suppliers - our girls have this sort of welfare - what about yours.”[282]

Despite the considerable financial success of the business compared to both UK peer companies and US multiple store retailers, profit was rarely mentioned as the objective of the organisation. Rather, it appears that profit was both an in-put and out-put measure, necessary to fund the expansion of the business but also a consequence of leveraging their ‘assets’ as described above. Instead, the business, and Simon Marks in particular, seemed to be more driven by a determination to learn and to continually improve. Marcus Sieff, who joined the business in 1935, reflected that while the driving force of Simon Marks' life was improving the business “its mainspring was improving efficiency rather than making a fortune” and “nobody who observed him closely would say that these things (trappings of wealth) were anywhere near as important to him as the desire to run, and improve, a great enterprise which would benefit the public.”[283]

The desire for constant improvement is supported by Marks' actions. He was an active learner and expected the business to be so as well. He visited the United States in 1924 to learn “the chain store art” and was a frequent visitor after that.[284] In 1928, he went with Israel Sieff to “study merchandising anew.”[285] He made a further visit in 1932 and also toured France and Germany.[286] Sieff himself spent a month in the US working with General Wood at Sears in 1934.[287] Head Office managers visited the United States in the 1930’s to investigate further

[282] Minutes 5/11/69 and accompanying report (M&S E7/19 Corporate Governance Management Committee 1968 - 1972) and *St Michael News* August 1955.

[283] Sieff, *Don't Ask*, 146.

[284] Sieff, *Memoirs*, 142.

[285] M&S HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards (8/9/28)

[286] Reported at the AGM. "Marks and Spencer Ltd." Financial Times [London, England] 18 May 1933: 4. Financial Times. Web.

[287] Israel Sieff speech to British-American Chamber of Commerce December 1965 (M&S CR/B/2/3 Israel Moses Sieff speeches and notes)

opportunities for administrative improvement.[288] Internal reports presented to the Directors in the 1930's and 1950's specifically referred to the administrative improvements made year on year and the same reports referenced US magazines such as *Chain Store Age* as sources for ideas. Handwritten annotations in the reports, presumably written by one of the Directors, emphasised their own focus on administrative innovations.[289] In the 1950's and the 1960's, the drive for continual improvement led to "Operation Simplification" which reportedly eliminated the use of 26 million forms annually and was referred to in parliament and in a number of contemporary studies.[290] The idea that a business should focus so heavily on continuous learning and improvement does not seem particularly noteworthy but as some of the other case studies in this thesis demonstrate, continual improvement is not a normal state for mature organisations.[291] Derek Rayner, Managing Director, reflected in a speech in 1975: "We live in a world of change, yet the strongest force in a large organisation is inertia."[292]

[288] "Confidential Report to the Directors on the Conduct of Administration" 1937 (M&S E/7/24)

[289] "Confidential Report to the Directors on the Conduct of Administration for the Year." 1934, 1935, 1936, 1937 and "Annual report of the Chief Accountant" 1950 (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956), Annual Report of the Chief Accountant's 1938, 1939 (M&S AO5/413F)

[290] "Publicity relating to the Simplification of paper Work", September 1962. The most comprehensive report was completed by the 'Organisation and Methods Division of HM Treasury in collaboration with departmental Organisation and Methods Officers.' The Article was called "The Marks & Spencer attack on Paperwork" and was published in O&M Bulletin (Vol. 14, 1, February 1959 (M&S A04/117 K Various Papers and Speeches)

[291] As has been noted in several studies (Stinchcombe, *Social Structures;* Hannan and Freeman, *Organisational Ecology*; Kelly and Amburgey, *Orgainzational inertia.*

[292] "The War on Paper Bureaucracy" Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, on 22 May 1975 (M&S A04/117 K Various Papers and Speeches)

Organisation Structures

This section will consider how M&S structured its organisation and whether this was consistent with the objectives. It will also consider the extent to which the firm changed its structure, if at all.

Between 1920 and 1926, Marks led the business with little of the direct family support that he later relied on.[293] The sources suggest that Marks was keen to introduce new organisational structures and processes in the early 1920's. Sieff reported, as noted above, that Marks was concerned about the impact of Woolworths' business on M&S and toured the United States in 1924 to learn from the practices being developed there.[294] Sieff also reports that Marks was frustrated in implementing the changes by other members of the Executive. Sieff believed it was less about hostility to change and more due to ignorance.[295] Consequently, Marks persuaded Israel Sieff to join the company permanently in 1926. It was from 1926 that the business started to develop the organisational structures and processes that transformed the business.

The Board of Directors

Even after 1926, it is hard to determine how the Board was structured and operated, based upon the sources. There are few references to the structures for that period in the archive. This may reflect gaps in the archive but it may also reflect a relatively loose structure at board level and Simon Marks' own style of management.[296] There is some evidence to support this. It was not until 1964, just before Simon Marks died, that a formal Management Committee was set up comprising senior members of the Board (see below) with clearly defined responsibilities. Perhaps Marks saw no need for a formal structure at Board level

[293] Although Israel Sieff was nominally a director, he was based in Manchester involved in his own family business.

[294] Sieff, *Memoirs,* 142.

[295] Sieff, *Memoirs*, 147.

[296] Access to the Board minutes is restricted

to oversee operational issues while he was in charge and his relationship with Israel Sieff meant informal relationships were sufficient. Harry Sacher, a contemporary director, later recalled that Marks and Sieff were “a board in permanent session on the companies affairs.”[297] Sacher also recalled that on first coming to London, Israel Sieff lived with Simon Marks and together they continued to discuss business issues long after they returned home in the evening. Simon Marks also met Israel Sieff on his return from every business trip to discuss findings.[298] Detailed letters show that during the war, when Israel Sieff was called away from the business, Simon Marks wrote to Sieff explaining how the business was faring and the rationale for the decisions made.[299] Israel Sieff later commented that from 1926, “a business association of the very closest kind was formed between us, in which, for over forty years, neither of us had a cross word with each other.”[300] This may have been hyperbole as Simon Marks was said to have a challenging personality but the closeness of their relationship was evident to those who saw them together outside work. The autobiography of his step-nephew recalled that “Israel and Simon were like the Tweedles - Dum and Dee, Box and Cox. Simon loved Israel….. Israel worshipped and always acknowledged his (Simon’s) mastery.”[301] When Israel Sieff died in 1972, he was buried alongside Simon Marks and they share the same tombstone.[302]

The close relationship with Israel Sieff and with the other members of the extended family may well have influenced how performance was managed - formal structures could be by-passed or were not necessary when relationships were so close. Harry Sacher, who joined the Board in 1932, later recalled that these relationships, based as they were on complete confidence, understanding and collaboration, extended to new family members as they joined the Board and

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[297] Recollections of Harry Sacher in Rees, *St Michael*, 101.

[298] Recollections of Harry Sacher in Rees, *St Michael*, 101.

[299] Simon Marks to Israel Sieff. 2/10/40 (M&S CR/B/3/1/9) and 8/4/41 (M&S CR/B/3/1/54)

[300] Rees *St Michael,* 75.

[301] Blond, *Made in England*, 60. Blond was a publisher and author.

[302] Golders Green crematorium. (http://www.findagrave.com/cgi-bin/fg.cgi?page=pv&GRid=8244361&PIpi=749194)

was an important factor in the development of the organisation.[303] This was partly corroborated in comments made by Michael Sacher to Harvard researchers in 1975: "The family is a binding force in another way. Members of the family can talk to each other in a candid way that I find extremely difficult to discover with professional managers."[304] Even after Marks' death, the Board was still controlled by the family. In the early 1970's, there were 22 directors but the Harvard researchers noted that it was a smaller group of 'Managing Directors' who met every Monday before the wider Board meeting to discuss the results and this smaller group continued to be dominated by family members.[305]

Table 2.4 shows the composition of the Board at the end of each decade. It shows that family members dominated the Board throughout the period, even more so when it is restricted to executive board members (Amery, Benson and the Marquess of Blandford were non-executive directors). Where non-family members were admitted to the Executive Board, they typically had had a long relationship with the firm. WF Norris, who became a director in 1950, was the son of Michael Marks' warehouse manager at the turn of the century. Lewis and Rayner, appointed in the late 1960's, had joined as management trainees in the early 1950's.[306] B Goodman, the Chief Accountant, had joined the company in 1932 before becoming a Board member in 1952.[307]

There is some evidence that appointment to the Board was determined by personal qualities and overall knowledge of the business rather than role alone. After Goodman retired in 1974, his successor was not immediately appointed a 'Managing Director'.[308] In the Harvard research, Gabriel Sacher explained that a

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303 Recollections of Harry Sacher in Rees, *St Michael*, 101.

304 M&S A04/117 I Harvard Business School Case Study 1975

305 Four out of six were family members. The other two were former graduate trainees who had joined the firm in the 1950's (M&S A04/117 Harvard Business School Case Study 1975)

306 Sieff, *Don't Ask*.

307 Rees *St Michael*, 138

308 Although he was one of the 22 directors. (M&S A04/117 I Harvard Business School Case Study 1975)

board member's primary expertise had to be in 'M&S'.[309] Managing Directors also assumed many functional roles over their careers, often at the same time. In the late 1950's for example, Marcus Sieff was simultaneously responsible for Store Operations, Personnel and Food.[310] From a PMM perspective, this suggests an important principle - for a Board member, overall knowledge of the business was more important than functional specialisation. Consequently performance management of the *overall* business was more important than performance management of a particular department/ function.

Table 2.4: Board of Directors

1930	1940	1950	1960	1970
Simon Marks	**Simon Marks**	**Simon Marks**	**Simon Marks**	**Israel Sieff**
Israel Sieff	**Israel Sieff**	**Israel Sieff**	**Israel Sieff**	**J. Edward Sieff**
A. Isaacs	**N. Laski**	**N. Laski**	**J. Edward Sieff**	B.W Goodman
JL Green	**H. Sacher**	**H. Sacher**	B.W Goodman	W. F Norris
N. Laski	L.S. Amery	L.S. Amery	E.W. Kann	**Marcus Sieff**
R.F Norland	C.E Benson	C.E Benson	**N. Laski**	**Michael Sieff**
	Marquess of Blandford	Marquess of Blandford	**A. Lerner**	J Lewando
	J. Edward Sieff	**J. Edward Sieff**	W. F Norris	**M. Sacher**
		A. E. Lees	**H. Sacher**	**G. Sacher**
		W. F Norris	**Marcus Sieff**	**G. D Sacher**
		Michael Sieff	**Michael Sieff**	H. N Lewis
				H Freeman
				D Rayner

Names in bold were members of the extended Marks family

Source: Annual reports and Financial Times reports on the Annual General Meeting.

The sources lack any description of how the Executive Board operated or structured their work. Formal Board meetings were a statutory requirement but it is not clear how important they were in the on-going running of the business. There are very few references in the sources to these meetings and they may, like many

309 Interview with G Sacher. (M&S A04/117 I Harvard Business School Case Study 1975)

310 Sieff, *Don't Ask* 138.

businesses, been used just for statutory formalities. Operationally, Simon Marks and Israel Sieff had met daily before the war and Marcus Sieff referred to regular meetings of the senior directors from at least the 1950's including a scheduled meeting every Monday morning which Simon Marks dominated (see below). Further formal structure did not materialise until 1964, 8 months before Marks' death, when a Management Committee was created under Israel Sieff. It comprised each of the Managing Directors. Their responsibilities covered what might be expected in a performance oriented committee such as the review of forecasts, targets, budgets and the 'progress' of departments and stores. However, their role also explicitly included activities consistent with the wider company objectives and demonstrated the engagement of directors in the details of running the business:

- "To maintain contact with our leading manufacturers."
- "To receive reports from Technicians. To encourage them in the upgrading of the St Michael goods and in the development of new materials and lines."
- "To review the number of store staff, their working conditions, rates of pay, recruitment and training."[311]

Memos towards the end of the decade suggest the committee remained true to these responsibilities. Based on minutes of meetings, they discussed topics which ranged from the "The Role of the Food Technologist", how to run a week-end seminar with suppliers and store manager requirements over the next 5 years.[312]

Head Office Structures

Below the Board, formal organisation structures developed rapidly before the war. The size of the business grew significantly. Growth was accompanied by rationalisation of the product range and the introduction of new processes which

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[311] Memo 8/4/1964 "The Role of the Management Committee" (M&S CR/B/2/2 Israel Moses Sieff: Business Papers)

[312] Memo 25 January 1969, minutes of meeting 4 August 1969, Report September 1969 (M&S E7/19 Corporate Governance Management Committee 1968 - 1972)

Marks had copied from his American trips.[313] Existing departments grew to accommodate the increased workload. The Statistics Department, for example, grew from 26 people in 1934 to 57 in 1939.[314] Departments were also created reflecting a professionalisation of the organisation with new departments opening almost every year in the in the 1930's. Table 2.5 shows a list of the departmental changes that took place between 1930 and 1940. It highlights the pace of the reorganisation and restructuring.

Table 2.5: Organisational Changes 1930 - 1940

Year	Department
1931	Printing Department created
1932	External Administration Department created
	Legal Department created
1933	Welfare Department created
	Merchandising Committee created
1934	Personnel Department created
	New Equipment and Supply Department created
1936	Merchandise Development Department created
	Personnel and Welfare Departments reorganised and merged
1938	Organisation Department reorganised
	Designing Department created

Source: Development of Organisation 1926 - 1948 (M&S E/E1/3/2)

By 1937, the Head Office Structure comprised a Board of Directors supported by:

- *Merchandise Committee*. Comprised of 6 members who were responsible for the 23 buying departments. The Chairman was J. Edward Sieff.
- *Merchandise Development and Research Department*. It's role was to "assist our manufacturers to create still better values for the benefit of our customers. It investigates new materials and new processes in order to adapt them to the

[313] For example, the Checking List was introduced in 1928. Development of Organisation 1926 - 1948 (M&S E/E1/3/2)

[314] M&S AO5/413F Annual Report of the Chief Accountants 1939 (March 1940)

goods we sell and to develop new types of goods which can be produced at favourable prices."[315]

- *Organisation Department*. The department comprised 6 Inspectors with Norman Laski as Chairman. The department was responsible for controlling store operations. The department underwent a reorganisation in 1938 and 1941 (see below).
- *External Administration Department*. Maintained control over branch administration. It comprised branch accountants, cashiers, stock takers and in-store detectives. The branch accountants were expected to visit all of the stores several times a year and conduct two audits of the administration of the stores.[316]
- *Administrative Department*. Comprising:
  - Statistics Department responsible for the provision of both financial and non-financial data.
  - Accounting Department which not only maintained the accounting records but was also responsible for monitoring and controlling store expenses.
  - Accounting Research Department which conducted research into the profitability of merchandise departments as well as investigations into retail structures and equipment. The department merged with the Accounting Department in 1938.
- *Personnel and Welfare Department*. Its role included recruitment, training of managers and supervision of in-store training, maintaining staff records, setting quotas (for store labour), managing medical and other welfare services and reporting.[317]
- *Development Department*. Responsible for new stores and extensions.
- There were also a number of smaller departments: the Store Order Placement Department, Building Maintenance Department, Maintenance Department and Equipment Department.

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[315] Announcement at 11th AGM. "Marks and Spencer." Financial Times [London, England] 29 May 1937: 4. Financial Times. Web.

[316] "Annual Report of the Joint Secretary and Chief Accountant 1934" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[317] "Annual Report of the Joint Secretary and Chief Accountant 1937" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

The sources suggest that there was some internal criticism of how effectively the pre-war Head Office structure operated, particularly in the Administrative areas. The Chief Accountant included a section in his 1939 report titled “Executive Control” which highlighted the lack thereof. The primary concern was the lack of co-ordination between departments and the lack of any structure to facilitate this. He wrote that “Committees have from time to time been set up to act as an executive body, but as often they have functioned for a short period and fallen into desuetude.”[318] This may have been a consequence of the rapid growth in Head Office during the 1930’s but may also have reflected the hands-on approach of Marks and Sieff which made it difficult to build an accountable structure below them.

The structure appears consistent with the objectives of the business set out in the previous section. Consistent with a focus on product and value for money, the Merchandise departments appear to be the dominant department (over the stores - this is the opposite of Boots). Membership of the Merchandise Committee included the future leaders of the business; of the six managing directors under Israel Sieff when he became Chairman in 1964, four had been on the Merchandise Committee in 1938.[319] Even in 1974, the two joint managing directors (Henry Lewis and Sir Derek Rayner) retained responsibility for the merchandising departments while Store Operations was run by a director, one level below.[320]

Furthermore, the existence of The Merchandise Development and Research Department and the Personnel Departments reflected the importance the firm placed on relations with suppliers and with their own employees. The Merchandise Development and Research Department also demonstrated the importance of research but this stretched to other departments - there was a Research

[318] M&S AO5/413F Annual Report of the Chief Accountants 1939 (March 1940).

[319] JE Sieff, MJ Sieff, MD Sieff, WF Norris. BW Goodman was the Chief Accountant in 1938 and Dr A Lerner, married to Hannah Marks (daughter of Simon Marks) joined the firm after the war (M&S E7/2/1/17 Corporate Governance 1939).

[320] M&S A04/117 I Harvard Business School Case Study 1975

Department within Accounting who investigated both process and hardware improvement.[321]

If new departments created in Head Office during the 1930's reflected the priorities of the business, the weaknesses of this highly centralised and control focused approach were evident in the structures which managed the stores. In Head Office, the Organisation Department, External Administration Department, Personnel Department and Administrative Departments all had some responsibility for store operations. The former two with 'Inspectors' and 'Auditors' highlighted a 'control' rather than 'management' bias.[322] Reporting into the 'Organisation Department' were regionally based Supervisors and the only description of their role (1928) highlighted the importance of checking compliance in store and seeking approval from Head Office for changes to staffing or merchandising.[323] Even the name 'Organisation Department' suggests a focus on process, structure and compliance rather than on driving sales and profit.

The weaknesses were recognised in the business. An internal review in 1937 reflected that "up to the present time, the division of our stores into Areas for the purpose of control by Supervisors, Branch Accountants, and other specialists was chaotic."[324] The consequent reorganisation was implemented on the 1st of January 1938 but continued to emphasise the importance of controlling the store operations.[325] A further review was undertaken within the year. The second review highlighted how slow decision making was in stores as Head Office approval was required for even local repairs or local personnel issues. A radical proposal was presented to the Board which would have decentralised power from Head Office to

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321 M&S AO5/413F Annual Report of the Chief Accountants 1939 (March 1940).

322 "Annual Report of the Joint Secretary and Chief Accountant 1937" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

323 M&S HO/3/2/2/1/18 Memos re Organisation of Work and Staff and Supervisors' Duties 27 February 1928

324 "Annual Report of the Joint Secretary and Chief Accountant 1937" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

325 "Annual Report of the Joint Secretary and Chief Accountant 1937" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

a smaller number of new 'Regions'.[326] The proposals were not implemented, or at least not immediately nor in the form proposed. Store operations were not decentralised until 1941 and partly a consequence of the war as departments were transferred from London. Rather than Regions, the country was split into Divisions and led by a ‘Superintendent’ rather than a ‘Manager’. Each Division included an Accountant, Staff Supervisor, Catering Supervisor and Stock taker.[327] It is not clear how many Divisions were created but in 1950, there were 13 reporting into a Store Operations Department.[328]

Compared to both Boots and WH Smith, stores were very much the junior partners to Head Office. While in Boots, Territorial General Managers provided the link, transferring information both ways, in M&S, the role was more compliance based. However, it is unlikely that this was because the information flowing from the stores was considered less important but rather that there was more overt responsibility for Head Office managers, including the directors, to source the information directly themselves from the shops. This became even more evident after the war.

The organisation structure which emerged after the War was, at least broadly, the structure that the business retained for the next 30 years. During the War, a number of departments were relocated from London to spread the risk of war damage. Administration was reduced as processes were changed and distribution was centralised - previously stores ordered what they believed was required but limitations in supplies from manufacturers necessitated a ‘push’ system to ensure that all stores received some product.[329] Simon Marks viewed many of these developments as positive but his biggest concern was the loss of communication between the various departments - Supervisors (later renamed Superintendents)

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[326] “Special Report of the Joint Secretary and Chief Accountant October 1938” (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[327] Development of Organisation 1926 - 1948 (M&S E/E1/3/2)

[328] “Annual Report of the Chief Accountant 1950” (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[329] Letter Simon Marks to Israel Sieff on how war affecting the business 8/4/41 (M&S CR/B/3/1/54)

were "missing the opportunity of visiting Head Office and obtaining at first hand current information," while senior managers struggled to maintain direct contact with the Stores. Given his hands on approach and own involvement in understanding performance, his concluding comments suggest a personal frustration.

> "Similar remarks apply to the Administration, where there is little interference with the routine work flowing through the department but the great difficulty is in keeping abreast with their problems and obtaining sufficiently quickly information which is of considerable importance in forming policy."[330]

After the War, as the scattered departments returned to London, a structure emerged which endured over the following 30 years. Operating under an Executive Board, the rest of the business was run through six broad departments (referred to as Groups).[331]

- Merchandising
- Store operations
- Property management
- Administration and accounting
- Personnel
- Other service department.

The Merchandise Departments underwent some reorganisations but from a performance management perspective, their responsibilities appeared to change little over the 30 year period. Run by a director (who reported into a Managing Director), each division included a number of operational roles (buyers, merchandisers) supported by an Administration Manager, Distribution Manager and a Sales Manager. It was the Sales Manager who provided the link between Head Office and the stores. Their primary responsibility was to improve personal

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330 Letter Simon Marks to Israel Sieff on how war affecting the business 8/4/41 (M&S CR/B/3/1/54)

331 "Annual report of the Chief Accountant" 1950 (E7/24 Corporate Governance, Internal Reports 1934 - 1956) and Rees (1969) p. 149. Rees notes that some of these included several departments but does not quote his sources.

communication between the stores and Head Office and they achieved this through meetings in the regions, hosting store managers in Head Office and conducting store visits with the regional management teams.[332] In both Boots and WH Smith, the responsibility for liaising with Head Office remained in the regions.

In the Administration Departments, Accounting continued to provide statistics and accounting support and their responsibilities changed little. They were supported by a “Research Co-ordination Department” created in 1944. Based upon the description of their activities, the focus of the new department was performance oriented - investigation and analysis rather than data provision. It conducted ad hoc investigations at the request of senior management and produced routine reports for the Board and certain senior executives. They were outward looking providing economic and competitor information and future focused with an explicit responsibility to supply information on retail management developments as well as economic and technical issues.[333]

The organisational structure also continued to reflect the key objectives of the organisation. The Personnel Department continued to provide welfare support, particularly focused towards the store staff, as well as responsibility for recruitment and training. In 1974, as in 1939, they had a secondary responsibility for the staff manageresses in each store who focused primarily on the welfare of the employees.[334] In terms of supplier relations, the Merchandise Development and Research Department was expanded soon after the war. By the mid-1960’s it employed 60 scientists and qualified technologists.[335] A Production Engineering Department was created in 1947 which similarly sought to help manufacturers but this time focused on their manufacturing capability rather than their products:

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[332] Article titled “probing for the facts” c. 1959. (HO/3/2/2/3/83 Staff Management News) and Memo 1 November 1971 “Merchandise Knowledge in Stores” (E7/19 Corporate Governance Management Committee 1968 - 1972)

[333] “Annual report of the Chief Accountant” 1950 (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956). The role included circulating American trade magazines.

[334] M&S A04/117 I Harvard Business School Case Study 1975

[335] Speech by Marcus Sieff to an unknown external audience c. 1965 (M&S CR/B/2/3 Israel Moses Sieff speeches and notes)

> "The department was designed to assist our manufacturers in the progressive modernisation of their plant, and to adapt themselves to the latest technical advances. Production engineering may seem a surprising activity for a retailer, but we found it absolutely essential to create a department capable of advising our manufacturers on factory administration, lay-out and production problems. This approach is an important aspect of our campaign to achieve better and better values."[336]

In 1970, they remained active conducting audits of suppliers and their manufacturing capabilities.[337]

In the stores and after the reorganisation in 1941, there are few references in the sources to the Divisional structures. A description provided by Harvard researchers in 1974 suggests little change to the structure in the intervening years with the number of Divisions (11) barely unchanged from 1950 (13). As before, the Divisional Superintendent was supported by a Divisional Administrator and a Divisional Staff Supervisor who also had a dotted line into their respective Head Office departments. The lack of references to the Superintendents in minutes of meetings (where access is available), speeches and memoirs contrasts sharply with Boots (Territorial General Managers) and WH Smith (Superintendents/ Area Managers). It may partly have reflected their role. At M&S, they were described as 'the company's representative in the field'.[338] They were there to ensure policy was implemented and store managers managed rather than a conduit for information flowing upwards into Head Office and a driver of sales. As already noted above, that role was assumed by the Sales Managers in the Merchandising Departments who resided in Head Office. And, in terms of information flowing into Head Office, Marks and Sieff made it quite clear that this was important, it was just that they

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336 Speech by Lord Marks of Broughton (Hansard: House of Lords Debate 12 July 1962 vol 242 cc 393-452)

337 Minutes 5/11/69 (M&S E7/19 Corporate Governance Management Committee 1968 - 1972)

338 M&S A04/117 I Harvard Business School Case Study 1975

expected senior managers to get this information themselves from the stores and store staff![339]

Processes

The next sections review the performance management processes operated by M&S over the period. Three broad groups of processes are analysed: those that focus on future performance (planning, targeting, forecasting), those that focus on evaluation of performance and finally, those that focus on motivating and rewarding performance.

Looking at the period as a whole, senior management had an apparent ambiguous attitude towards the formal core performance management processes. On the one hand, the business was keen to learn from the best practices of chain store retailers elsewhere in the World, particularly the United States, and introduced formal and extensive processes from the mid-1920's. Marks visited the United States in 1924 to understand the methods and structures used by peer companies.[340] He undertook further trips in the late 1920's and in the 1930's as well as visiting retailers in continental Europe.[341] Senior managers also visited the United States to improve the organisations understanding of both process and administrative technology in the 1930's.[342] American chain store journals such as Chain Store Age were circulated and summarised for senior managers in the

[339] See the paragraphs on 'Evaluation' below.

[340] Israel Sieff speech at the British-American Chamber of Commerce Luncheon December 1965 (M&S CR/B/2/3 Israel Moses Sieff speeches and notes)

[341] HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards, 1933 Annual General Meeting "Marks and Spencer Ltd." Financial Times [London, England] 18 May 1933: 4. Financial Times. Web.

[342] Including Israel Sieff in 1928 and 1934 where he worked in Sears (CR/B/2/3 Israel Moses Sieff speeches and notes), one of the Administration team in 1935 ("Confidential Report to the Directors on the Conduct of Administration for the Year 1935") and JA Berger (Chief Accountant) in 1938 ("Special Report of the Joint Secretary and Chief Accountant October 1938" - (E7/24 Corporate Governance, Internal Reports 1934 - 1956)

1930's and the 1950's.[343] Many new processes were introduced. The "Checking List", an idea copied from Woolworths, was first used in 1928 and, albeit in a modified (but recognisable) form, was still in use in the 1970's.[344] The relatively early introduction of budgeting, rapid development in statistical reporting and comprehensive procedures manuals are all indicative of a process oriented business keen to implement the best practices from peer companies. They also suggest a highly centralised, paternalistic organisation which sought to maintain *control* over operations spread geographically across the country.

However, through speeches, memos and even handwritten comments in the margin of reports, the managing directors consistently railed against bureaucracy and the blind following of formal processes and standard measures to understand and manage performance. Three times in the sources and across the decades (1928, 1954, 1969) there are references to the "unseeing eye" and the response ('probing') was a constant refrain from the mid-1950's onwards.[345] There is also evidence that the business sought to simplify its business with decentralisation in the late 1930's, Operation Simplification in the 1950's and 'Good Housekeeping' in the early 1970's all of which sought to eliminate some of the processes (and as a consequence the data the processes provided).[346] In terms of managing performance, the friction between corporate processes and individual responsibility, between formal systems and informal practices is evident across all of the case studies but it was in M&S that it was most publicly aired.

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[343] "Confidential Report to the Directors on the Conduct of Administration for the Year 1935" and "Annual Report of the Chief Accountant 1950" (E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[344] Development of Organisation 1926 - 1948 (E/E1/3/2) and A04/117 I Harvard Business School Case Study 1975

[345] Weekly Bulletin 25 October 1928 (HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards), "Notes by Lord Marks 1954" (CR/C/2/80 Collated Business Reports 1950 - 1984) and Marcus Sieff memo 21/2/69 (M&S CR/B/2/2 Israel Moses Sieff: Business Papers).

[346] "Special Report of the Joint Secretary and Chief Accountant October 1938" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956); M&S A04/117 K Various Papers and Speeches); M&S A04/117 I Harvard Business School Case Study 1975.

Planning for the future: strategic planning, budgeting, forecasting and targeting

This section will explore the processes that M&S used to plan for the future. It will consider whether they were consistent with the objectives and how they were converted into measurable targets or budgets.

There are no references to any formal strategic or operating 'plan' in speeches or memos. The archives do not refer to any corporate plans before 1985 - well after both Boots and WHS.[347] However, despite the lack of any apparent planning processes, the consistency of the actions undertaken suggest that M&S had a clear idea of its 'strategic' objectives from the mid-1920's onwards and successful methods for implementing them over long periods of time. Two examples help to illustrate it.

> In store development, following his return from the US in 1924, Simon Marks sought to convert a chain of small shops and bazaars, primarily leased, into a business of large stores with the land owned or subject to long leases. Financed by the capital raised through incorporation in 1926 and subsequent share issues in the 1930's, the business consistently extended existing stores and opened new ones. Of the 236 stores in 1939, 218 had opened since 1926 and the business also undertook 184 extensions. Between 1928 and 1939, counter footage increased from 38,034 sq. ft. to 229,161 sq. ft.[348] Following the ending of building restrictions in the 1950's, there was a deliberate change in 'strategy' with a focus on extensions rather than opening of new stores.[349] The number of new stores grew only marginally from 237 stores in 1960 to 251 in 1974.

[347] The documents in the archives are 'closed'.

[348] Store opening and extensions are not mutually exclusive. (AO5/413F Annual Report of the Chief Accountants 1939)

[349] Explained to the Financial Times. "Marks & Spencer Building Plans." Financial Times [London, England] 9 Mar. 1960: 11. Financial Times. Web.

However, selling space grew by nearly 100% over the same period.[350]

In simplifying the product portfolio from the late 1920's, Marks rationalised the number of departments, closing down those which did not generate a sufficient return from the counter space they occupied. It was a gradual process based upon accumulating data on product level sales and counter space using the newly introduced 'Checking List' to analyse and rationalise over the following 20 years. Of the goods listed in the 1926 prospectus, 70% had disappeared by 1932.[351] Over the rest of the 1930's and into the 1940's, departments were closed down including stationery, enamel and hardware (1935), haberdashery (from 1936), gramophone records and aluminium-ware (1948).[352] By 1950, sales outside the core textiles and food divisions had fallen from 31% in 1933 to 12% in 1950.[353]

These are just two examples. Traces of longer term planning are evident in the development of administrative functions in the 1930's and 1940's consistent with a focus on supplier development (Merchandise Research and Development Department in 1936, Production Engineering Department in 1947) and employee relations (Welfare Department in 1933 and Personnel Department in 1934).[354] Within the departments, reports produced by the Chief Accountant and the Merchandise Departments in the 1950's illustrate the emphasis the directors placed on future planning. Unlike the organisational inertia that affected other firms in this review, M&S seemed to follow a clear plan despite the lack of any formal processes to produce or communicate it.

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350 From 2.8m sq. ft. in 1960 to 5.5m sq. ft. in 1974. From Financial Times ("Marks & Spencer Building Plans." Financial Times [London, England] 9 Mar. 1960: 11. Financial Times. Web and Harvard review (M&S A04/117 I Harvard Business School Case Study 1975)

351 Rees, *St Michael*.

352 Development of Organisation 1926 - 1948 (M&S E/E1/3/2)

353 "Annual Report of the Chief Accountant 1950" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

354 Development of Organisation 1926 - 1948 (M&S E/E1/3/2)

At an operational level, the sources suggest that M&S was an early adopter of budgets and targets albeit those terms were not used until later. Early adoption partly reflected Simon Marks' own focus on organisational development in the 1920's but also the nature of the business; M&S was a highly centralised and paternalistic organisation having to manage geographically dispersed operations.

The Weekly Bulletin, a magazine sent to stores at the end of the 1920's until the early 1930's, described 'stock credits' supplied by Head Office which managers had to comply with. These determined the maximum stock they could hold although they had the freedom to determine the mix of stock.[355] The stock credits formed the basis for the budgets the managers created and which helped them identify the 'fast sellers' which drove performance.[356] Managers were also expected to plan staff requirements but their freedom was limited and any increase required authorisation from Head Office.[357] By 1934, store headcount, like stock was subject to a 'quota' provided by Head Office (Personnel Department).[358] The calculation was based on the level of sales and the size of the store subject to the the advice of the Divisional Superintendent.[359]

Although stores and departments may have developed their own budgets in the early 1930's, a consolidated budget probably existed from 1939 when "the preparation of budgets and estimates" was added to the list of the Accounting Departments activities.[360] In the same year, the business began reporting consolidated expenditure against estimates. By the end of the war, budgeting and

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355 *Weekly Bulletin* 20/08/27 (HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

356 *Weekly Bulletin* 28/11/28 (HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

357 HO/3/2/2/1/18 Memos re Organisation of Work and Staff and Supervisors' Duties (27/2/28)

358 "Confidential Report to the Directors on the Conduct of Administration for the Year 1934 (E7/24 Corporate Governance, Internal Reports 1934 - 1956)

359 Personnel and Welfare Manual (Q/Q1/3/1).

360 First reference to a store budget is in a 1928 *Weekly Bulletin* article. Departmentally, in the 1937 AGM, Marks referred to a welfare budget of £100,00. ("Marks and Spencer" Financial Times [London, England] 29 May 1937: 4. Financial Times. Web. 10 Nov. 2016. Accounting Department responsibilities listed in AO5/413F Annual Report of the Chief Accountants 1939

targeting was extended to sales with merchandising managers presenting their proposed targets to the Board following which they were required to build their plans covering the following 12 months.[361]

Budgeting continued to evolve over the following 25 years. By the early 1960's it was a central part of the newly formed Management Committee's activities.[362] Departmental budgets were highly detailed, based upon the anticipated sales of each line.[363] By the end of the decade, the business had weekly estimates for sales and stock and quarterly targets built into the 'Checking Lists'.[364] If these were used to motivate performance, it is not clear from the sources. The emphasis seemed to be on control with the Management Committee responsibilities focused on using budgets to control costs and manage levels of stock in both stores and departments.[365]

Evaluation

This section examines both the formal and informal processes that M&S used to evaluate the performance of the business and of the employees.

Even before 1928, there were formal processes in place to evaluate the performance of the stores. *The Weekly Report* refers to a 'Weekly Departmental Sales Report' and a 'Weekly Report Merchandising' which managers had to complete. The former included departmental sales and space utilisation. In the latter, managers explained unusual movements, identified fast selling lines and highlighted 'items of interest to other branches.'[366] Managers were also reminded

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361 Rees *St Michael*, 150.

362 Memo 8/4/64: "The Role of the Management Committee (CR/B/2/2 Israel Moses Sieff: Business Papers)

363 Memo 6/2/64: "Highlights of a Department should include" (CR/B/2/2 Israel Moses Sieff: Business Papers)

364 Minute 21/0170 (E7/19 Corporate Governance Management Committee 1968 - 1972)

365 Their responsibilities were listed under the heading "Forecasting and Budgetary Control" in a memo (8/4/64): "The Role of the Management Committee" (CR/B/2/2 Israel Moses Sieff: Business Papers)

366 *Weekly Report* 20/08/27 (HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

about the importance of discussing performance with their area Supervisors, employees and peers. The knowledge of their salesgirls was emphasised: “Salesgirls are constantly in touch with the public, they hear the comments of purchasers and obtain a pretty good idea as to colours and sizes as well as the type of articles which are most in demand.”[367] The biggest sin was the “unseeing eye” - managers failing to see what was going on in their business and passing insights on to Head Office.[368]

The ideas on performance evaluation expressed in the first few copies of the *Weekly Bulletin* remained remarkably consistent through to the 1970’s and applied to both Head Office and store managers. They are also ideas consistent with PMM practices in both Boots and WHS. Standard reports were important but they couldn’t replace a personal understanding of the drivers of performance and the actions that then flowed. Nearly 30 years later Simon Marks wrote that “unseeing eyes and deaf ears have no place in our organisation” and introduced the idea of ‘probing’ which became the dominant motif of M&S’ approach to performance evaluation over the next 30 years.[369] His memo was reissued to senior management in 1979. It was not a rejection of formal reports and statistics but rather a recognition that they were not (and in their opinion could never be) sufficient to understand the performance of the business.

Formal evaluation

Formal performance reporting and presumably performance evaluation was transformed in 1928 by the introduction of the “Checking List.’ Described in an internal magazine in 1960 as the “most important document in the business”, the contents changed little over the period.[370] Table 2.6 shows the contents of a

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367 *Weekly Report* 21/01/28 (M&S HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

368 *Weekly Report* 25/10/28 (M&S HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

369 Simon Marks memo 28/12/54: “Thinking about the Business.” (M&S CR/C/2/80 Collated Business Reports 1950 - 1984)

370 M&S HO/3/2/2/3/83 *Staff Management News*: Selected articles 1950 - 1969

checking list in 1938, 1958 and 1974. It demonstrates that the business focused on the same core measures over the period. It also shows the level of detail that was analysed - item level.

Table 2.6: Checking List contents 1938 to 1974								
Year	**Checking List**	**Measures**						**Period**
1938 (3 Sep.)	*Store Checking List* (Cardiff). By item: 'Small Women's/ Woolen/ Long Sleeves'	Selling Price	Sales value (£)	Stock invoiced value (£)	On order up to and including last Sat. (£)	This week's order value (£)		Weekly
1958 (16 Aug.)	*Store Checking List* (Liverpool). By item 'Ladies skirts and slacks/ Terylene/ Black split to waist/ size'	Selling Price	Sales (£)	Stock (£)	Und' d orders (£)	Stock and und'd orders (singles) by size	Sales: estimate 10 weeks to 25 Oct. and last year. Stock target 27 Sep.	2 weeks
1974 (30 Dec.)	*Stock Checking List Summary Children's Hosiery*. By item 'knee nylon socks/ white'	Selling Price	Sales (£)	Stock (£)	On order	Stock at mfrs.	Productio n planned next 8 weeks	5 weeks this year and last year
Sources: 1938 and 1958 (M&S E13/7 Statistics 1930 to 1988), 1974 (M&S A04/117 I Harvard Business School Case Study 1975)								

In 1936, the annual report by the Chief Accountant referred to the reports generated. He noted that the Statistical Department produced 10 separate weekly reports as well as a number of monthly and ad hoc reports. In addition to these reports, the Financial Accounting Department produced monthly management accounts and there were regular reports produced by the Administration, Personnel, Welfare, Merchandising and Technology Departments.[371] Very few of the reports and those that followed in the later decades have been retained and there are few indications of who they were circulated to nor how the Managing Directors reviewed them. However, based on the few that are available, a number of common themes emerge:

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[371] "Annual Report of the Joint Secretary and Chief Accountant 1936" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

(1) The Managing Directors were keen to understand the detail. The directors still received “Checking Lists’ in the 1970’s which included item level performance.[372] Regular reports switched between summary and detail including total annual sales to the results of individuals stores or specific weeks in the same report. A sentence from a merchandise development report shows the amount of detail that the directors received: “Seventeen different shades of Ives’ cloths, mostly 1275 and 1814, have been examined, i.e. approximately 110 dyeing, and some of these include as many as eleven deliveries per shade. Of these, approximately ten or eleven dyeings have been rejected, but this includes five of the shade D.175 which are all bad.”[373]

(2) The Managing Directors engaged with a broad range of topics beyond their own areas of expertise. A single report for the Managing Directors, particularly in the 1930’s, could cover summary reports from each of the Finance, Personnel, Welfare, and Administration Departments. Accompanying statistics included both financial and non-financial information. A single commentary could range from the explanation of the financial results through to technological developments in their department.[374] These reports went to all of the directors and not just those directly responsible for the departments.

(3) There was a lack of uniformity. For an organisation which introduced and revised processes regularly, the reports were relatively free flowing and commentaries reflected personal opinions. Authors were always identified (and sometimes signed the reports). Alongside analysis of the financial performance of the business, topics in the Chief Accountants report in the 1930’s ranged from personal opinions on the merits of an external consultants report, the need to examine the chain store system in the United

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[372] M&S A04/117 I Harvard Business School Case Study 1975

[373] Development Report 1950 (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[374] E7/24 Corporate Governance, Internal Reports 1934 - 1956; “Review of Manufacturers” 7/10/70 (M&S E7/19 Corporate Governance Management Committee 1968 - 1972).

States and the poor quality of the organisation structure.[375] A development report in 1950 included financial results from only one department and the presentation style varied by department.[376] It was not until 1964 that the Management Committee specified what should be included in “Departmental Highlights” reports but even then, managers were given considerable freedom on the exact contents.[377]

It is also not clear whether the review of these reports were part of routine performance management meetings or reviewed on an ad hoc basis. Much like in Boots, the only references to regular meetings were the weekly performance reviews which took place every Monday. The nature and content of the meeting support the idea that directors were required to focus on the detail and expected to have a broad understanding of performance.

Marcus Sieff described a formal meeting of the Managing Directors every Monday morning from at least the 1950's to review the performance of the business.[378] While he was Chairman, Simon Marks dominated the meeting, highlighting the issues he had identified in the previous week in his visits to the Head Office departments and stores. The emphasis was on the quality of the products. He was particularly concerned with breakdowns in processes which allowed poor quality products to be sold in stores.[379] Based on the Harvard case study and Sieff's memoirs, the process appears to have changed little over the following 20 years although the style did - less autocratic by the 1970’s with all directors sharing their views.[380] Although all participants at the Monday meeting (8.30am) in 1974 had sales and stock figures available before the meeting, no mention was made of them in the transcript of the meeting. Discussion was future focused. Topics were

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375 Annual Report of the Chief Accounts (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956).

376 Development Report December 1950. (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956).

377 Memo 4/3/64 (M&S CR/B/2/2 Israel Moses Sieff: Business Papers).

378 Sieff, *Don't Ask*.

379 Sieff, *Don't Ask*.

380 Sieff, *Don't Ask*.

wide ranging, issue based and reflected personal experiences. Quality remained a central part. For such a senior group, detail was important as the following exchange at one of the meetings demonstrates:

> J. Edward Sieff: "I ran across a fabric yesterday, 5-8. I think its inferior. I hear our people saying it's lousy. It may be an achievement for technology but not for women. And ICI is pushing it.
> Sir Marcus Sieff: "Are we telling them."
> J. Edward Sieff: "We have a meeting Thursday."[381]

While the principal focus was on short term issues, they also switched to the longer term and at the same meeting as the above extract, they also discussed the key merchandising priorities for the following year.

Issues raised and decisions made in the meeting were then cascaded to the directors at a meeting which followed immediately afterwards (10.00am). The same Managing Directors were joined by the directors and other senior executives, a total of 25 to 30 people. The performance issues were similarly wide ranging including how the Chairman personally dealt with complaints. Directors took the feedback to their own teams for further cascade.

The meetings seemed to lack structure and were based on personal experiences as much as data. However, it was remarkably similar to the equivalent Monday morning meeting and subsequent cascade held at Boots. That meeting also had a long history, taking place from 1920. It too focused on short term and long term issues. It too considered very detailed issues raised through store visits and the findings of each of the Territorial General Managers. The Harvard researchers do not comment on the effectiveness of the meetings but at Boots, a 1966 report by Peat Marwick were highly critical of the lack of structure in the meeting. However, the long history and similarities between the processes at the two companies suggest they may have been more effective than KPMG thought.[382]

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[381] M&S A04/117 I Harvard Business School Case Study 1975.

[382] BTC 314/4 - Peat Marwick Mitchell: Report on Management Structure (Part II) 14 June 1966

The reports that the directors received and the descriptions of the Monday morning meeting highlight some core principles of performance management at M&S - directors were required to engage with the detail and were required to have a broad knowledge about *all* aspects of the business. This contrasts sharply with the consolidated (and therefore summarised) measurement systems such as the Balanced Scorecard and the narrower, functional focus of modern Board members.

Informal evaluation

The transcript of the meeting demonstrates that performance evaluation involved both formal and informal processes. Indeed, as the business organised and became better at gathering data, it also appears from the sources that it became increasingly frustrated on the reliance on statistics and formal reports to understand the performance of the business.

From as soon as the business was incorporated (and probably before), visiting stores was an integral part of a Director's role. Employees recalled how in the early 1930's Simon Marks used to visit the Marble Arch shop floor twice a day.[383] Marcus Sieff recalled that the day he died, Marks had just returned from inspecting the rainwear and coat departments in Marble Arch when he collapsed with a heart attack.[384] He also recalled that visits could be unannounced and the focus was wide ranging: from stockrooms to sales floor. They spoke to both employees and customers.[385] The sources suggest that the same practices continued into the 1970's. The directors were expected to be in the shops every week-end, to take home M&S food and wear M&S clothes.[386]

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383 Reminiscences of the store manager (M&S S392/11/23 Documents: Marble Arch Store 1930's)

384 Sieff, *Don't Ask.*

385 Sieff, *Don't Ask.*

386 M&S A04/117 I Harvard Business School Case Study 1975. Corroborated by Michael Sieff's daughter (Elizabeth) in an Evening Standard interview 7/01/2010 (http://www.standard.co.uk/lifestyle/elizabeth-sieffs-mission-to-put-a-low-price-on-the-high-life-6734897.html#gallery)

The importance of visiting shops was a constant refrain throughout the period. It reflected a fear common to all multiple retailers in these case studies. Simon Marks raised the question in 1954 - "are we in Head Office too remote from the Stores?" It was a rhetorical question and he postulated on both the cause and the solution:

> "As figures and statistics become more important, there was a risk that the unique, close personal contact would disappear. It is this live contact which must be preserved. We cannot do without it. The facts are in the stores if we probe for them, and that is what must be done."[387]

The risks posed by statistics, remoteness and the importance of probing were reiterated repeatedly by management over the following 20 years both internally and externally as reflected in the following quotations:

> "Probing is the method whereby the interested and enquiring mind of the Executive and his colleagues penetrate beneath the surface of things and discovers the real facts." Israel Sieff, internal memo, 1958.[388]

> "Perhaps the greatest evil is the growth of statistics, because management too often encourages this growth in the belief that statistics illuminate the business and that the more there are the better will be the management control… Where lies the danger? It lies in the fact that statistics come to be valued for themselves to the neglect of the people or things they represent." MJ Glenn (M&S Personnel Manager) *'The Manager'* 1959.

> "We do not believe that written reports can replace visits to Stores to see how goods are selling, if their quality is satisfactory, to see how the Stores are operating. We believe that operating too much through written reports

[387] "Thinking about the Business" Notes by Lord Marks, 28/12/54 (M&S CR/C/2/80 Collated Business Reports 1950 - 1984)

[388] "A Definition of Probing" Memo written by Israel Sieff. Reissued to management 10 September 1984 (M&S CR/C/2/80 Collated Business Reports 1950 - 1984)

leads to remoteness." M.J Sieff, 1965.[389]

> "You will find your most cherished documents and reports conceal a multitude of inaccuracies and omissions. Do not be afraid of only a sample first hand investigation. It is often far more valuable than the all-embracing written one. And do not mistake for personal probing a meeting held in a private office." Sir Derek Rayner (Joint Managing Director), 1975.[390]

The importance was such that the Management Committee, on more than one occasion, expressed concern that 'probing' was not being conducted properly by senior management. Formal training was proposed in 1969 and an internal guide was produced - "Probing in the 1970's."[391]

The idea of probing highlights a feature of multiple retailing often overlooked in the PMM literature. Scientific principles of organisation may have allowed chain stores to develop but the store manager was not a compliance officer following the rules and regulations passed down from Head Office. Rather, they were active participants in managing the performance of the business and given more discretion to drive performance than sometimes recognised.[392] And, probing highlighted two elements which encapsulated how senior management were expected to evaluate performance. Firstly, it was about learning but learning which was both deep and broad. Management became experts in the *business* and not just specialists in one area. As Michael Sacher explained to Harvard researchers: "in the end, the decision has to be taken by management, not the experts."[393] Secondly, it emphasised the personal responsibility for the learning and for acting on the insights. Directors could not rely alone on others to provide the insights but

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389 "Growth of a Distributive Enterprise" Speech to an unidentified external audience (M&S CR/B/2/3 Israel Moses Sieff speeches and notes)

390 "The War on Paper Bureaucracy" Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, 22/5/75 (M&S A04/117 K Various Papers and Speeches)

391 Minutes 4/08/69, 2/11/70 and 12/10/71 (M&S E7/19 Corporate Governance Management Committee 1968 - 1972)

392 Purvis, *Direction and discretion*.

393 M&S A04/117 I Harvard Business School Case Study 1975, 37.

had to seek it out themselves. Suppliers and employees similarly had a shared responsibility to learn but also act. Marcus Sieff recalled how Marks would return from visiting shops with products which did not meet his quality standards. “How did this muck pass the manufacturers and our quality control? How did this rubbish get past the manager and his staff?”[394] Responsibility for quality control, as with performance in general, sat with all members of the extended network and not just the buyers or technicians.

By 1969, performance evaluation, despite the advances in reporting and data gathering in the intervening 40 years, was based on similar principles as the M&S of the late 1920’s. M&S had not abandoned statistical reporting. Managing Directors still received copies of the ‘Checking List’ and reports still included detailed statistics. However, as store managers were once encouraged to discuss performance with their staff in the 1920’s, as Simon Marks used to personally inspect products on the Marble Arch shop floor in the 1930’s, 1940’s and 1950’s so too were the senior managers of the late 1960’s. As Marcus Sieff wrote to his directors in 1969, unwittingly repeating comments in the 1920's: “Both the Executives and the merchandisers should probe into the goods in stores with seeing eyes and a critical mind. The departmental supervisor and the sales girl are his best sources of information. To depend upon statistics is to asphyxiate the dynamic spirit of the business.”[395]

Employee performance evaluation

Unfortunately absent from the sources are comprehensive indications of how the Managing Directors evaluated the performance of individuals.[396] The business introduced staff training programmes in 1934 and operated a store management

394 Sieff, *Don't Ask*.

395 “Achievement and Growth” Memo by Marcus Sieff to Directors 21/2/69 (CR/B/2/2 Israel Moses Sieff: Business Papers)

396 Those sources referring to individual employees are closed. Some of these sources may refer to individual performance evaluation.

training programme soon after.[397] A more general management training programme operated from at least the 1950's which lasted 18 months.[398] A number of the trainees went on to become directors including future Managing Directors such as Henry Lewis, Derek Rayner and Richard Greenbury who all joined in the early 1950's.[399] The Personal and Welfare manual also refers to a system of 'Progress Reports' used for store employees which was operational from at least 1946.[400] Employees were assessed on qualities (e.g. attention to customers and courtesy and helpfulness) but the lack of examples in the archival sources nor any detailed descriptions means that it is not possible to assess who it covered nor whether it covered all store staff or just certain grades.[401] Personnel systems may have been sophisticated but it is not clear how they fed into the overall evaluation of managers.

Motivating performance

This section will examine the formal and informal processes used to motivate performance and includes both an assessment of how employees were rewarded financially but also of any non-financial mechanisms. PMM literature would anticipate that the reward mechanisms would promote the objectives of the organisation.

While Simon Marks adopted a number of ideas from US retailers, particularly Woolworths, he did not introduce the variable pay systems common to many of them. Instead, he maintained fixed pay rates at M&S both in store and in Head Office. Similarly, there were no small scale competitions that Boots and US retailers used to motivate selling in the 1920's. The business did pay a Christmas

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397 "Annual Report of the Joint Secretary and Chief Accountant 1937" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

398 Rees *St Michael*,180 and 246.

399 Sieff, *Memoirs*.

400 Personnel and Welfare Manual 1946 (M&S Q/Q1/3/1)

401 HO/3/2/2/3/35 - Staff Management News (Aug. 1953). "The Old & The New Progress Report." There are no other references in the archives and the archivists are not aware of any uncatalogued sources relating to the 'Progress Reports.'

bonus but the amount was linked to length of service rather than performance.[402] The lack of any performance based pay contrasts with all of the other retailers in this study.

M&S also promoted their system of welfare and non-financial benefits both internally and externally. When a new store opened in Slough in 1955, *St Michael News* included a picture of the facilities under the heading “Sales Girls at Slough will enjoy Welfare like this.” Another article was headed “We tell all the Suppliers - our girls have this sort of welfare - what about yours.”[403] AGM’s regularly boasted of the welfare facilities at M&S. Should this be considered part of reward for performance? The Welfare Department was established in 1933 with a responsibility:

> “to study and make continual improvements in working conditions; to create an atmosphere of contentment; and to maintain a stable staff who, in return, will work with greater enthusiasm while deriving real satisfaction from their work, thus benefitting both the business and themselves.”[404]

Over the rest of the decade, the business introduced medical services (1934), a dental service (1935), a pension scheme and a benevolent trust.[405] A 48 hour maximum working week was introduced in 1937.[406] The business also sponsored social and sports events. In 1934, they opened a new 10 acre sports ground in North London and already had a Literary and Debating Society and an Operatic and Dramatic Society.[407] The investment in welfare remained a feature of M&S throughout the period. The Welfare Committee held its 1,500th meeting in 1962

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[402] Payment ranged from 4 weeks wages for those with more than 10 years service to 1 week for those will less than 12 months. Personnel and Welfare Manual 1946 (M&S Q/Q1/3/1)

[403] *St Michael News* July and August 1955

[404] *Staff Management News* No. 1 June 1938 (M&S HO/3/2/2/3/1)

[405] Development of Organisation 1926 - 1948 (M&S E/E1/3/2)

[406] 1937 AGM. "Marks and Spencer." Financial Times [London, England] 29 May 1937: 4. Financial Times. Web. 10 Nov. 2016.

[407] *Sparks* Easter1934 (M&S HO/3/2/2/2/1-15 Sparks 1934 onwards)

and the Harvard review highlighted the importance of employee relations and welfare to the business in the 1970's.[408]

The directors may have had philanthropic motivations but they also recognised the benefits to the business of good employee relations and a strong welfare policy. In the 1930's, the Welfare Department attributed the significant improvement in absentee rates and staff turnover to the improved welfare.[409] At the end of the 1960's, M&S conducted audits of the welfare facilities at suppliers convinced that better welfare would reduce both absenteeism and staff turnover rates.[410] The belief was echoed in external speeches where welfare was linked to loyalty, trust in management and therefore greater productivity and higher profit.[411] However, while good employee relations and investment in welfare was considered good for the business, it was not dependent upon the performance of individuals. Reward, including welfare, was good for the general performance of the business but at M&S, it was not directly linked to the performance of either individuals or the financial performance of the business as a whole.

Measures

This section will examine the financial and non-financial measures the firm used to manage performance. In particular, it will consider whether there was a dominant measure or a wide suite of measures and how these changed over the period.

The focus on 'probing' and repeated concerns about the inadequacies of statistics might suggest that statistics were relatively unimportant within the business. There

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[408] "A Report on Personnel, Welfare and Human Relations in the Stores of Marks and Spencer" October 1962 (M&S Q/Q1 Flora Solomon) and M&S A04/117 I Harvard Business School Case Study 1975

[409] Store staff turnover was reported as falling from 69% in 1932 to 26% in 1936 ("Annual Report of the Joint Secretary and Chief Accountant 1936" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[410] Minutes 5/11/69 and accompanying report (M&S E7/19 Corporate Governance Management Committee 1968 - 1972)

[411] Marcus Sieff speech given at the Royal Albert Hall 1969. Extracts included in M&S A04/117 I Harvard Business School Case Study 1975

was certainly a tension between the administrative burden created by statistical accumulation and the benefits of statistical analysis. The completion of 'Checking Lists' became a fortnightly exercise rather than weekly in 1939 largely because the cost of processing the lists in Head Office had doubled between 1934 and 1937.[412] Similarly, the business could boast in 1960 that by no longer requiring the shops to complete employee absence cards, they could eliminate 12,000 pieces of paper a year.[413] However, it was at a cost. The business could no longer produce the absence statistics used in the 1930's to justify the welfare policy. It was not because welfare was not important. In 1969, they audited supplier working practices and gathered statistics on their absence rates to show the benefit provided by welfare policies. It seems curious that they should stop generating the data which allowed them to monitor absence while expecting their suppliers to continue to generate the statistics. It could be that they were sufficiently convinced of the need for good working practices that they did not need to measure them.

But, this did not reflect a rejection of performance measures. Capturing sales and counter space statistics in the 1920's and 1930's resulted in significant changes in merchandising and profitability. Rather, the growth of statistics in the 1930's led to a reaction in the 1940's and 1950's. Using measures was not eliminated but became just one element in helping to manage the performance and subject to the same cost-return principles as the rest of the business.

Range of measures

As noted above, many of the reports used by the business are no longer available. However, those that remain show that M&S used a broad range of measures.

Breadth. The business recognised the importance of both financial and non-financial measures and combined them as appropriate. The Accountants reports in the 1930's and 1950's included as many pages devoted to employee numbers as

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412 "Special Report of the Joint Secretary and Chief Accountant October 1938" and "Annual Report of the Joint Secretary and Chief Accountant 1934, 1936 and 1937"(M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

413 *The Guardian* 16/5/1960 (M&S A04/117 K Various Papers and Speeches)

sales in the statistical appendices. There was also more analysis of sales per employee and counter space than of gross margins in the body of the reports. The breadth of analysis also extended to the time periods analysed. Statistical appendices included both short term measures (Christmas trading by week) and long-term trends (sales, counter space, employee numbers for every year since incorporation - more than 20 years of data by the 1950's).[414]

Depth. Measures reviewed by the Managing Directors included both summary information of total company/ departmental performance to individual item/ employee grade data in the same report. In 1950 and within 5 pages, there were measures for total annual sales, total number of employees and total space and average wage by type of employee.[415]

While the core measures remained largely the same (see below), both the number and range of statistical schedules changed from year to year and the authors of the reports appear to have some discretion about which measures to use. A memo in 1964 by the Management Committee identified what measures should be included in the departmental reports they reviewed - the need for such a list suggests that it had not existed before.[416] The flexibility is in marked contrast to Boots. In 1939, the M&S accountants report included a number of schedules reflecting the impact of the war on the business but the Boots Statistical Book was largely unchanged from the previous year.

Key performance measure

The core objectives of the business may have been to offer quality products at lower prices, to develop supplier and employee relations and to focus on

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[414] "Annual Report of the Chief Accountant 1950" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[415] "Annual Report of the Chief Accountant 1950" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

[416] Management Committee memo 6/2/64: "Highlights of a Department should include" (M&S CR/B/2/2 Israel Moses Sieff: Business Papers)

innovation and technological improvements but, they measured their success through sales growth.

The importance of sales growth (compared to margin, for example), mirrors many other multiple retailers. However, there were important differences. At Boots, if the primary measure was sales growth, the secondary measures were sales volume and the average transaction value - measures which placed the focus on stores and customers. Reports disaggregated sales by store - largest, smallest, fastest growing. At M&S, the secondary measures focused on product. Sales per square foot (counter) helped identify the optimum product mix in store. Early store reports required managers to identify "best sellers" and "fast sellers ordered but not delivered."[417] Similarly, the aggregate Checking Lists which the Managing Directors received in the early 1970's listed product performance (sales, selling price and in-store availability). Even stock, a key measure at WHS because it identified how much capital was tied up, was a measure of product desirability at M&S. Stock was described as a 'counter clogger' if it was a slow selling line or a 'proven shortage' if fast selling.[418] When the Management Committee specified the measures they required in department reviews in 1964, they listed the performance of main lines, new lines stock shortages but no disaggregation by type or location of store.[419] The focus on product measures is consistent with the objectives of the organisation (quality products at low prices) and also the informal evaluation practices of directors which focused on examining products in store.

There were two other measures which the business reported throughout the period. Firstly, there was regular reporting of staff numbers and the average wage costs. Census data was included in the statistics reports showing the number of employees by role (Head Office and stores), their average wage and year on year changes. Sales per employee appeared on the performance summary page

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417 Weekly Bulletin, October 1928 (M&S HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

418 "A Definition of Probing" - a memo from Israel Sieff 1964 (M&S CR/C/2/80 Collated Business Reports 1950 - 1984) and Management Committee memo 6/2/64: "Highlights of a Department should include" (M&S CR/B/2/2 Israel Moses Sieff: Business Papers)

419 Management Committee memo 6/2/64: "Highlights of a Department should include" (M&S CR/B/2/2 Israel Moses Sieff: Business Papers)

throughout the 1930's and 1950's. Levels of absence and staff turnover were also widely reported until the data was no longer collected in the late 1950's and used to justify the investment in welfare.[420] All of these measures featured more prominently than conventional accounting analyses of expenses (e.g. annual wage cost by department). They showed not only the underlying drivers of the cost (volume and value) but also waste (absence and turnover) and effectiveness (sales per employee).

Secondly, the business started to record the amount of counter space from 1926 alongside the number of new stores and extensions. Sales per square foot of counter space appeared on the summary page of the statistical appendices throughout the 1930's and 1950's. However, it was also a measure used in the shops. Managers were encouraged to monitor sales per square foot of lines to ensure that fast selling lines received the appropriate allocation of space.[421] In the 1950's there are fewer references to counter space although as ordering and space allocation became increasingly controlled in Head Office from the 1940's, there may have been less need to monitor the measure.

Other performance measures

Gross margin, although measured and reported, was not a key performance measure perhaps because of the wide variance in product margins made communication difficult. In 1928, the *Weekly Bulletin* reminded managers that "we will eventually find it on the whole more profitable, by giving the best value possible, to work on a smaller margin of profit, providing that a compensating increase of turnover is achieved."[422] A similar sentiment was expressed to a Harvard researcher nearly 50 years later by one of the store mangers: "we are not

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[420] "Confidential Report to the Directors on the Conduct of Administration for the Year 1934" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956).

[421] Advice supplied regularly in Weekly Bulletins from the first bulletins in 1927 (M&S HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

[422] Weekly Bulletin 17/3/28 (M&S HO/3/2/2/1/1 Weekly Bulletin June 18th 1927 and onwards)

interested in high margins - we're interested in high turnover." The Finance Director confirmed the view. As reported by the researcher:

> "gross margin did not, however, preoccupy the thoughts of the senior management. They were more interested in the balance of food and clothing sales as related to margins and the volume itself. They believed fully in the pursuit of high sales and were not unaccustomed to reducing prices in order to increase sales. Only the senior members of the board were aware of the profitability of the company and only they dealt with the direction it would take. The rest of the company was totally immersed in sales."[423]

Like in Boots, overall margin was monitored through mix of products (a sales measure). In the 1930's and 1950's, departmental gross margins were reported in the statistical appendices but not consistently and they were not included on the summary schedules.

Operating costs may well have been reported in detail in some of the Directors' reports no longer retained but they were not included in the statistical appendices. As noted above, the primary operating costs (people and space) were considered in terms of the returns they provided rather than an absolute cost and subject to standards defined by the Personnel department.

There are traces of measures of product quality and supplier performance in the sources but they are relatively scarce compared to sales, employees and space. The amounts suppliers paid employees was measured in the 1930's.[424] The largest suppliers were listed in the 1937 Accountants report but not thereafter. By the 1960's, technologists were setting standards for suppliers and measuring their performance but there are no surviving examples of the reports which may have been issued to the directors with the information. A 'Review of Manufacturers ' in the late 1960's rated the principal suppliers on measures such as the quality of

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[423] M&S A04/117 I Harvard Business School Case Study 1975.

[424] Rees, *St Michael*, 216.

management (e.g. "middle management needs strengthening") quality of product (good to poor) and their contribution in the development of new merchandise. There were also reviews of supplier welfare arrangements including absence and employee turnover.[425] It is not clear, however, whether this was part of a periodic review or a one-off exercise. Product quality was measured prior to the 1950's by complaints made in stores and fed through to Head Office but reporting was stopped in the late 1950's saving 250,000 punched cards annually. Head Office management were expected to obtain the information personally when visiting the shops.[426] 'Probing' was considered a better way of understanding product quality than a collection of statistical measures.

Measures were therefore extensively used and widely reported throughout the period. They were comprehensive incorporating both financial and non-financial measures and they were aligned with the objectives of the organisation. They were also used dynamically, reflecting the issue being reviewed rather than reported mechanistically. However, they were not the central element of the performance management 'system' and there is no evidence that they bound this wider system together as is advocated in the current literature. Indeed, M&S were not afraid to discard measures even when what they were measuring remained important (absence, staff turnover and product quality). They were also happy to eschew accuracy in favour of "sensible approximation" if it saved time or money.[427] Measures were one tool but not the only tool in understanding performance.

Linking the system

This section will examine how the separate elements described above were connected and the strength of the links. The analysis should help our

[425] Review of Manufacturers 7/10/70 (M&S E7/19 Corporate Governance Management Committee 1968 - 1972)

[426] "The Marks & Spencer attack on Paperwork" produced by the 'Organisation and Methods Division of H.M. Treasury in collaboration with departmental Organisation and Methods Officers.' February 1959 (M&S A04/117 K Various Papers and Speeches)

[427] "The War on Paper Bureaucracy" Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, 22/5/75 (M&S A04/117 K Various Papers and Speeches)

understanding of the strength of the overall system - whether the whole was greater than the sum of the parts. This section will also consider any cultural factors and how they related to the overall way that performance was managed.

There appears to have been strong alignment across the structures, processes and measures that are part of a modern performance management system. The core elements also remained consistent over the period. What helped create this alignment and consistency, however, appears to have been a number of factors with cultural factors at least as important as any formally designed processes.

Formal communication mechanisms, particularly those aimed at management or focusing on business issues, were less well developed than in the other case studies. A number of magazines, newsletters and bulletins were issued during the period including the *Weekly Bulletin* (1927), *Sparks* (1934), *Staff Management News* (1938) and *St Michael News* (1954).[428] However, only the *Bulletin* and *Staff Management News* were primarily performance focused. The *Bulletin* lasted, however, for only three years and *Sparks*, which followed in 1934, was primarily about social activities and aimed at all staff. It is not clear why the *Bulletin* was stopped. Purvis suggests it was a victim of more important priorities in Head Office such as the store expansion plans.[429] However, there were also other mechanisms for communication which may have been more effective. Employees were regular visitors to Head Office and conferences for store managers and supervisors operated from 1928.[430] A letter from Simon Marks shows the importance he attached to these visits as important conduits for transferring knowledge. He bemoaned that one of the biggest administrative problems created by the war was the lack of personal contact between stores and Head Office.[431] One of the

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428 There were also operational communications such as a ‘Note’ issued to stores every day. The distinction between a note and the magazines was the the notes were more directional - timing of price changes, changes in process, etc (*St Michael News*, 3/12/1954).

429 Purvis, *Direction and discretion.*

430 M&S HO/3/2/2/1/18 Memos re Organisation of Work and Staff and Supervisors' Duties 27 February 1928.

431 M&S CR/B/3/1/54 Letter Simon Marks to Israel Sieff on how war affecting the business 8/4/41.

outcomes of Operation Simplification in the 1950’s was to replace letters and information circulars with conferences where information flowed more effectively.[432] The emphasis on the directors regularly visiting stores, as referred to above, further helped communicate a consistent message.

Alignment across the business was also helped by the clear and consistent enunciation of the objectives of the business and the stability of the senior management team. As already noted, the objectives clarified not only what should be achieved but how it should be achieved and these were consistently and regularly communicated throughout the period not least through the AGM’s (see section on 'Objectives' above).

Alignment was also helped by maintaining a stable and long-serving senior management team. Of the three Chairmen during the period, Simon Marks (1926 to 1964) had joined the business in 1911, Israel Sieff (1965 - 1967) in 1926 and J. Edward Sieff (1967 to 1972) in the early 1930’s.[433] In addition, all of the directors during the period were either part of the Marks/ Sieff families or long serving employees who had spent all of their working lives at M&S. At AGM's in the 1960's, M&S explained the benefit of employing family and long-serving employees to the Board. After announcing new directors in 1966 they explained: “It continues to be our policy to make appointments to our Board from those who have been trained in the philosophies and principles which underlay the development and growth of our business.”[434] At the 1969 AGM, they announced more appointments and explained: “this continues our policy of recruiting to the Board those within the organisation who have been educated in its philosophy and bred in its traditions.”[435]

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[432] Rees *St Michael*, 211.

[433] Rees, *St Michael.*

[434] "Marks and Spencer." Financial Times [London, England] 3 June 1966: 4. Financial Times. Web.

[435]"Marks & Spencer Ltd." Financial Times [London, England] 5 June 1969: 26. Financial Times. Web.

References to “philosophy” and “traditions” highlights the importance placed on cultural factors in managing the business. They can be interpreted as a way of aligning people and systems and ensuring consistency and continuity over the period. In a speech in 1975 to the Institute of Administrative Management, a director criticised the description levelled at M&S that they were a paternalistic organisation: “there is nothing paternal in treating other people decently, especially when they play a major role in the success of the organisation.”[436] The sources suggest that they preferred to describe themselves as a family, of being a *personal* business and the importance of respecting the individual.[437] At Board level, reliance on family members and those who had been promoted within the business created relationships which transcended the formal organisation structures and helped create a consistency of approach in formal and informal practices.[438] Stores were structured through the whole period with a store manager (operational management and financial performance) and a store manageress (welfare and amenities). Harvard researchers argued that this replicated the family structure: “in effect, the store was run by a ‘father’ and ‘mother’. The company tried very hard to maintain the family feeling throughout all of their stores.”[439] The extensive welfare arrangements administered through Head Office but delivered in store augmented this feeling. At AGM's and in internal memo's, they explained that this engendered collaboration and loyalty.[440]

The business also argued that it created a culture of trust which allowed individuals to thrive. There is an apparent paradox that Head Office was highly centralised but also sought to allow individuals to thrive. In the histories of M&S,

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[436] “The War on Paper Bureaucracy” Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, 22/5/75 (M&S A04/117 K Various Papers and Speeches)

[437] Israel Sieff speech at the British-American Chamber of Commerce Luncheon December 1965 (M&S CR/B/2/3 Israel Moses Sieff speeches and notes)

[438] Michael Sacher explained the importance of these close relationships to Harvard researchers.

[439] M&S A04/117 I Harvard Business School Case Study 1975

[440] See, for example, AGM 1937 (”Marks and Spencer." Financial Times [London, England] 29 May 1937: 4. Financial Times. Web); Memo by Lord Marks, 1954 (M&S CR/C/2/80); Marcus Sieff speech given at the Royal Albert Hall 1969 (M&S A04/117 I Harvard Business School Case Study).

much is made of Simon Mark's trip to the United States in 1924 and the methods of control he brought back with him.[441] The structures and processes subsequently introduced certainly allowed Marks to exert more control over operations. However, the tension between centralised and decentralised control existed throughout the period. While store managers were encouraged to use their initiative to drive sales in the *Weekly Bulletins* of the late 1920's, they were also repeatedly reminded to complete forms on time and accurately. The store operations department in the 1930's was structured to exert control over the stores but a series of reorganisations suggest that it was not an effective way to manage the business (see section on 'Structure' above). After the War, there was a gradual shift as systems of control were watered down or abandoned. The two most important initiatives emphasised the importance of the personal/ individual over a system and a set of rules. Operation Simplification reportedly eliminated 26 million forms including many which provided statistics previously used to manage the business. It also eliminated the extensive personnel manuals. What replaced it was "a set of principles and an understanding of the company's philosophy. Management began to manage instead of becoming interpreters of the written word."[442] The other initiative, 'probing' similarly pushed the emphasis for understanding performance away from the accountants and statistical reports and onto the individual. M&S remained a highly centralised business but managing through principles and trusting individuals also played a part in linking the 'system.'

Conclusion

Of all of the case studies in this thesis, M&S's structures, systems and measures most closely resembled what we might now call a performance management system as defined by Fereira and Otley. This study has not attempted to prove the effectiveness of the systems of performance management at M&S and modern studies have shown the futility of trying to link financial performance to the

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[441] Sieff, *Memoirs*, 142.

[442] "The War on Paper Bureaucracy" Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, 22/5/75 (M&S A04/117 K Various Papers and Speeches).

development of performance management systems.[443] Perhaps the most that can be said is that the durability of their structures, processes and measures in an organisation otherwise open to change suggests that they, at least, considered their approach effective. However, a number of themes can be identified running across M&S which raise questions about how we now understand a performance management system.

Much as Chandler concluded in the much abridged maxim that structure follows strategy, the organisational structure that emerged in M&S in the 1930's reflected the objectives of the organisation.[444] The creation of the Welfare Department, Personnel Department and Merchandise Research and Development Departments as well as the creation of the Merchandise Committee are all consistent with a firm which placed product, innovation and relations with suppliers and their staff at the centre of their business. Indeed, M&S provides a better example of the strategy/ structure dynamic than Chandler's retail example, Sears. General Wood took 20 years to finally introduce his new retail structure in Sears while most new structures were introduced in M&S in less than half the time. In M&S, the organisational structures, the processes that were created and the measures that were monitored were consistent with objectives of the business. While, this is still some way from the structured, formal frameworks advocated by modern performance management academics such as Kaplan and Norton, it is consistent with their principle that performance management systems emerge from and are internally consistent with the strategy (or objectives) of the business.[445]

However, even this conclusion is overly simplistic and deterministic. The performance management systems at M&S also reflected the management style preferences of its leaders, particularly Simon Marks, which were themselves influenced by the firms history and the wider retail environment. Take the relationship with suppliers. It may have been a core objective of the business but it

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[443] Franco-Santos *et al*. *Contemporary.*

[444] Chandler, *Strategy and Structure*.

[445] Kaplan and Norton, *Mastering*.

can be traced back to Michael Marks' relations with suppliers in his native Poland and in England where Dewhirsts initially supported the business and where Thomas Spencer had been initially employed. Miriam, Israel and J. Edward Sieff, who all played such an important part in Marks and Spencer and the personal life of Simon Marks, were from a family who owned a textile business (Sieff and Beaumont) and Israel had worked there before permanently joining the board of M&S in 1926.[446] Norman Laski, who also became a director in 1926, was from a prominent textile manufacturing family business (Laski and Laski).[447] Similarly, the focus on the relations with employees had complex roots in Michael Marks' own views on welfare which in turn reflected his own humble background and the familial emphasis of his religion. It may also have been influenced by the activities of peer firms. John Boot at Boots was similarly focused on welfare issues in the 1930's extending holidays, shortening the working week and introducing a pension plan.[448] Spedan Lewis at John Lewis was also experimenting with an ownership model which transferred the ownership of the business to the employees (partners).[449] The importance of the firm's history and wider environment in which it developed is not surprising to business history scholars but it is a feature which is lacking from the performance management literature which so often advocates tight frameworks while ignoring the firms foundations or the wider environment. Failure to consider these factors may also explain why so many PMM implementation projects have failed.[450]

A second feature of the M&S performance management structures and systems was the focus on learning. The primary purpose of a performance management system remains contested. Many argue that its primary purpose is control while others argue that it is a tool to operationalise strategy.[451] However, while M&S may have been well controlled and the processes introduced enhanced control, the

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[446] Sieff, *Memoirs*.

[447] Blond, *Made in England*.

[448] Greenwood, *Cap*.

[449] Cox, *Spedan's partnership.*

[450] Franco-Santos and Bourne, *Examination.*

[451] Bititci *et al., Challenges.*

emphasis of their performance management appears to be more oriented towards understanding and learning as exemplified by the focus on 'probing'. A focus on learning itself is not distinctive but three other features of learning stand out at M&S. Firstly, it was detailed. Directors examined individual products, were presented with the details of specific dyes and the efficiency of the latest accounting machinery. The level of detail did not change over the period. Secondly, it was broad. Directors were expected to have a good understanding of all parts of the business. Thirdly, much of the responsibility for learning fell on the individual. Derek Rayner in the 1970's referred to *personal* probing to emphasise the individuals responsibility to understand performance. It was a feature also prevalent in the first memos introducing probing in the 1950's and was emphasised in training material which highlighted the importance of "personal knowledge right from the start" for new Supervisors.[452] The importance of breadth, depth and a personal responsibility in getting understanding runs counter to the idea of a small number of strategic KPI's presented to an Executive as the primary tool for understanding performance.

Where do measures and statistics sit as sources of knowledge and learning? A number of current studies situate them at the centre of performance management systems.[453] Before the war, measures and statistics played an increasing part in the management of performance. The business invested heavily in their capacity to generate statistics, doubling the size of the statistics department and investing in equipment which they claimed to be the most up-to-date available.[454] The number of statistical schedules in the Appendix to the Accountant's report increased from 12 to 25 between 1937 and 1939 and the statistical department reported how much the various departments used them for special

452 M&S HO/3/2/2/3/83 Staff Management News: Selected articles 1950 - 1969

453 See recent literature reviews by Bititci *et al. Challenges;* Franco-Santos *et al. Contemporary.*

454 "Annual Report of the Joint Secretary and Chief Accountant 1936" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

investigations.[455] However, even in the 1930's there were already some concerns about over-reliance on statistics.

After the war, statistics played a lesser role. The 1950 Accountants report only included 13 statistical schedules in the appendix and none from 1951.[456] It is not clear if the report was even produced after 1956 with no references in the archives. Indeed, over time, M&S *chose* to reduce its ability to generate measures rather than increase them. Checking Lists were produced weekly in the 1930's but fortnightly in the 1960's. Absence records, statistics on customer complaints and attendance records were all submitted to Head Office in the 1930's but not in the 1960's. The increasing concern about the use of statistics did not come from a lack of available statistics but recognition that statistics were insufficient to provide the level of understanding that they believed was necessary to manage the performance of the business (and didn't justify the cost). Indeed, one director went further to a Harvard researcher: "We get concerned when statistics get on paper because they hide things."[457] His view is corroborated in the various memos and speeches about the importance of 'probing' which criticised the reliance on statistics. It is also reflected in how they conducted their performance reviews. In the transcripts of the directors Monday morning performance review reported by Harvard in the 1970's, despite the availability before the meeting, not one statistic or measure was referred to.

The rapid development of statistical capability in the 1930's in M&S followed by stagnation or even a diminution in their importance mirrors a similar trend in Boots where rapid development in the statistical schedules in the 1920's was followed by stagnation. In neither company is there evidence that the businesses took performance management less seriously over time - rather that they recognised the deficiencies of relying on statistics in providing the required level of

455 M&S AO5/413F Annual Report of the Chief Accountants 1939 (March 1940) and "Annual Report of the Joint Secretary and Chief Accountant 1937" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

456 "Annual Report of the Chief Accountant 1950" (M&S E7/24 Corporate Governance, Internal Reports 1934 - 1956)

457 Brian Howard, Director of Food (M&S A04/117 I Harvard Business School Case Study 1975), 8.

understanding. This represents a significant challenge to measure driven PMM systems and is discussed in more detail in the conclusion.

Chapter 3: Boots the Chemists

Introduction

The chapter presents the case of the British retailer Boots the Chemists (Boots). Boots has a number of similarities with the other firms in the thesis. Like the other two, it was a multiple retailer which operated throughout the whole period and still trades today. It operated in similar locations to the other retailers and although operating primarily in the chemist and drugs trade, still competed for the discretionary spend of customers. Like the other cases, Boots' stores were geographically spread across the country and had to manage large numbers of customer transactions generated away from Head Office - by 1920, it was processing more than 1.5 million transactions a week.[458] However, there are a number of features which which make it distinct. Firstly, its ownership and control was different from the other two firms which remained family 'controlled' businesses throughout most of the period.[459] Although at the start of 1920, Boots was still run by its founder, Jesse Boot, it was sold during the year to an American retail firm who retained ownership until 1933. Subsequently, Jesse Boot's son, John, became Chairman but the rest of the board comprised directors who had been promoted through the business or recruited externally. In particular, the American ownership exposed Boots to new management practices, most of which touched PMM. Secondly, it was the only firm to undertake its own manufacturing. 'Own-goods' products were nearly 25% of sales in 1932 and, still 14% in 1969.[460] While M&S sold almost entirely own-brand products (albeit manufactured by third parties) and WHS sold very little, Boots had to manage the potential conflict between higher margin 'own goods' and lower margin but better known, proprietary brands.

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[458] Annual number of sales transactions was 81,939,961. BTC 461 Statistical Books.

[459] Although both M&S and WHS were public companies by 1949, the executive boards were dominated by family members.

[460] BTC 345/2 - Expense Report 12 months ended march 31st 1932; BTC 462, Statistical Books.

The principal sources were the company archives, the memoirs of one of the directors and a published history of Jesse Boot.[461] The Boots archives are private and maintained by Boots. There were no restrictions on access to the sources apart from the Board minutes and any salary information which included named individuals. Based on testimony of the archivist, the board minutes focused on statutory issues and property matters rather than performance issues. This is consistent with some short notes made by Jesse Boot's biographer, Stanley Chapman, who had access to the minutes.[462] The archive is extensive albeit with some gaps, particularly covering the period 1940 to 1960. It is particularly strong on management accounting records (to 1955). Conversely, there are few personnel records and very little on the reward systems operated by Boots. Specific gaps are identified in the detailed sections that follow. It is also in the process of being re-catalogued which made the identification of sources more difficult and time consuming.

As in WHS, company magazines were important sources. *The Beacon* and *The Bee* were published monthly in the 1920's before becoming bi-monthly thereafter. They were also not published during the war. There is no information on the editors nor the extent to which directors were directly involved in deciding on the content. However, both magazines were uncritical of Boots and, particularly in *The Bee*, included articles written by the directors.[463] *The Beacon* was first published in September 1919 with the stated aim of creating a sense of fellowship.[464] Based on reviewing copies, its primary focus was on reporting the social matters for Head Office staff, including the results of the sports teams and descriptions of social events and therefore of only limited use for this case study. *The Bee* was more

[461] The memoirs were written by JE Greenwood who was a director between 1920 and 1958 (Greenwood, *Cap*). Chapman, *Jesse Boot*.

[462] His notes are held in the archive. He took very few notes after 1923 and wrote that entries primarily related to reports on shops due renovation, re-leasing or purchase. (The notes did not have an archive reference).

[463] Particularly in the first months when each director contributed an article.

[464] From the opening page of the fist edition. *The Beacon*, September 1919.

valuable. It was first published in November 1921 and was more business oriented than *The Beacon*.[465] The opening paragraph of the first page stated its aims:

> "**The Bee** comes among you to do many things. To **thank** you, **inform** you, **encourage** you, **inspire** you, **stimulate** you, **congratulate** you, perchance to **amuse** you. It wants to single *you* out as a busy bee - a worker for that great organisation of which you are a member. And, occasionally, if need be, to **sting** you."[466]

As a source, it is particularly useful as it appears that it was the primary conduit for communicating with stores. Directors and Head Office departments wrote articles describing what they did and therefore provide an insight into their objectives, their structures and some of their processes. Store managers shared advice, the magazine published examples of best practice and reproduced speeches of senior managers at local events - all provide insights into the objectives of the organisation and some store practices and procedures (although not on the effectiveness of those practices). However, over time, it gradually lost its business focus and increasingly resembled *The Beacon* albeit with a focus on social matters in the stores rather than Head Office. It therefore was less useful as a source from the 1950's onwards. A magazine called the *Leader* was published from the mid-1960's (it was undated but references in the first edition suggest it was after 1964). It was aimed at senior management (members of Committees) and had a broad remit: "*Leader* will be devoted to information, ideas and discussions on management topics."[467] Articles provided general advice about good management practice and few articles were about Boots specifically.

The secondary literature on Boots principally comprises the memoirs of JE Greenwood, a biography of Jesse Boot and an unfinished corporate history of

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[465] The magazines slogan was, according to the editorial, "More Sales" (*The Bee*, November 1921).

[466] *The Bee*, November 1921.

[467] BTC A 92 - *The Leader*.

Boots, both by Stanley Chapman.[468] While they provide information otherwise absent from the archives, they have limitations and have been corroborated with primary sources where available. Greenwood's memoirs were published in 1977 and recall his career with Boots between 1920 and 1953. He was a director throughout the period with responsibility for expense management in the stores and for accounting. The principal contribution of the book is to provide an insight into the thinking behind certain decisions during the period and the state of the management practices before 1920 - a period not well covered in the archives. Greenwood's views, however, may have been tainted by a falling out he had with John Boot when the business was bought back from the Americans in 1933. Greenwood argues that he was largely ignored by John Boot following the acquisition and this may have influenced his recollection of Boot's style of management.[469] Chapman's biography of Jesse Boot actually goes beyond Jesse Boot's retirement from active management of the business in 1920 and documents the period of American ownership as well as a short chapter at the end highlighting developments since 1932. His unfinished corporate history repeats much of the earlier book with some additional information about Boots in the 1960's and 1970's. Chapman notes that apart from company accounts and board minutes, he was almost entirely reliant on third party sources and on oral evidence as the archives were "meagre."[470] He also had access to *The Beacon*, one of the two company magazines, but makes no reference to *The Bee* which, for this case study was a more useful source. Based on the acknowledgements, Chapman interviewed many of the directors active during the period (including Greenwood) but does not reference them within the body of the book and therefore it is impossible to understand how they contributed. This is particularly relevant in Boots where Greenwood, as noted above, fell out with John Boot and where there

[468] Greenwood, *Cap;* Chapman, *Jesse Boot*. Parts of the unfinished book are available in the Boots archive and are an early draft. They were written in 1994. The Boots archivist says that the book was never completed as there was some dispute between Boots and Chapman

[469] Greenwood is particularly critical of Boot's management style which he argued was autocratic and secretive. He also argues that Boot was not at all interested in financial matters but it is difficult to corroborate this from other sources.

[470] Chapman, *Jesse Boot*, 9.

appears to have been disputes among directors in the 1960's leading to the Managing Director leaving at short notice in 1967.[471]

The chapter follows the same format as the other chapters. Some context is provided on the development of the chemists and drugs markets from the middle of 19th century and in particular, the impact of regulation on those markets. It is followed by a brief overview of the development of Boots since it was founded in 1849 with a specific focus on what underpinned its early success The remainder of the chapter documents how Boots managed and measured performance using the framework described in Chapter 1. The chapter finishes with a short conclusion which highlights the main findings of the case study.

Background and Context

The Chemist Trade

This section explores the growth of the chemists trade from the middle of the 19th century. It identifies the main drivers in the development of the sector and the way that the regulatory environment influenced the drivers.

The chemist trade developed from the market for medicines which expanded rapidly in the second half of the 19th century. During the first half of the century, 'medicines' comprised herbal remedies, spices, proprietary and non-proprietary medicines and various chemicals. While a trained medical profession was evolving, most people relied on self-medication provided by a wide range of suppliers. There was, however, relatively little demand for these medicines and they formed only a small part of expenditure, especially among the working classes.[472] The market expanded rapidly after 1870 as wages rose and costs fell dramatically - between 1833 and 1897, an ounce of bromine fell from £1 to £0.105,

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[471] Arthur Cockfield joined Boots in 1952 and became Managing Director in 1961. Chapman refers to a falling out between Cockfield and the Board but does not disclose the reason.

[472] Chapman, *Jesse Boot;* Jefferys, *Retail Trading.*

caffeine from £6 to £0.95 and iodine from £8 to £0.03.[473] Despite the fall in prices, the value of proprietary medicines sold between 1850 and 1914 grew 400% while real wages grew only 180%.[474] As the market grew, provision also expanded rapidly and the number of licensed vendors grew from 10,922 in 1865 to 43,413 in 1910, many part of corporate bodies.[475]

Expansion contributed to professionalisation. The Pharmaceutical Society had been founded in 1841 and as the market expanded it tried to influence legislation to protect the rights of its members. Two Pharmacy Acts (1852 and 1868) established that titles such as 'chemist', 'druggist' and 'pharmaceutical chemist' were restricted to those qualified and registered by The Pharmaceutical Society. The 1868 Act also included a 'Schedule of 'Poisons' which could only be sold by a registered 'chemist', 'druggist' or 'pharmaceutical chemist'.[476] The Society also tried to limit corporate bodies use of the terms but they were defeated in an 1880 ruling by the House of Lords which allowed limited liability companies to call themselves chemists and druggist as long as the sale of 'poison' was conducted by a qualified person. The ruling opened-up the market to multiple chemists and although the Pharmaceutical Society made further attempts to limit their growth, the 1880 ruling was effectively endorsed in the 1908 Poisons and Pharmacy Act. The Act required a qualified chemist in every branch but it was not a hinderance to the multiple sites who already complied - Boots for example, employed 364 chemists across its 278 branches in 1903.[477] The 1908 ruling effectively ended the attempts to stop the growth of corporate and therefore multiple chemists. Over the following decades, the multiples continued to take more and more of the market.

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473 Chapman, *Jesse Boot*, 26. Chapman did not reference his source.

474 Chapman, *Jesse Boot*, 23. His calculations were based on patent medicine stamp duty as reported in the *Report from the Select Committee on Patent Medicines*, 1914, xxxiv.

475 Chapman, *Jesse Boot,* Appendix 1. Analysis based on the *Report of the Commissioners of Inland Revenue* from 1857 to 1908 and the *Annual Report of H.M. Customs and Excise* from 1909.

476 Jefferys, *Retail Trading,* 379.

477 *Chemist and Druggist*, 16 May 1903, 786. The magazine argued that the number of chemists employed was only part of the problem. The aim of the Bill was to ensure that each shop was *managed* by a qualified chemist and that the Board similarly comprised qualified chemists but these measures were never introduced.

Table 3.1 shows the share of retail sales made in multiple stores for both all retail and sales relating to chemist and photographic products only. It shows that the multiples were able to take a greater share earlier than in other sectors. The growth in the multiple share was driven by a small number of firms - in 1900, Boots controlled 44% of all multiple chemist branches and this grew to 50% by 1930. By 1950, Boots still held 51% of the multiple branches and Timothy White and Taylors held a further 30%.[478]

Table 3.1: Multiple share of retail goods sold

	1900	1910	1920	1930	1939	1950	1961	1970
Multiple share (%) of:[a]								
All retail goods	3.0-4.5	6.0-7.5	7.0-10.0	12.0-14.0	18.0-19.5	21.9	29.2	39.0
Chemists and photographic products	6.5-8.0	10.0-12.0	14.5-16.5	24.0-28.0	33.0-37.0	32.7	36.3	42.0

[a] Multiple defined as 10 or more stores. They exclude co-operative societies and department stores

Sources: 1900 to 1939 from Jefferys, *Retail Trading,* 396. After 1950, Monopolies and Mergers Commission, Discounts to Retailers, 80, Table 5, published 31 May 1981 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/235898/0311.pdf). The latter was based on census of distribution returns. 1950 is common to both sources and shows a small difference (Jefferys estimated 18.0-20.5 for all retail and 35-39% for chemists).

While the small and independent chemists failed in their attempts to legislate against multiple retail, they were more successful in controlling the prices charged. Multiple retailers thrived on discounting; selling high volumes allowed them to buy in bulk at reduced wholesale prices. Savings could be substantial, a price list form Holloway's in 1896 offered a nearly 10% discount for bulk purchases.[479] Hoping to remove the advantage, an independent chemist, Samuel Glyn-Jones founded the *Anti-Cutting Record* in November 1895 (the multiples were known as 'cutters') and in the first edition called for guaranteed margins for chemist products. In January 1896, he created the Proprietary Articles Trade Association (PATA) to promote resale price maintenance (RPM). Although the multiples initially opposed RPM, the

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478 Jefferys, *Retail Trading*, 387.

479 Chapman, *Jesse Boot,* 103. From an article in the *Anti-Cutting Record*, June 1896.

PATA campaign was largely successful. From 1902, the multiples tended to follow prices on PATA goods.[480]

The impact of RPM on markets and on buyers and sellers is well documented in the literature. RPM helped manufacturers as stable prices reduced volatility which made it easier to plan production runs.[481] It also benefitted the smaller retailers as it undermined one of the principal weapons (discounting) that the multiples used to take market share.[482] Important as it was, the impact on the multiples and the retail market as a whole should not, however, be overstated. Firstly, the multiples still had control over prices, just not all prices. They could source non-RPM controlled goods by manufacturing themselves or expanding their range. In store, they could influence what customers purchased through advertising, promotions, product location in store and the salesmanship of employees. Gross margin, the difference between sales and product costs, was therefore *not* fixed by RPM for the retailer; between 1922 and 1932, Boots' gross margin expanded by nearly 10 percentage points to 49.2%.[483] Secondly, the higher gross margins that RPM offered made secondary locations more attractive for the multiples and they could either acquire existing small stores or open their own. Consequently, the multiples were able to continue to grow their market share despite RPM throughout the period (see table 3.1).

After the multiple's acceptance of RPM and the 1908 Poisons and Pharmacy Act, the regulatory environment stabilised and the following 60 years did not see the same level of antagonism as the previous 60. RPM was gradually expanded both in terms of the number of products covered and the margins earned.[484] This was

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480 Chapman, *Jesse Boot*, 114.

481 Mercer, *Retailer-supplier relations;* Jefferys, *Retail Trading.*

482 Yamey, *Origins.*

483 BTC 461 - Statistical Books 1923/24 to 1941.

484 In 1897, the list of price maintained goods was 142 and had grown to 2,000 by 1924 (Scott and Walker, *Retailing under Resale Price Maintenance*). When RPM was abolished in 2001, there were approximately 2,300 OTC products covered (BBC News, 16 May 2001, http://news.bbc.co.uk/1/hi/uk/1333397.stm)

consistent with practices across UK retail.[485] And, while the 1956 Restrictive Trade Practices Act and the 1964 Resale Prices Act ended RPM across most retail products, it continued on over-the-counter medicines until 2001.[486]

Greater changes took place in dispensed products. Prior to Lloyd-George's 1913 National Insurance Act, 90% of all dispensing took place in doctor's surgeries.[487] In the following decades, dispensing switched to pharmacies and became an increasingly larger part of their businesses. Between 1920 and 1938, the number of prescriptions dispensed grew 3 fold to £5m a year and represented between 10-15% of chemists trade.[488] Following the War, the 1946 National Health Act transformed the market and by 1950, there were nearly 30 million scripts dispensed comprising between 20-30% of chemists trade.[489] Margins on dispensing were low, Taylors of Leeds claimed that they needed to process 100 scripts to make a £1 profit in 1914.[490] However, this favoured the multiples who, relative to independent retailers, had high footfall generated by the wide range of other products sold and also benefited from scale economies.

Boots the Chemists: Background 1849 to 1970

What was to become Boots the Chemists started as a single store selling herbal remedies in Nottingham in 1849. It was founded by John Boot but he died in 1860 and it was son, Jesse, who was to transform the business into what he described in 1907 as the "Largest, best and cheapest RETAIL CHEMISTS in the World".[491]

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485 In 1938 about 30% of consumer expenditure was a on price maintained goods. By 1956, this had risen to between 44-55%. No separate analysis of Chemists goods available. Mercer, *Retailer-supplier relations.*

486 *CMS Law Now*, 15 May 2001: RPM in the UK ends with removal of exemption for OTC medicines (http://www.cms-lawnow.com/ealerts/2001/05/rpm-in-the-uk-ends-with-removal-of-exemption-for-otc-medicines?cc_lang=en)

487 Chapman, *Jesse Boot,* 28. Unreferenced by Chapman.

488 Jefferys, *Retail Trading,* 383.

489 Jefferys, *Retail Trading*, 383.

490 Chapman, *Jesse Boot*, 89. Chapman does not reference his source.

491 Advertisement in the Financial Times [London, England] 24 Sept. 1907: 8. Financial Times. Web.

Growth had not been smooth but the policies which had established the business by 1907 formed the basis for those that underpinned its continuing growth over the following sixty years.

Firstly, Boot had recognised the importance of the growing medicines business and consequent professionalisation of the industry. He repositioned the business away from herbal remedies towards medicines (in the 1870's) and dispensing (in the 1880's). He managed to appoint his first qualified chemist in 1883, despite opposition from the rest of the trade, and ensured that all his subsequent shops had a qualified chemist.[492] Pharmacy remained at the core of the business thereafter and the business advertised their expertise in pharmacy throughout the period. In 1926, they described themselves as "Chemists to the Nation", a slogan still used today.[493] They also used endorsements from doctors and advertised their healthcare expertise (such as employing a 'hospital-trained nurse).[494]

Secondly, he positioned himself as a volume retailer which allowed him to buy in bulk from wholesalers and manufacturers. Initially, volume came from charging lower prices (or the same price for twice the amount).[495] He aggressively promoted his policy in the press - in a letter to the *Nottingham Guardian* in 1894, he compared his price for a fluid ounce of quinine (1s.9d) with those of eight chemists he had sampled in Nottingham (between 4s.10d and 15s).[496] Following the introduction of RPM, there was less focus on discounting but Boots remained committed to driving volume through sales events and promotions. In 1905, Boot appointed GI Akeroyd and he toured Britain staging special events to promote particular lines in store.[497] Akeroyd continued in various sales roles throughout his career - he was responsible for setting up 'a first class sales organisation' in 1921

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[492] Chapman, *Jesse Boot*.

[493] *The Bee*, January 1926; *Campaign*, 13 May 2016.

[494] *Radio Times*, 25 April 1932; *John Bull*, 8 October 1932. BTC archives: press cuttings.

[495] A contemporary recalled how in his first shop, rather than sell soft soap at 4d per pound, he charged 4.5d for *two* pounds.*The Beacon*, January 1934.

[496] Chapman, *Jesse Boot*, 104.

[497] Chapman, *Jesse Boot*, 104

and became Sales Director in 1935.[498] Driving footfall through volume discounts remained a feature of Boots' promotional campaigns during the period.[499]

Thirdly, and linked to the drive to increase volumes, Boot expanded selling space. In 1888, he still only had 4 branches but from the 1890's he aggressively expanded the number of stores through organic growth and acquisition; by 1900, the business had 181 stores, by 1910 he had 394 stores and they opened their 1,000 shop in 1933.[500] Although growth in store numbers slowed after the Second World War, the merger with Timothy White and Taylor's in 1968 meant that by 1970 they had 1,695 stores (see table 3.2).[501] Continual expansion meant that Boots was comfortably the largest of the multiple chemist retailers with 51% of all multiple branches in 1950.[502] However, Boot not only increased the number of stores but also the size of some of the stores. In the late 1880's, he experimented by broadening the range of products sold and helped by his new wife Florence, expanded into perfumeries, toiletries and 'fancy goods'. In 1891, he opened a 'departmental' store in Nottingham and this provided a template for a large store format in the bigger cities.[503] Boots continued to trade through both large and small stores. By 1966, of the 1,265 stores, 54 had annual sales of less than £26k (about 8 staff) while 26 had sales of more than £500k (about 300 staff).[504]

Fourthly, Boot expanded into manufacturing products for resale in his own stores. He opened a production department in 1885 and a small factory in 1888 in

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[498] Memo to TGM's June 1921, BTC A 361/3 Memo’s re TGM’s; *The Bee*, June 1935.

[499] BTC A 48/1 Market Research Report 1929.

[500] BTC 461 - Statistical Books 1923/24 to 1941

[501] Immediately before the acquisition, they had 1,256 stores. Some stores had to be disposed of because of the acquisition. BTC Annual Accounts 1971.

[502] Mutliple firms with more than 10 stores. The next largest had 17% in 1900 and 30% in 1950. Jefferys, *Retail Trading,* 387.

[503] The non-chemist products were referred to as Department No. 2. In 1900 they represented 24% of total sales (Chapman, *Jesse Boot*, 72).

[504] BTC 314/4 - Peat Marwick Mitchell: Report on Management Structure (Part II) 14 June 1966.

Nottingham.[505] During World War I, Boots expanded into pharmaceuticals and fine chemical production.[506] They continued to invest heavily in manufacturing after the war. In 1927, work started on a new factory in Nottingham and it opened in 1933.[507] There was further investment after World War II in both the Nottingham factory and a new production plant in Airdrie.[508] Own-label products were a core part of sales - in 1939, they accounted for 31% of retail sales.[509] Not only were gross margins much higher on own-label products but they allowed more scope to compete on price as they were unaffected by RPM.[510]

The policies adopted saw the business grow significantly and they were the largest of the multiple retail chains in Britain throughout the period. As noted above, there was only one other large multiple chemist retailer (Timothy Whites and Taylors) and between them, they controlled 81% of multiple chemists branches by 1950 (79% in 1935).[511] Timothy Whites and Taylor had been created through a series of mergers between 1928 and 1934 and had branches across the country.[512] In 1935, they operated 765 branches of which 172 were 'double shops' which sold hardware as well as drugs.[513] Boots eventually bought Timothy Whites and Taylors in 1968. While they had roughly half the number of shops compared to Boots (700 to 1,400), their sales were only 20% of Boots'.[514] Over the preceding decades, the

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[505] Chapman, *Jesse Boot*, 61.

[506] Chapman, *Jesse Boot*, 91.

[507] *The Bee*, July 1933.

[508] "Boots Pure Drug Company." Financial Times [London, England] 21 July 1950: 6. Financial Times. Web.

[509] BTC 1167 - Final Accounts: Report on Boots Pure Drug Company Limited and Associated Companies Accounts for the Year Ended 31 March 1939, 6. Internal document unreferenced.

[510] In 1939, gross margin on own-label products averaged 61% compared to proprietary brands of up to 45% (toiletries). BTC 1167 - Final Accounts.

[511] Jefferys, *Retail Trading*, 387.

[512] Jefferys, *Retail Trading,* 387.

[513] "Timothy Whites and Taylors." Financial Times [London, England] 11 Dec. 1935: 11. Financial Times. Web.

[514] "The Chemists Come Together—at Last." Financial Times [London, England] 16 May 1968: 13. Financial Times. Web.

impact of the competition generated by Timothy White and Taylors on Boots' objectives and practices may have been less than the relative shares might suggest. Although both sold chemist goods, the focus of their other sales created a quite different shopping environment and attracted different customers. While Boots sold cosmetics, perfumes and what they called fancy goods, Timothy Whites continued to sell hardware.[515]

Table 3.2 shows the growth of the business between 1910 and 1970. The table is for illustrative purposes only and is not intended to show the relative success of their PMM structures and practices.[516] As noted in the introduction, PMM literature has been unable to prove the link between PMM systems and the financial performance of the business recognising the impact of external market factors and the difficulty in isolating the impact of performance management practices from other drivers of performance.

Organisationally, the business became a private limited company in 1883 and a public limited company in 1888 when it was renamed Boots Pure Drug Company. Jesse Boot, however, retained ownership and expansion of the business was funded by retained earnings and the sale of preference shares. In 1920, partly through failing health, a desire to fund a university in Nottingham and lack of confidence in his son, Boot accepted an offer for the business from Louis Liggett of the American firm, United Drug Company.[517] Although a substantial business, United Drug's retail operations (Liggett's) were relatively small in comparison to Boots with only 211 stores.[518] The Americans retained control until 1933 when

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515 "The Chemists Come Together—at Last." Financial Times [London, England] 16 May 1968: 13. Financial Times. Web.

516 Some caution needs to be used in analysing the figures. The retail and chemists goods market went through different periods of growth during the period. For example, while the chemists goods market grew by only 4% between 1920 and 1930, it grew by 142% between 1939 and 1950 (Jefferys, *Retail Trading*, 453).

517 Greenwood, *Cap.*

518 Hayward and White, *Chain Stores*, 343. They were, however, the largest multiple chemists in the United States at the time.

financial problems in their own country forced a disposal.[519] Thereafter, the business returned to public ownership until it was acquired by KKR in 2007 and subsequently merged with the the American company, Walgreen, in 2014.[520]

Table 3.2: Key statistics

	Retail Sales (£'000)	Profit available for shareholders (£'000)	Stores	Retail employees [a]
1910	1,915	n/a	394	n/a
1915	2,941	n/a	569	n/a
1920	7,575	219	618	5,438
1925	8,572	522	738	8,625
1930	9,830	678	876	11,226
1935	10,508	705	1,079	12,092
1940	13,776	720	1,210	14,391
1945	19,531	673	1,171	15,022
1950	36,253	1,060	1,276	20,482
1955	54,441	1,658	1,313	23,325
1960	81,981	3,767	1,307	26,506
1965	119,279	6,761	1,270	27,749
1970	214,381	11,000	1,695	28,427

[a] 1920 data refers to 1921 (first year employee data recorded). 1970 refers to 1969 and excludes employees from the Timothy White acquisition. Annual accounts form 1970 do not separate retail employees from all employees.

Sources: Retail sales, number of stores and retail employees from BTC 461 and 462: Statistical books except for 1970 which are from the annual accounts. Group shareholder profit: 1920 from detailed accounting ledgers (BTC Y 192), 1925 to 1955 from management accounting reports (BTC 1167 - Final Accounts), 1955 to 1970 from published annual accounts.

Although Jesse Boot remained as Chairman after the American acquisition, he played a minor role, retired from the company in 1926 and died in 1931. His son, however, was more prominent. He became Joint Managing Director in 1920 and

519 "Boots Drug Shares." Financial Times [London, England] 9 Jan. 1933: 5. Financial Times. Web.

520 "KKR wins Boots battle." Financial Times [London, England] 28 Apr. 2007: 14. Financial Times. Web.

ran the business after the Americans sold it until his retirement in 1953. After the American sale, John Boot was said to exert considerable influence and was every bit as autocratic as his father.[521] He was succeeded by JP Savage, who had joined the firm directly from school in 1911.[522] When he retired in 1961, the roles of Chairman and Managing Director were separated. FA Cockfield, who had been appointed as Finance Director from the Inland Revenue in 1952 became Managing Director while WR Norman, who had been with Boots since 1939 and had married John Boot's daughter, became Chairman.[523] Cockfield subsequently resigned in 1967 and he was replaced by Keith Williamson who had been with the business for 39 years.[524] With the exception of Cockfield, the majority of senior appointments were from within the business.

Table 3.3 provides a summary of the major events in the development of Boots between 1849 and 1970. It is for reference purposes only.

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521 Greenwood, *Cap.*

522 *The Bee*, March 1954.

523 "Boots Pure Drug Company Limited." Financial Times [London, England] 23 June 1960: 4. Financial Times. Web. 17 July 2016.

524 "Boots Pure Drug Company Limited." Financial Times [London, England] 14 June 1968: 30. Financial Times. Web.

Table 3.3: Boots expansion - key dates	
Year	
1849	John Boot opens a store in Nottingham selling herbal medicines.
1863	Jesse Boot leaves school at 13 and joins the family shop in Nottingham.
1883	Firm incorporated as Boot and Company Limited selling a range of proprietary medicines. Boot employs his first qualified pharmacist.
1888	The firm becomes a public limited company (Boots Pure Drug Company) with four branches. Expands rapidly through organic growth and acquisition.
1891	Develops a larger store format by creating a departmental structure offering a dispensary, perfumeries, toiletries and 'fancy goods'. Business develops using two formats - large departmental stores in city centres and smaller pharmacy focused stores elsewhere.
1920	Jesse Boot sells the whole business to United Drug of the United States. Jesse Boot remains as nominal head of the business. His son (John) has effective operational control as head of the Executive Committee.
1933	Boots sold and becomes a public limited company with John Boot as Chairman.
1933	Boots opens its new manufacturing facilities at its Nottingham headquarters.
1933	Opens 1,000th shop.
1953	John Boot retires. Succeeded by JP Savage.
1961	Savage retired and replaced by WR Norman (Chairman) and FA Cockfield (Managing Director).
1967	Organisational review completed by Peat Marwick Mitchell. They propose a divisional structure which was gradually introduced over the following 5 years.
1967	FA Cockfield resigns as Managing Director and is replaced by K Williamson.
1968	Acquire Timothy White and Taylors chain of chemists.
Sources: Chapman, *Jesse Boot*; *The Bee*; *Financial Times*; Greenwood, *Cap*; BTC 314/3 - Peat Marwick Mitchell: Report on Management Structure.	

Performance Management and Measurement

As discussed in Chapter 1, and using the same format as the other case studies, the following sections will describe each of the main elements of a PMM system as described in the framework. While much of it is descriptive to allow an assessment of the system as a whole, more detailed discussion and analysis is presented on those areas which are specifically relevant to the research questions raised in the Introduction. A conclusion will identify the key relevant themes as they relate to Boots and will feed into the overall conclusion.

Objectives of the Organisation

As explained in the first chapter, one of the benefits of a PMM system is that it aligns the structures and processes behind the objectives and strategy of the organisation. Following the framework introduced in the first chapter, this section will consider whether Boots had a dominant objective or several objectives and how the business communicated these to the organisation. It will also consider whether the objectives changed over the period.

Boots did not explicitly identify its objectives during the period and a review by external consultants in 1966 criticised them for not doing so.[525] However, a variety of sources suggest that not only did Boots have a dominant objective but that it was retained throughout the period.

The editorial of the first edition of *The Bee* in November 1921 communicated a very clear objective: “But our whole living - our salaries - our reputation are summed up in our magazine slogan - more sales.” On the opening page, the Sales Manager exhorted "colleagues and salesmen" to "LET US GO AFTER MORE VOLUME IN REAL EARNEST."[526] In the rest of the pages and over the coming months and years, articles focused on how to improve sales and in particular, volume. The objective was consistent with how Jesse Boot ran the business over the previous forty years. The primacy of the objective over others is supported by other sources. George Gales, seconded from the American business and appointed Managing Director in 1920 explained in a speech to employees in 1924, "sales are the lifeblood of the business. Without sales, there would be no necessity for anything else."[527] Training guidance emphasised sales above other objectives. A 1930's memo to Territorial General Manager's (TGM's), who were responsible for several shops in an area, encouraged them to challenge store

525 BTC 314/3 - Peat Marwick Mitchell: Report on Management Structure (Part I) 14 June 1966.

526 From the Editorial and the first page, *The Bee* November 1921.

527 *The Bee*, April 1924.

managers: 'Are you a salesman? How do you show it? Who is the leading salesman in your shop? Can you show them how to sell?'[528] In the organisation structure, the first person to hold the role of 'Sales Director' in 1932 was the Chairman, John Boot.[529] Published statistics focused on sales growth with 1/3rd of the schedules in the statistical pack relating to sales.[530] The timing of Executive meetings were determined by the availability of the previous week's sales statistics (4.00pm, Tuesday in 1922 and 12.00am, Monday in 1966).[531] While store managers' bonuses had several components, they were conditional on achieving sales growth.[532]

Volume growth was prioritised over price in driving sales and the terms 'sales' and 'volume' were used interchangeably. In driving volume, Boots promoted heavily (Boots was running their still ubiquitous '2 for the price of 1' promotions as early as 1929) and in store prioritised 'salesmanship' and customer service.[533] In his "Service Letter No. 1" issued in 1925, John Boot stressed that "the customer is always right" and the refund policy required store managers to refer to Head Office before refusing a customer a refund.[534] TGM's were encouraged to personally visit customers who complained about poor service received in one of the shops.[535] Price promotion, salesmanship and customer service were complementary: promotion of the non-price regulated products drove footfall into the store and salesmanship and customer service converted the footfall into paying customers - particularly important for the price regulated products.

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[528] The questions were part of a memo sent to TGM's: "TGM Duties". It is undated but probably produced in the 1930's as there is reference to a 1934 legal act. BTC A 89/33.

[529] Memo 28 January 1932 (BTC A 129/7 - Various Memo's TGM's).

[530] BTC 461 - Statistical Books. In 1939, 15 of the 43 schedules related to sales.

[531] *The Bee* July 1922; BTC 314/4 - Peat Marwick Mitchell Report Part II..

[532] The exception was a profit earnings bonus introduced in 1955 - see section on motivating employees below.

[533] Report by J Walter Thompson, September 1929 (BTC A 48/1 Market Research Report).

[534] *The Bee*, July 1925.

[535] Memo 17 November 1930 (BTC A 129/7 - Various Memo's TGM's).

As noted above, sales volume had been a central focus for Jesse Boot but not the only one. Furthermore, analysis of the drivers of profit growth in the 1920's and 1930's show that improvements in gross margin were the biggest contributor to overall profit growth.[536] However, even if margin growth was a specific objective of the business, it was couched in terms of sales growth in communications. Sales volume allowed the business to secure supplier discounts but profit was also boosted by the sales of 'own-goods' which earned margins 16 percentage points higher than proprietary brands.[537] While the priority was *overall* sales growth, staff were reminded about the importance of selling 'own goods'. A 1923 article in *The Bee* explained the importance of 'own goods' and ran a competition across stores on 'own goods sales.'[538] In 1930, the store manger bonus was adjusted to include an 'own good' element (although conditional on overall store sales growth).[539] This was extended to the store staff commission scheme in 1936.[540] The introduction of the company staff discount scheme in 1952 offered twice the discount for own goods compared to proprietary goods.[541] Other than 'own-goods' sales, however, margin was rarely mentioned in communication with stores.

Costs were also an immediate focus of the post-acquisition business and Greenwood aggressively reduced costs by cutting salaries and other controllable expenses.[542] In *The Bee*, he also reminded employees of the importance of generating 'profitable' sales: "It has been said at Managers' meetings that any fool can increase sales if he has unlimited stocks and expenses to do it with."[543]

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[536] Gross margin grew from 39.6% in 1922 to 48.5% in 1940. Gross profit defined as sales less cost of goods and direct labour. 1922 was the earliest year that it was recorded in the Statistical Book. BTC 461 - Statistical Books 1923/24 to 1941.

[537] In 1939, own brands had an average margin of 61% compared to 45% on proprietary toiletries, the highest proprietary margin. Report on Boots Pure Drug Company Limited Accounts for the Year Ended 31 March 1939, 6. Internal document unreferenced.

[538] *The Bee*, June 1923. The competition was repeated in May 1925.

[539] BTC A 129/7 - Various Memo's TGM's, 4 February 1930.

[540] BTC 780/5 - Sales and Increased Sales Bonus Scheme (1 March 1936).

[541] BTC 456/6 - General Benevolent Fund, Other Funds and Sundry letters.

[542] Chapman, *Jesse Boot*, 150.

[543] *The Bee,* January 1922.

However, the focus on costs and stocks differed from sales - while there was a clear objective to maximise sales, costs and stocks only needed to be controlled. And, where this control was delegated to store managers, it was achieved through cost to sales ratios which recognised the close links between sales and costs (see section on 'Measures'). Expenses and net profit, therefore, did not get the same focus as sales in communications with stores, in the measures of performance and in the reward mechanisms. Even in 1960, a store training programme belatedly stated that "the company was coming to think more and more in terms of profit."[544]

In PMM literature, one of the central roles of a PMM system is to communicate the objectives of the firm thereby aligning *all* levels in the organisation with *all* strategic objectives. Field studies suggest that although PMM systems are successful in communicating the objectives, they are less successful in helping employees understand the relationship between different objectives.[545] At Boots, it was simpler. Throughout the period there was one dominant objective despite changes in the external environment and despite the frustration expressed sometimes by senior management. In 1966, the Managing Director conceded that "regrettably, when it comes to the pinch many of our people still react in the traditional Boots way of sales at any price."[546] However, the singularity of the objective had certain advantages. Its simplicity helped ensure a consistent message across a geographically spread workforce and its breadth gave some flexibility to store managers on *how* the growth could be achieved - salesmanship, customer service, a focus on 'own-label' products and in-store merchandising.

Organisational Structure

This section will consider how Boots structured its organisation and whether this was consistent with the objectives. The section should also, based on the framework, consider how the structures changed over the period. Following Chandler and as outlined in Chapter 1, organisation structures are expected to

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[544] BTC A 57/16 - Managers' Course Reportage (8 February 1960).

[545] Franco-Santos *et al., Contemporary;* Bititci *et al. Challenges.*

[546] BTC A 49/3 - Memorandum on the Peat Report by the MD (FA Cockfield) Nov. 1966.

change as strategy and the external environment change.[547] In this sense, PMM systems are considered dynamic. However, Boots acknowledged in 1967 that there had been little change in their structures since 1920 and subsequently announced that they had commissioned a review by Peat Marwick Mitchell and Co.[548] The section will therefore consider the structure introduced in the early 1920's and highlight which features still existed in 1967. It will conclude with an analysis of the report by Peat Marwick and what their comments, and Boots' response, tell us about how the firm was structured to manage performance.

According to Greenwood's memoirs and a 1959 speech given by Arthur Cockfield, Finance Director, Jesse Boot had run the business with little formal structure and relied upon his direct involvement to maintain control.[549] Even if this was hyperbole, the sources suggest that the business went through a major restructuring in the early 1920's and that the resultant organisation structure was modelled on the American companies retail operations. After the acquisition, Liggett appointed George Gales as Managing Director of Boots. Although Gales remained the Managing Director of Liggetts' retail operations in the US, he regularly visited Britain.[550] Immediately after his appointment, he toured the UK, visiting branches and speaking to managers.[551] Gales was a strong advocate of organisation and told store managers that "the greatest asset we have is organisation, greater in value than all the other assets combined."[552] Three British directors also toured the US (John Boot, Greenwood and HR Gillespie) in Autumn 1920 to understand Liggett's system of management.[553] Soon after, three of the

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547 Chandler, *Strategy and Structure*.

548 "Boots Pure Drug Company Limited" The Financial Times [London, England], June 16, 1967. Web.

549 Greenwood, *Cap;* "The Development and Organisation of Boots Pure Drug Company Ltd" - an address to LSE March 1959 by Cockfield (unreferenced).

550 Chapman's review of the minutes notes Gales' attendance (Notes written by Chapman, unreferenced); *The Bee* also recorded some visits: Feb. 1923, Mar. 1923, Mar. 1924.

551 Memo from George Gales 5 August 1920 (BTC A 361/3 Memo's re TGM's).

552 *The Bee* February 1924. Article written by the Sales manager referring to a speech given by George Gales to the Bristol Managers meeting in March 1923.

553 BTC 3341/5 - Interview with Greenwood by Chapman (undated).

accountants also visited "to investigate American methods of business organisation."[554] In 1922, *The Bee* described a restructuring that had lasted 18 months and resulted in "changes in method, some of them causing a good deal of trouble at the branches."[555] The changes appear to have delivered immediate benefits. In 1923, *The Financial Times* attributed the sharp increase in company profits to the organisational improvements: "The introduction of the American element has certainly done the company no harm. It has very much livened up the administration and has modernised executive methods."[556] Over the following ten years, the two business continued to learn from each other. Based on articles in *The Bee,* Boots managers visited the US regularly and American managers also toured British shops.[557] *The Bee* included extracts from its sister magazine in the US, *The Liggett Leader.*[558] A letter written by a United Drug Executive in 1930 praising the contents of *The Bee* also suggests that it was read by senior managers in the US.[559]

The resulting structure was based on the belief that performance was dependent upon meeting the needs of the customers in *each* store. Store managers were given autonomy to meet local needs - they decided, for example, which products purchased by the central buyers to stock in their stores. It was still the case in 1966.[560] Given their importance, the structure therefore sought to narrow the gap between head office and the stores. A memo to Branch Managers explained why:

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554 Recollections of A Johnson, *The Bee*, June 1954.

555 *The Bee,* March 1922.

556 "Boots Pure Drug Report." Financial Times [London, England] 9 May 1923: 4. Web.

557 Gales visited a TGM Conference with the Liggett's Vice President (*The Bee* Feb. 1923) and spoke at managers meetings (*The Bee* Mar. 1923, Apr. 1924); Three Liggett's TGM's visited the UK in 1924 (*The Bee,* Feb. 1924); Three Boots TGM's toured the US in 1921 and two in 1923 (*The Bee,* Dec. 192*,* Jul 1923); In 1927, 12 Boots employees toured the US business (*The Bee,* Mar. 1927); An accountant visited in 1931 (*The Bee*, Jun. 1954).

558 Throughout 1922, *The Bee* included selected articles from the *Liggett Leader.* It was less regular thereafter.

559 *The Bee*, Feb. 1922; Nov. 1922; Mar. 1928. *The Bee*, July 1930 included a letter from a member of United Drug Executive explaining that he read every copy of the *The Bee*.

560 BTC 314/4 - Peat Marwick Mitchell Report Part II.

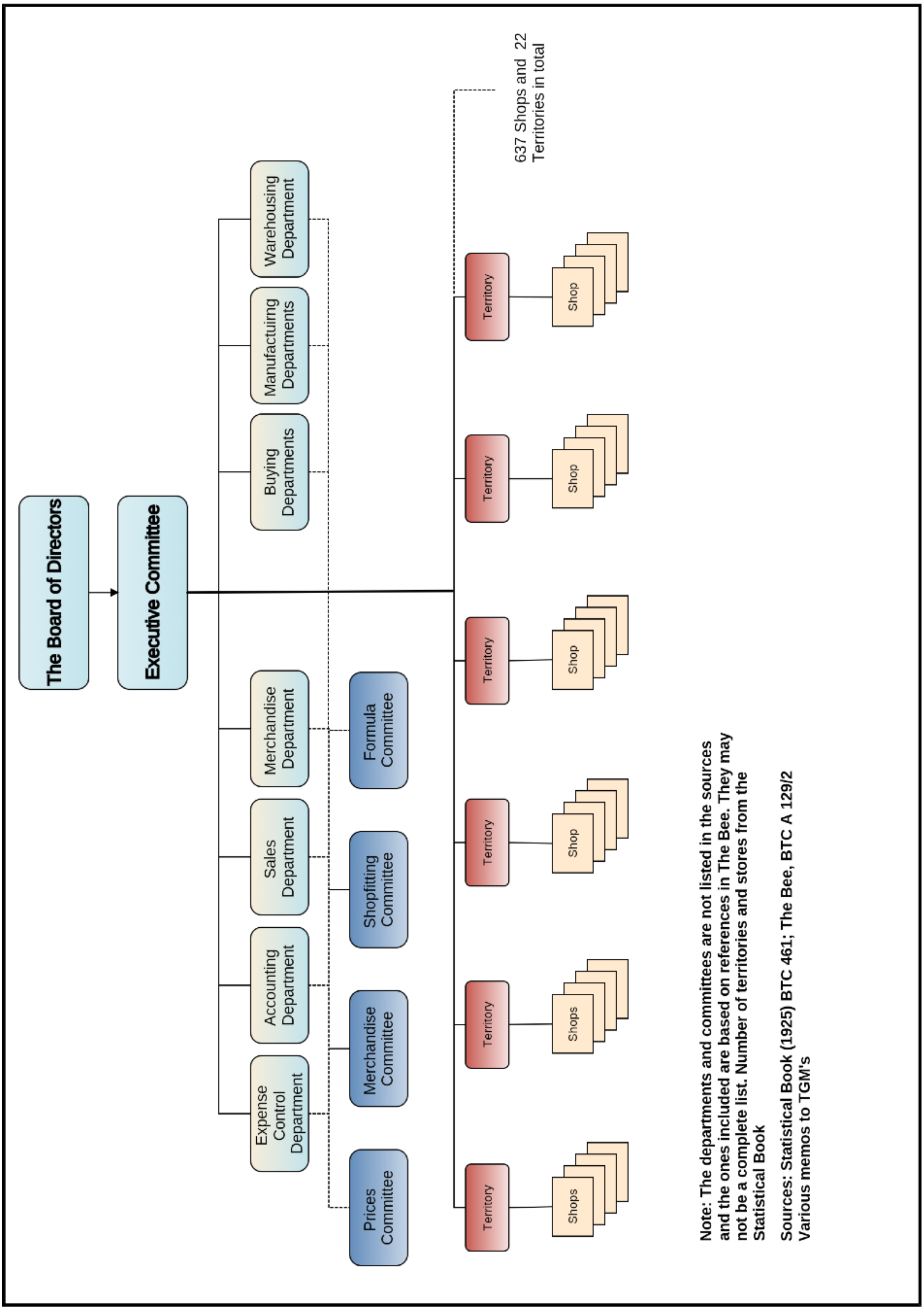
> "The very size of a business of this kind, and its scattered nature, makes it imperative that everything possible be done to promote contact and understanding between headquarters and branches, and that simple and direct methods be devised to get quick action and decision on important matters."[561]

Figure 3.1 is a reconstruction of how the organisational structure may have looked in 1924. It is based on articles in *The Bee,* Statistical Books and memos written in the early 1920's. It shows the narrow reporting lines between a store manager and the Executive with only one tier of management between the two (the TGM) - consistent with the aim of maximising direct contact between store and directors. The other significant feature was the use of cross-functional committees to manage processes (e.g., pricing, merchandising). These committees were not profit accountable but managed as cost centres to support the performance of the individual stores.[562] Both the TGM and Committee structure still operated in 1967. The roles of the directors, TGM and committee are explained in more detail below.

[561] Memo to Branch Manages, 5 August 1920 BTC A 361/3 Memo's re TGM's.

[562] Profit was based on a standard margin (by department) in store. BTC 3341/5 - Interview with Greenwood by Chapman (undated).

Figure 3.1: Organisation Structure 1924



The Board comprised a combination of permanent Executive members and members of the US parent company who visited the UK regularly. Below the Board, sat the Executive who represented the different functions within the organisation and comprised, principally, managers who had held senior positions before the American acquisition. The main exception was Greenwood who had been appointed by Jesse Boot in 1920 to bring an external perspective to the business.[563] Greenwood remained with the business until his retirement in 1953.[564] The Board was responsible for general issues of policy and for the financial oversight of the business while the Executive Committee was responsible for the actual conduct and management of the business.[565] BTC retained this structure throughout the period.[566] Until 1961, the Chairman of the Board was also Chairman of the Executive Committee but the roles were split in 1961. The Chairman was confined to the Board while the Managing Director sat on both.[567]

Reviewing the membership of the 1920 Executive Committee suggests it had a strong ‘performance’ bias. The seven members included the heads of both the Expense Control Department (Greenwood) and the Accounting Department (Gillespie).[568] Articles written in *The Bee* suggest that both Departments were focused on the *overall* performance of the business and not just their own functional responsibilities. In an editorial in 1922 Greenwood challenged store managers with the headline “Are you making more profit for the Company” and in an accompanying article (“Why are we employed by Boots the Chemists”) stressed the importance of sales and gross profit before providing guidance to

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563 Greenwood, *Cap*.

564 *The Bee*, June 1953.

565 “The Development and Organisation of Boots Pure Drug Company Ltd” - an address to LSE March 1959 by Cockfield (unreferenced).

566 Initially there were separate Retail and Manufacturing Executives but they merged in 1924. The business restructured in the late 1960's but it retained a separate Board and Executive Committee although the Executive Committee confined themselves to the retail activities (BTC A 49/4 Shaping Up for the Future - Boots New Management Organisation, 1966).

567 Handwritten note in margin of “The Development and Organisation of Boots Pure Drug Company Ltd” - an address to LSE March 1959 by Cockfield (unreferenced).

568 Notes from Chapman's review of the minute books (unreferenced)

managers on how they could improve productivity and reduce waste.[569] An article authored by the Accounting Department in 1922 suggests they had a similar performance bias as they made it clear how "we are out to make the business as profitable as possible" through the provision of statistics supplied to the departments, territories and shops.[570] Reviewing reports written by them in the 1930's through to the mid-1950's suggest they retained a focus on analysing and interpreting performance through commentaries on performance supported by statistical analysis.[571] This suggest an active rather than passive approach to managing performance and, with a focus on sales and margins, broader than expense control. Based on literature from the United States, this was still rare among controllers and emphasises the strong performance focus in the Executive.[572]

By 1966, both departments still existed but the sources suggest that they no longer retained the broad performance focus that they exercised in the 1920's and 1930's. Neither of the heads sat on the Executive and a separate Management Accounting department had been established (also not on the Executive).[573] The Peat Marwick report explained that the Chief Accountant was now primarily responsible for statutory reporting and Expense Control focused on store costs rather than the "encouragement of profits."[574] To fill the gap, a new Management Accounting department had been created in 1960. Its role was "the development of management information systems, for the production of management accounts

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569 *The Bee,* January 1922.

570 *The Bee,* March 1922. (BTC 1167 - Final Accounts). There are no copies or references to their reports after the mid-1950's.

571 Reports included commentary with sophisticated statistical analysis using ratios to focus on specific issues (e.g. 1932 - productivity of sales staff: BTC 345/2) or scenarios to highlight opportunities (e.g. 1950 - profit impact from improvements in 'own brand' percentage of sales: BTC 1167, 1950).

572 Mazur, *Principles*. Mazur, writing in the 1920's, was a strong advocate of accounting departments taking a more active part in interpretation of statistics and overall management of the business. However, he argued in 1927 that this was still rare and contentious.

573 Established in 1960 by Cockfield (BTC 314/4 - Peat Marwick Mitchell Report Part II.)

574 BTC 314/3 - Peat Marwick Mitchell: Report on Management Structure (Part I) 14 June 1966, 41.

and for the interpretation of the information to management."[575] These were, however, the roles undertaken by the Accounting and Expense Control Departments in the 1920's and 1930's.[576] Even the generation of statistics was dispersed across five departments as well as the 'Statistical Department'.[577] The Statistical Department did not even report into a Accounting Department but was instead part of Administrative Services which reported into the Executive through the Head Buyer.[578] It is not clear from the sources why they lost the performance focus they previously had. It may reflect the fall-out between John Boot and Greenwood during negotiations to take back control of the business in 1933. According to Greenwood, John Boot largely ignored him thereafter and this may have led to a decline in his influence of the structures.[579]

Aside from managing their own departments, the members of the Executive sat with senior managers on cross-functional committees responsible for specific activities. Table 3.4 shows the committees in 1922 and 1966 and shows that there was little change. Other committee's were created in the intervening years such as a Gross Profit Committee in 1932, a Sales Committee in 1935 and a Chemical Cost Committee in 1946 but there is no record of them in 1966 suggesting that the Committee system was used to resolve short term issues as well as on-going activities.[580]

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575 BTC 314/4 - Peat Marwick Mitchell Report Part II., 90.

576 The archives include a number of statistical packs created in the 1920's and 1930's covering individual store performance as well as the overall performance of the business produced by the Departments. See 'Measures' section below.

577 BTC A 48/5 Investigation into Administrative Procedures February 1959.

578 BTC 314/3 - Peat Marwick Mitchell Report Part I, 42.

579 BTC 3341/5 - Interview between Greenwood and Chapman (undated).

580 BTC 345/2 Expenses Report (1932); *The Bee,* June 1935; BTC A 48/3 Accounting Procedure and Costing System for the Chemical Department 1946.

Table 3.4: Committees 1922 and 1966			
1922		**1966**	
Name	**Responsibility**	**Name**	**Responsibility**
Merchandise Committee	New Lines	Merchandise Committee	Development of own goods sold through BTC or wholesale
Retail Prices Committee	Product pricing	Cost and Prices Committee	Reviews prices, including special offers
Formula Committee	Quality of products manufactured within the plant		
Shopfittings Committee		Shopfittings Committee	Major work schemes including layout
		Works Planning Committee	Development of all properties
Sources: *The Bee,* April 1922; BTC 314/4 - Peat Marwick Mitchell Report Part II. There is little description of the activities of the Committee's in 1922.			

Territorial General Managers

Also reporting into the Executive, as a collective, were the Territorial General Managers (TGM's). They were the only tier of management between a shop and the Executive. The TGM was a new role created in 1920 and a direct copy of the Liggett system.[581] Previously a senior store manager had overseen smaller local stores, his role primarily operational. Head Office control was also maintained through 'inspectors', who visited stores to check on operational compliance and 'auditors', who counted stock.[582] The new role was quite different - its primary function was not control but improving performance and was arguably the core performance oriented role in the new structure as it linked the only profit centres in the organisation (the store and the Executive). The role reflected a concern expressed to Gales on his tour of the country, that store managers did not have

[581] Memo to Branch Managers, 5 August 1920 BTC A 361/3 Memo's re TGM's.

[582] *The Bee,* August 1922

sufficient information “to get the maximum results.”[583] As Greenwood later recalled “That [appointment of TGM] was a very big thing, because a lot of the managers had never seen anyone from Nottingham for years and years."[584] And, their importance in the business was emphasised by them reporting directly into the Executive - the complications of up to 39 people reporting into the Executive offset by the advantages of narrow reporting lines. In 1967, they still reported directly into the Executive.

The TGM role had two essential components. The first was knowledge transfer. TGM’s, through their own experience, were expected to coach store managers, questioning them on both operations (“Can you wrap a parcel. Do it.”) and selling (“Are you a salesman?”) They were to encourage managers to look outwards, challenging them on whether they knew the size of the local population, the average earnings of the local community and the make up of local industry.[585] An article in a new internal magazine in the 1960's suggests their role had changed little. They still challenged store managers on how to drive sales and volume, to control expenses and to question the managers on their knowledge of technical matters such as pharmacy and of local retail patterns.[586] Knowledge transfer was also upwards to Head Office and the Executive. Each TGM wrote a weekly report to the Chairman.[587] A TGM representative was invited to join the weekly Executive meetings from 1924 because:

> “it is the desire of the Executive Committee to keep in even closer contact with the Retail Branches than in the past, and it has been decided the best way to do this would be to arrange for one of the General Managers, who is

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583 Memo to Branch Managers, 5 August 1920 BTC A 361/3.

584 BTC 3341/5 - Interview with Greenwood by Chapman (undated).

585 The questions were part of a memo sent to TGM’s titled “TGM Duties”. It is undated but probably produced in the 1930’s as there is reference to a 1934 legal act (BTC A 89/33 - Role of the Territorial General Managers).

586 “The Manager and his TGM” *The Leader,* third edition. Not dated but there were references to the 1960’s (BTC A 92 - *The Leader).*

587 BTC A 89/33 - Role of the Territorial General Managers

> in direct working contact with a Territory, to be present at each meeting of the Executive Committee."[588]

TGM's were also encouraged to hold "frequent meetings of Branch managers, to discuss matters pertaining to the progress of the business and to invite to those meetings various Directors and representatives from headquarters so as to still further promote contact and understanding."[589] The Executive attended the annual TGM conference in 1922.[590] TGM conferences continued through the 1960's where "he will hear a good deal about what the Board is expecting, the Sales Department is programming….. Equally he is passing back what retail is thinking."[591] It is not clear if they attended Executive meetings in the 1960's but each of them continued to submit a weekly report to the Executive.[592]

The second significant component of the TGM role was to lead the store managers he was responsible for and to identify the right successors - "his most important duties deal with men and women, customers and staff."[593] When new appointments to TGM were announced in *The Bee*, it was often their leadership qualities which were highlighted:

> "The ability to develop a staff and by personal contact to get the best out of each member has been a very strong point with Mr Cook and it is that quality of staff leadership, allied to his merchandising ability, which has marked him out for the well merited promotion."[594]

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588 Memo to TGM's dated 31 April 1924. BTC A 361/3 Memo's re TGM's. It is not clear from the sources whether this arrangement continued throughout the period.

589 Memo to Branch Manages 5 August 1920 BTC A 361/3 Memo's re TGM's.

590 *The Bee,* December 1922.

591 "The Manager and his TGM." (BTC A 92 - *The Leader*).

592 BTC 314/4 - Peat Marwick Mitchell Report Part II.

593 BTC A 89/33 - Role of the Territorial General Managers.

594 *The Bee,* May 1931.

The role changed little over the period. The span of control remained the same so that as store numbers increased, the number of TGM's also increased.[595] However, by 1966, a TGM was supported by two secretaries, a Territory staff trainer, four display staff and a group of branch relief staff.[596] For the then Managing Director, FA Cockfield, who only joined the business in 1952, "the creation of the TGM role was was one of the most effective and enduring contributions they [Liggett's] made to the management structure of the business."[597] Cockfield did not explain why but from a PMM perspective, the importance given to them reflects the belief that to deliver the performance, the stores and the directors needed to be as closely connected as possible. It is a principle which is echoed throughout the PMM processes described in later sections.

Change?

On the surface, the organisational structure in the late 1960's closely resembled the 1920's structure. There was still a Board, an Executive Committee and cross functional committees to manage certain activities. TGM's still reported directly into the Executive and largely fulfilled the same role. However, reviewing the structures suggests that it was were not operating as effectively as in the 1920's and 1930's. The Executive now included 11 people and the performance bias evident in the 1920's had been lost with no representative from any of the accounting and finance departments and no Financial Director. There were also concerns about dysfunctional behaviours at Board level.[598] Although not explicitly stated, this may

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[595] Each TGM, on average, was responsible for 32 stores in 1924 and 33 stores in 1966. Statistical Books 1923/24 to 1941; BTC 314/4 - Peat Marwick Mitchell Report Part II.

[596] BTC 314/4 - Peat Marwick Mitchell Report Part II.

[597] Cockfield did not have a retail background and was relatively new to the business. "The Development and Organisation of Boots Pure Drug Company Ltd" - an address to LSE March 1959 by Cockfield (unreferenced).

[598] "Boots the evolution of a Modern Business", Stanley Chapman (unpublished). A draft argues that the Board operated dysfunctionally but Chapman does not reference his sources.

explain why the directors consequently commissioned Peat Marwick Mitchell in 1965 to undertake a review of the organisation structure.[599]

Peat's review was wide ranging and they were critical of all aspects of the head office organisational structure. From a performance management perspective, they were particularly critical of the various finance and accounting departments which seemed to work independently of each other (see above). Boots accepted the findings about the finance structure and accepted the recommendation for consolidation of the various activities under a Finance Director. Cockfield, commented that “the appointment of a Financial Director would be more valuable than the whole of the rest of the Peat’s report put together.”[600]

More controversially, Peat's made wider recommendations which challenged some of the underlying principles which had underpinned the performance management structures over the last 40 years. Retail had changed since the 1920’s, they argued, it had become more centralised due to the development of advanced techniques.[601] They argued that Boots suffered because they had failed to adapt - problems of 'a small firm grown big.'[602] Recommendations followed two principles. Firstly, they believed that the directors needed to cascade accountability to head office managers through the creation of a divisional structure. Directors would focus on longer term plans while operational responsibility should be pushed down onto each senior manager through clear objectives which could be measured. Their second recommendation was increased centralisation of decision making. The retail division would be primarily an administrative function responsible for the administration of the shops and the provision and control of merchandise supplied to the shops. Regionally, TGM’s would report into Regional Shop Controllers who would assume some of the Head Office administrative functions. TGM’s would

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[599] BTC 314/4 - Peat Marwick Mitchell Report Part II.

[600] That Cockfield, as Managing Director, Deputy Chairman of the Board and previously Finance Director, could not recruit a Finance Director hints at the divisions within the Board (BTC A 49/3 - Memorandum on the Peat Report by the MD (FA Cockfield) November 1966).

[601] BTC 314/3 - Peat Marwick Mitchell Report Part I, 40.

[602] BTC 314/4 - Peat Marwick Mitchell Report Part II, 2. Boots could have challenged whether they were really a small firm in 1920.

become Territorial General *Inspectors* ensuring compliance with Head Office decisions. Ironically, and perhaps unknown to Peat's, TGM's had been created in 1920 to replace the existing compliance focused 'Inspectors.'[603]

Cockfield wrote a 60 page response to the Peat's report.[604] He was highly critical of these two recommendations but it was not a simple plea for preservation of the *status quo*. Cockfield was unique among the Executives as he had joined the firm as a member of the Executive straight from the Inland Revenue and did not have a background in retail.[605] He had been brought in as an agent of change and took an academic approach to business referencing trends in the wider business environment in speeches and reports.[606] Indeed Chapman quotes Cockfield's view of Boots in the 1950's as "a place of intellectual atrophy with a homegrown management quite unaware of outside business practice."[607] He recognised, however, that Peat's recommendations undermined the principles which Boots had followed in managing performance over the last 40 years and would damage their ability to manage their future performance. His views, therefore, help illustrate what Boots thought were the key elements of their performance management structure.

Cockfield was wary of divisionalisation and the delegation of accountability and responsibility. He recognised the difficulties of creating divisions when all parts of the business were so dependent upon each other. He was particularly critical of the idea proposed by Peat's, that all of the separate strands of the organisation should only come together at the 'Top Management Committee' level. For him there needed to be constant linkages throughout the structure.[608]

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603 Memo 1924, BTC A 361/3 Memo's re TGM's.

604 BTC A 49/3 - Memorandum on the Peat Report by the MD (FA Cockfield) November 1966.

605 Biography, *The Bee*, June 1960.

606 "The Development and Organisation of Boots Pure Drug Company Ltd" - an address to LSE March 1959 by Cockfield (unreferenced); BTC A 49/3.

607 "Boots the evolution of a Modern Business", Stanley Chapman, 7.

608 BTC A 49/3, 4.

> "The truth is that none of our "Divisions" can be truly independent nor can they be fully "accountable in terms of profit". They are on the contrary intimately dependent upon one another. This must be recognised: it must be constantly present in our thinking; and it must be reflected in the pattern and procedures of the organisation we set up."[609]

It was a view which could equally have been expressed in the 1920's. Gales may have argued that accountability and responsibility for performance was clear - it sat with the store managers who were directly responsible for bringing together all of the resources and ideas of the business to serve the local customer needs. Head Office departments were there to support the shops rather than pursue their own, narrower objectives. Structures had to be created to ensure the maximum amount of contact between these areas and to ensure the best result for the overall business.

Cockfield's other concern was the proposed centralisation of decision making and the conversion of the TGM role to that of an inspector. In 1959, Cockfield had argued that "the organisation is an interesting and possibly paradoxical example of great centralisation coupled with a large degree of local autonomy" - the benefits of central buying and supply combined with local autonomy on stock selection and where to direct sales.[610] This created, in Cockfield's view, a highly flexible organisation which had tried to avoid rigid lines of responsibility. In such a structure, the TGM role was critical in providing the link between HO and the shops which ensured the flow of knowledge between the two. He supported the current number of TGM's (the same ratio as 1924) but recognised that this was too many to report into the Managing Director. He proposed Area Directors to act as span breakers between stores and the Executive. Meanwhile, TGM's would remain as managers rather than inspectors. While Cockfield was to leave soon

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609 BTC A 49/3, 20.

610 "The Development and Organisation of Boots Pure Drug Company Ltd" - an address to LSE March 1959 by Cockfield (unreferenced).

after, it was his views on the TGM's and not those of Peat's which prevailed. They still prevail today.[611]

The exchange between the two went to the heart of how performance should be managed at Boots. As Cockfield acknowledged, the Peat's proposals were consistent with the then current trends towards divisionalisation and delegation of accountability and responsibility.[612] Cockfield's response was a defence of the *principles* that had underpinned the Boots system since its creation but also a recognition of how far they had strayed from some of those principles in practice.[613]

The exchange mirrors debates that continue in the PMM literature today. One can interpret PMM frameworks and balanced scorecards as mechanisms to improve the effectiveness of the type of divisional structure and delegated levels of accountability that Peat's were suggesting. As outlined in earlier chapters, PMM systems help communicate organisational objectives, align different parts of the business behind those objectives and provides data on whether the objectives are being met. However, there have been challenges to such mechanistic approaches which, it is argued, cannot capture the patterns of relationships that connect the complex structures that exist within a business. Performance is the outcome of a set of complex interactions between people, products, processes and environment, among other things. To understand performance, it is necessary to observe it where these interactions combine to produce the product or the service - the production line or the shop floor. Johnson describes it as 'going to the place' to see for yourself.[614] Mintzberg expresses similar views albeit in more colourful

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[611] Boots subsequently implemented a from of divisional structure in the 1970's, but it was a much diluted version of the Peat's recommendations. Although manufacturing was separated into a new division, retail was maintained in much of its existing format. TGM's retained their managerial role although regional directors were introduced to reduce the number of direct reports of the Executive Committee. Knowledge of the current system is based on the author's own experience of working in the business.

[612] BTC A 49/3, 4.

[613] He was particularly critical of the disjointed delivery of statistical information and lack of analytical support.

[614] Johnson, *Lean Dilemma*, 8.

language as he stresses the need for senior management to get much closer to 'the ground'.[615]

Gales' explanation of the 1920's structure and Cockfield's defence of the 1966 structure are more consistent with the latter perspectives: narrow reporting lines between Executive and store and all support functions working towards a common objective rather than operate in functional silo's or hierarchical 'slabs'.[616] It is an idea which contrasts with much of the current PMM guidelines but it is an idea retailers are returning to - Wal-mart recently removed a layer of regional management. Explaining the decision, the Chief Executive reminded financial analysts in June 2015 that "there are no cash registers in Head Office" as he stressed the need to work more closely with the stores.[617] As Forbes noted "direct reporting will certainly allow for more initiatives and flexibility in the company… I also believe that the company is returning to its heritage and empowers its store management to respond to local demands."[618]

Processes

The next sections review the performance management processes operated by Boots over the period. Three broad groups of processes are analysed: those that focus on future performance (planning, targeting, forecasting), those that focus on evaluation of performance and finally, those that focus on motivating and rewarding performance.

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615 Mintzberg has consistently argued that directors need to spend more time with employees and observe first-hand how the business is operating, e.g. Mintzberg, *Musings*; *Managing*; *on management*.

616 Mintzberg refers to both silo's and slabs as problems of modern hierarchies. Mintzberg, *Enough of Silos.* See also Tett, *Silo Effect*, which highlights the negative consequences of organisational silo's.

617 Reuters 2 October 2015: http://www.reuters.com/article/us-wal-mart-stores-layoffs-idUSKCN0RW1I220151002

618 Forbes 4 may 2015: http://www.forbes.com/sites/walterloeb/2015/05/04/walmarts-management-changes-indicate-important-new-direction-for-u-s-stores/#b3912d5b55c2

Planning for the future: strategic planning, budgeting, forecasting and targeting

In PMM, the strategy and long-term planning help ensure the objectives of the organisation are translated into activities. This section will explore the processes that Boots used to plan for the future, if any, and consider how these were converted into measurable targets or budgets.

The first corporate plan was presented in 1978 although, as the introduction to the plan explained, “The Boots Company Limited (the Group) has in effect had a corporate plan for many years, although it has never existed as a single document. Before 1970 discussions on corporate planning between executive directors were largely informal.”[619]

While there are no references to even *informal* plans in the archives, the actions taken by the business between 1920 and 1970 suggest that the business was following, at the least, broad long-term principles consistent with their objectives of growing sales and improving gross margin. This strategy changed over time. Before 1950, they focused heavily on developing their 'own brand' capability. Reviewing capital expenditure shows that although they continued to open new stores throughout the period, they invested heavily in factory and plant in the early 1930's.[620] In 1927, they started work on a new factory in Nottingham which was completed in 1933.[621] This increased both the range of products exclusive to themselves (such as the cosmetics brand No. 7 launched in 1935) and the volume of own-brand goods.[622] Focus on production continued after the war: another plant was opened in Airdrie in 1950 and and there was further investment in the

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[619] BTC 2555/1 The Corporate Plan 1978 (October).

[620] In 1932 they spent £56,299 of capital acquiring retail properties but £333,585 on the new Nottingham factory (BTC 345/2 - Expense Report 12 months ended march 31st 1932); BTC 1167 - Final Accounts.

[621] *The Bee*, July 1933.

[622] Manufacturing sales to retail grew 50% from £1.6 million in 1929 to £2.4 million in 1939 while shop sales only grew 29% (BTC 1167 - Final Accounts)

Nottingham production facilities.[623] After 1950, focus shifted back to growing sales volume. In an address to the LSE, Cockfield explained that from 1950, partly reflecting the lifting of building constraints, investment had switched back to growing sales volume with 66% of projected capital allocated to modernisation and expansion of the existing shops.[624] Cockfield explained to the *Financial Times* in 1960: “What we hope to achieve is to double the total sales area of our shops within the next 10 years.”[625] The acquisition of Timothy Whites business in 1968, was consistent with a policy of expanding sales area albeit through more shops.

At a local level, at least from the 1930's, guidance for TGM's shows that they were also encouraged to think about the future of their stores, to identify "new sites", "plan for shops individually" and to "try new ideas."[626] In doing so, they were required to consider their mix of customers, the local economy and competition. However, any 'planning' was informal and there are no references to formal plans in the archives. However, by the 1960's, even as the business started to think about centralised planning processes, there was still a focus on local planning. A speech given by Cockfield in 1967 explained to the TGM's that central planning was limited and they needed to set objectives and to translate them into a specific operating plan for the year:

> "In a business such as ours, the detailed operational decisions are taken in the individual branch and in the individual territory. It is only you and your managers who really know in sufficient detail precisely what goes on and only you therefore who can identify the improvements which can be made and ensure that they are made.”[627]

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[623] "Boots Pure Drug Company." Financial Times [London, England] 21 July 1950: 6. Financial Times. Web.

[624] “The Development and Organisation of Boots Pure Drug Company Ltd” - an address to LSE March 1959 by Cockfield (unreferenced)

[625] "Boots' Big Rebuilding Plan." Financial Times [London, England] 12 Feb. 1960: [1]. Financial Times. Web. 17 July 2016.

[626] BTC A 89/33 - Role of the Territorial General Managers. (Undated but probably the 1930’s).

[627] Speech at TGM conference 22 February 1967. BTC A 129/8 - Briefings to Senior Managers

The approach was consistent with the structures described in the previous section which placed each store at the forefront of the firm's overall performance.

At a company level, Boots use of budgets and forecasts evolved over time and they were relatively slow to introduce practices already being used by retailers in the United States by the end of the 1920's.[628] There are no references in the sources to budgets until 1966. Chapman argues that Savage would not touch budgetary control and he retired in 1961.[629] However it is not clear why. The Peats report shows that by 1966, budgeting was well established with the Expense Control Department responsible for administering the store budgets and the Management Accounting Department managing the main Head Office departments and the consolidated budget.[630]

While Boots did not prepare formal budgets until the 1960's, they used 'standards' for particular expenses and occasionally used targets for sales promotions or competitions. From the early 1920's to the late 1960's, stores managed to a salary standard set by headquarters.[631] Managers were expected to keep within the standard and TGM's monitored compliance but they were not linked to managers' bonus. The business also created stock standards at the start of the 1920's and these were still operational in the 1960's. These were created in Head Office based on existing warehouse and store stock levels and monthly sales.[632] The process still gave some discretion to store managers; the overall value of the stock was fixed but store managers decided the mix of products.

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628 Mazur, *Principles*; McNair, *Retail Distribution.*

629 "Boots the evolution of a Modern Business", Stanley Chapman (7). Unpublished draft. The statement was not referenced by Chapman.

630 BTC 314/4 - Peat Marwick Mitchell Report Part II; BTC A 49/4 Shaping Up for the Future - Boots New Management Organization 1966.

631 *The Bee* March 1923; BTC 314/4 - Peat Marwick Mitchell Report Part II.

632 *The Bee*, February 1922; BTC 784/3 Stock Management - a paper from the Staff Training Dept 1958; memo dated 6 February 1961 BTC 450/10 - Training Notes of Miss M Waterhouse.

There was also limited use of sales targets at a store level. In the early 1920's, stores used daily targets and monitored performance using a barometer on display in the store.[633] There was also widespread use of targets (or quota's) for in-store competitions. These were set in Head Office and allocated to the stores who were encouraged to break these down into daily targets for the duration of the competition/ promotion.[634] However, like cost standards, sales targets were local and similarly were not consolidated.

Based upon the review of the planning processes, Boots were slow to develop formal plans and it was only in the 1960's that budgets were introduced and only in the 1970's that their first strategic plan was produced. However, based upon the actions that they took and comments in memos, there were informal processes at both Head Office and also locally in stores throughout most of the period. Unfortunately, it is not clear whether the failure to develop formal plans was a deliberate policy or inertia. Chapman commented that Savage would not touch budgetary control which suggests at least a reluctance to develop formal processes but it is not clear why he was against them.

Evaluation

This section considers both the formal and informal processes the organisation used to evaluate the performance of individuals, stores and the business as a whole. It will also consider the extent to which evaluations were primarily objective or subjective.

Greenwood argues that prior to the American acquisition, Jesse Boot had been frustrated by the amount of financial information available and the time it took to obtain it.[635] Based on a review of statistical records and references in *The Bee*, by

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633 *The Bee*, October 1922.

634 *The Bee*, September 1923.

635 Greenwood, *Cap*.

the early 1920's Boots was already producing a wide range of statistics.[636] Every Tuesday, the previous week's sales results were prepared showing the sales split by category and customer numbers.[637] A monthly profit statement was also produced as well as “innumerable statistics which are prepared for the help of all the people who are engaged in producing the profit.”[638] The business also produced quarterly and annual summaries of performance throughout the period. An annual ‘Statistical Pack’ was published every year from 1925 to 1969 and there were also various quarterly and annual summaries produced from the 1920's to the 1960's more focused on the financial results.[639]

The weekly report was analysed by the Executive at 4.00pm every Tuesday. The timing was dictated by the availability of consolidated information from the Accounting Department.[640] No copies of the report are available and there are no minutes of the meeting but both the timing and attendees suggest its principal purpose was to discuss performance - a TGM attended the Executive Committee meeting and TGMs were required to submit a weekly report on general matters in their territory as well as specific comments on the stores they had visited.[641] The Executive Committee continued to meet weekly throughout the period, bringing forward the timing of the meeting as the data became available earlier - by 1960 it

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[636] Recollections of A Johnson, *The Bee*, June 1954. Collation and reporting of statistics were based on the American practices. Johnson visited the United States with two colleagues in 1922.

[637] *The Bee*, July 1922.

[638] *The Bee*, March 1922

[639] BTC 461 - Statistical Books 1923/24 to 1941 and BTC BTC 462 - Statistical Books 1942 to 1969. (See section on 'Measures'); BTC 345/2 - Expense Report 12 months ended march 31st 1932 and BTC 359/3 (1930); BTC 1167 - Final Accounts. Comprises (1) year-end management accounts of the business between 1927 and 1955. Primarily quantitative with commentaries providing interpretation and (2) Report on the Accounts - quarterly commentaries of which only a few are in the archives (1936 to 1953)

[640] *The Bee*, July 1922. In the week described, only 27 stores were late (out of 650)

[641] Copies of the reports are not in at the archives but guidance for the 1920's lists a wide range to topics to include - general housekeeping issues (cleanliness of the shop, general appearance), quality of merchandising (review window, interior and special displays), quality of staff, trading and local competition. BTC A 89/33 - Role of the Territorial General Managers.

was Monday afternoon and by 1966, they met at noon on the Monday.[642] They also continued to receive the weekly TGM report.[643]

Beyond the weekly Executive Committee meetings, there are few references to monthly/ quarterly/ annual meetings where performance may have been formally evaluated. Performance was not discussed in the monthly Executive meetings which instead focused on merchandise reviews, real estate investments, appointments, promotions and salaries.[644] In the 1960's, the Peat Marwick report makes no reference to monthly/ quarterly Executive Committee meetings. Peat's were also critical of the performance reviews that took place in the various committee's where reviews took place infrequently if at all.[645] This presents a paradox: the business produced extensive statistical data and its structures helped ensure the flow of performance information but it is not clear when they were reviewed. It could have been at the weekly performance review meeting or completed on a more informal basis - the archives are not clear.

For evaluating the individual performance of store managers, Boots had formal processes from at least 1922. Personnel records of store managers show that on every store visit, Head Office managers included comments about the performance of the manager in a 'log'. With three to four entries a year in the 1920's (but fewer in the 1930's and 1940's), it was relatively easy to monitor the progress of the manager over several years. There was no structure to the comments and they could range from a few words to several sentences. Two examples from one store manager's file are included below.[646]

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[642] BTC A 57/16 - Managers' Course Reportage (8 February 1960); BTC 314/4 - Peat Marwick Mitchell: Report on Management Structure (Part II) 14 June 1966.

[643] BTC 314/4 - Peat Marwick Mitchell: Report on Management Structure (Part II) 14 June 1966.

[644] Explanation of the purpose of the Executive monthly meeting by Gales, August 1920. Notes from Chapman's review of the minute books (BTC Archives - unreferenced).

[645] The performance of new lines was only discussed after one year and the profitability of promoting were not reviewed at all (BTC 314/4 - Peat Marwick Mitchell Report Part II.).

[646] BTC 298 - Personnel file of Mr Steer.

> "Do not think he is very strong. Rather young [he was 25] but of good appearance. I think some working class experience would be valuable to him. Seems very keen but doubt if he would be inclined to suffer much inconvenience." Mr Greenwood (1925).

> "Nice type of manager - of good appearance and nicely spoken. Has done well at this branch. Takings somewhat down and appeared worried. Concluded that now he was really up against his own figures he was not thinking sufficiently about the business. Not merchandising his quick sellers." Mr Lee (1932).

Copies of the "Annual Staff Report" in the 1940's, show that staff were graded across 16 categories by their manager. Managers used the same form but it was completed by the TGM. All the measures were subjective reflecting objectives of the organisation (Sales Ability), operational competence (Display Work, Organising Ability) and personal qualities (Loyalty, Reliability, Enthusiasm).[647]

Based upon personnel files, managers due promotion worked for a TGM over several months. TGM's commented on their performance in their weekly report to the Executive.[648] The process was broadly unchanged in the 1960's.[649] While the personnel files show considerable subjective feedback over many years there were no statistics (financial or otherwise) on the performance of the shops that the manager had run. This is despite the breadth of statistics available. Boots appeared to place operational excellence ahead of financial performance achieved when deciding on the capability of prospective TGM's.

The formal performance evaluation processes were supplemented by informal processes. In the 1960's, TGM's visited each of their stores at least once a month.[650] It is not clear how often they visited before that but guidance issued to them in the 1930's suggests that they spent most of their time visiting their

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647 BTC 298 - Personnel file of Mr Steer.

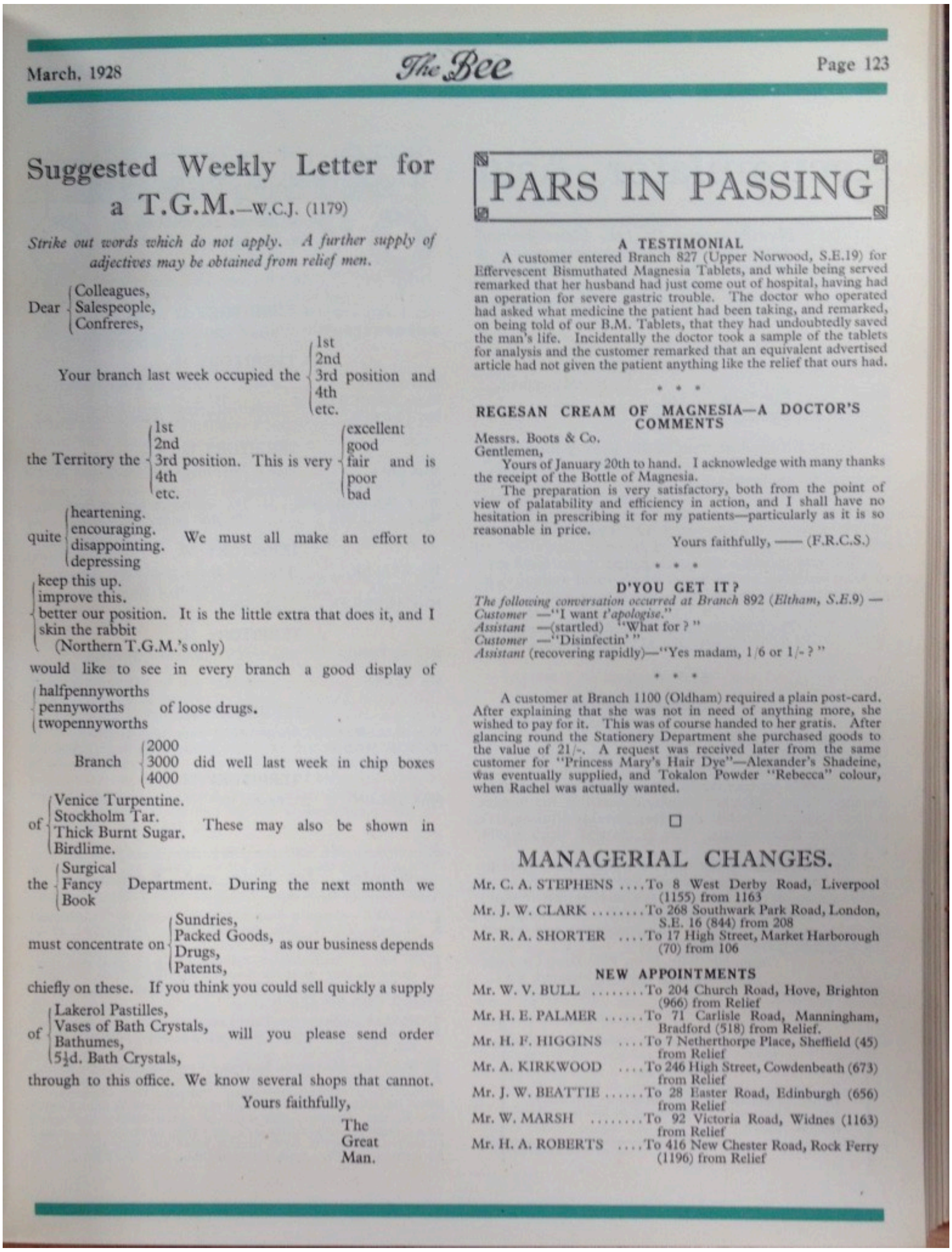
648 BTC 298 - Personnel file of Mr Steer.

649 BTC 314/4 - Peat Marwick Mitchell Report Part II.

650 BTC 314/4 Peat Marwick Mitchell Report Part II.

stores.[651] Their feedback went to Head Office and to the store managers. As well as providing feedback while visiting the shop, they also wrote to the shop manager after a visit. Figure 3.2 shows an example of such a letter in *The Bee.* While clearly meant as a joke, it highlights the focus on performance rather than control.

Figure 3.2: Extract from *The Bee:* Suggested Weekly Letter from a TGM [652]



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Suggested Weekly Letter for a T.G.M.—W.C.J. (1179)

Strike out words which do not apply. A further supply of adjectives may be obtained from relief men.

Dear
Colleagues,
Salespeople,
Confreres,

Your branch last week occupied the
1st
2nd
3rd
4th
etc.
position and the Territory the
1st
2nd
3rd
4th
etc.
position. This is very
excellent
good
fair
poor
bad
and is quite
heartening.
encouraging.
disappointing.
depressing
We must all make an effort to
keep this up.
improve this.
better our position.
skin the rabbit (Northern T.G.M.'s only)
It is the little extra that does it, and I would like to see in every branch a good display of
halfpennyworths
pennyworths
twopennyworths
of loose drugs.

Branch
2000
3000
4000
did well last week in chip boxes of
Venice Turpentine.
Stockholm Tar.
Thick Burnt Sugar.
Birdlime.
These may also be shown in the
Surgical
Fancy
Book
Department. During the next month we must concentrate on
Sundries,
Packed Goods,
Drugs,
Patents,
as our business depends chiefly on these. If you think you could sell quickly a supply of
Lakerol Pastilles,
Vases of Bath Crystals,
Bathumes,
5½d. Bath Crystals,
will you please send order through to this office. We know several shops that cannot.

Yours faithfully,
The
Great
Man.

PARS IN PASSING

A TESTIMONIAL

A customer entered Branch 827 (Upper Norwood, S.E.19) for Effervescent Bismuthated Magnesia Tablets, and while being served remarked that her husband had just come out of hospital, having had an operation for severe gastric trouble. The doctor who operated had asked what medicine the patient had been taking, and remarked, on being told of our B.M. Tablets, that they had undoubtedly saved the man's life. Incidentally the doctor took a sample of the tablets for analysis and the customer remarked that an equivalent advertised article had not given the patient anything like the relief that ours had.

* * *

REGESAN CREAM OF MAGNESIA—A DOCTOR'S COMMENTS

Messrs. Boots & Co.
Gentlemen,

Yours of January 20th to hand. I acknowledge with many thanks the receipt of the Bottle of Magnesia.

The preparation is very satisfactory, both from the point of view of palatability and efficiency in action, and I shall have no hesitation in prescribing it for my patients—particularly as it is so reasonable in price.

Yours faithfully, —— (F.R.C.S.)

* * *

D'YOU GET IT?

The following conversation occurred at Branch 892 (*Eltham, S.E.9*) —
Customer —"I want *t'apologise.*"
Assistant —(startled) "What for?"
Customer —"Disinfectin'"
Assistant (recovering rapidly)—"Yes madam, 1/6 or 1/-?"

* * *

A customer at Branch 1100 (Oldham) required a plain post-card. After explaining that she was not in need of anything more, she wished to pay for it. This was of course handed to her gratis. After glancing round the Stationery Department she purchased goods to the value of 21/-. A request was received later from the same customer for "Princess Mary's Hair Dye"—Alexander's Shadeine, was eventually supplied, and Tokalon Powder "Rebecca" colour, when Rachel was actually wanted.

MANAGERIAL CHANGES.

Mr. C. A. STEPHENS ....To 8 West Derby Road, Liverpool (1155) from 1163
Mr. J. W. CLARK ....To 268 Southwark Park Road, London, S.E. 16 (844) from 208
Mr. R. A. SHORTER ....To 17 High Street, Market Harborough (70) from 106

NEW APPOINTMENTS

Mr. W. V. BULL ....To 204 Church Road, Hove, Brighton (966) from Relief
Mr. H. E. PALMER ......To 71 Carlisle Road, Manningham, Bradford (518) from Relief.
Mr. H. F. HIGGINS ....To 7 Netherthorpe Place, Sheffield (45) from Relief
Mr. A. KIRKWOOD ....To 246 High Street, Cowdenbeath (673) from Relief
Mr. J. W. BEATTIE ......To 28 Easter Road, Edinburgh (656) from Relief
Mr. W. MARSH ....To 92 Victoria Road, Widnes (1163) from Relief
Mr. H. A. ROBERTS ....To 416 New Chester Road, Rock Ferry (1196) from Relief

651 BTC A 89/33 - Role of the Territorial General Managers

652 *The Bee*, March 1928.

Based on the entries in the logs on the personnel files of the store managers, directors and senior managers also visited each branch at least three times a year in the 1920's.[653] John Boot claimed to have visited more than 500 stores over just a few months in 1922.[654] During the annual 'October Cup' store competition, a director could visit more than 100 stores in the month.[655] While these visits may have appeared relatively infrequent from a store manager perspective, when replicated across 1,000 shops, they represented a significant investment in understanding performance. The personnel records suggest fewer store visits by senior managers to each store in the 1930's and 1940's (although there were a lot more stores) and there are few references to store visits by senior management in the post war sources.

The insights from these visits represented a considerable body of qualitative knowledge on the performance of the store, the manager and the employees. An article written by a TGM in March 1936 highlighted the breadth of knowledge. He provided a list of 37 factors grouped into five categories which helped store managers determine whether they operated a 'five star' branch. Of these factors, less than five could be measured quantitatively (e.g. sales growth). The remainder were subjective and had to be observed - evaluating the quality of the staff ("seniors are training juniors"), the level of service ("every customer receives a sympathetic enquiry of needs") and the store environment ("the branch is always clean from front door to back entrance").[656]

Three features stand out from how Boots evaluated performance. Firstly, performance evaluation of the business was a central part of the role of *each* of the directors. It encouraged a holistic evaluation of performance rather than a narrower functional view where directors and managers just focused on the their areas of responsibility. Secondly, each of the directors were expected to have a

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653 BTC 298.

654 *The Bee*, December 1922.

655 *The Bee*, December 1922.

656 *The Bee*, March 1936.

deep understanding of the performance at a store level. This was achieved through insights provided by TGM's attendance at the Executive and the weekly letters supplied by each TGM to the Executive on the shops they had visited that week. Thirdly, informal and unstructured evaluation was a core element in understanding performance. TGM's and directors invested considerable time visiting stores to observe performance first hand. Visiting stores allowed them to not only evaluate whether stores were achieving each of the drivers of performance but also helped them understand the complex relationships between the external context, the different drivers of performance and the customer reaction to the overall experience. Unlike modern PMM systems, each member of the Executive was expected to have a deep understanding of how performance was being delivered and they were expected to get this understanding by observing it in practice rather than rely on consolidated reports passed to them.

Motivation

This section will examine the formal and informal processes used to motivate performance and includes both an assessment of how employees were rewarded financially but also of non-financial methods. PMM literature would anticipate that the reward mechanisms would support behaviours which aligned with the objectives. However, there are relatively few sources relating to salaries and wages in the archives and any information which shows salary information of a named individual is closed to access. What can be determined, however, are broad principles relating to how they financially rewarded employees and also some indication of the other techniques used to motivate performance.

According to Greenwood, for Executives and senior managers, the American policy was to pay a moderate salary and a profit based bonus.[657] Accounting records support the view and show that TGM's received a share of the profits of the overall business (rather than their territory). It was based on a % of company pre-tax profits above a minimum profit threshold and, from the available sources,

[657] Greenwood, *Cap*.

operated at least from 1937 to the end of the period (the % changed but was typically between 7% and 9%).[658]

For store managers, reward was based on a basic salary supplemented by a monthly bonus. Unlike Head Office managers and TGM's, it was based on the sales of the store they managed. The first bonus scheme introduced for managers after the American acquisition was announced in February 1921. A memo explained that it "is certainly more liberal in its scope and possess greater possibilities than any scheme we have heard of in the Retail trade in this country."[659] Managers earned a percentage of their salary equivalent to the percentage year on year increase in their store's sales in the month - a store manager who achieved a 10% increase in their month's sales compared to the same month in the previous year earned an additional 10% of their monthly salary.[660] Worried that this may lead to over ordering stocks, a second bonus was introduced in July 1921. This increased the sales bonus by 25% if stock was kept within the stock standard set by Head Office.[661] There were further changes in 1930 when an 'own-goods' bonus was added. However, both these additional bonuses were contingent on sales growth being achieved and thereby emphasised the importance of sales over all other measures of performance.[662] By the 1960's, the store manager's bonus included an element relating to the profit of their store but it is not clear what, if anything, this replaced from the 1930's scheme.[663]

Sales assistants also received a variable element of pay but it was based on a % of the sales they made (commission rather than a bonus). In 1936, it was replaced

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658 In 1937 it was 8.5%, 1939 it was 7.3%. From 1955 it was 8.5% (BTC 1167 - Final Accounts).

659 BTC A 129/ 2 - Various memos to TGM's and Branch Mgrs.

660 Capped at 25%. BTC A 96/ 9 Various letters from HO to Mr Hodgkin.

661 BTC A 129/ 2 - Various memos to TGM's and Branch Mgrs. I

662 BTC A 129/7 - Various Memo's TGM's.

663 BTC A 49/4 Shaping Up for the Future - Boots New Management Organization 1966.

by a bonus based on their *sections* increased sales.[664] The bonus scheme was changed again in 1955 with the addition of a 'Profit Earnings Bonus' which was still operating in 1970.[665] It paid 8.5% of the annual profits of the business and was available for all employees who had been with the business more than a year.

Beyond financial rewards, Boots used a range of techniques to motivate performance. John Boot wrote a letter every month to managers awarded a bonus. It was personalised and demonstrated Head Office's understanding of each store; he congratulated them on the award but could also, for example, praise their 'nicely dressed windows' or chastise them on their own-goods sales compared to other local stores.[666] To the store manager, the gap between his store's performance and the directors must have seemed narrow.

A review of *The Bee* emphasises its importance as a tool to motivate performance but also reveals the range of symbolic incentives the firm used to motivate performance. *The Bee* highlighted examples of individual sales successes, published Honour Rolls (e.g. the "Salesmanship Roll of Honour") and comparative lists of Territorial performances on various sales metrics.[667] It was also the conduit for promoting the sales tournaments and competitions introduced soon after the American take over. These ranged from small scale inter-store tournaments through to national and international events. Store managers challenged each other: 'Mr. GA Lloyd, on behalf of his branch, 289, Tredegar, wishes to compete with any branch of similar size in the sale of household soaps.'[668] Larger events were coordinated by Head Office, including three 'Test Matches' where the British stores competed with the American stores on the sales of 'Regefrice.'[669] Rewards varied and included one week's extra salary, a trip to Paris or an annual

[664] BTC 780/5 - Sales and Increased Sales Bonus Scheme (1 March 1936).

[665] Initially introduced in 1955, the bonus became permanent in 1958 (BTC 455/29 Profit Earnings Bonus): Bonus leaflet, 1971 (BTC 455/29).

[666] BTC A 129/ 2 - Various memos (Burton store February, August 1921).

[667] Volume, average transaction value, sales of promoted line.

[668] *The Bee,* March 1922.

[669] *The Bee,* September 1922. There were three "Test Matches" in total. Honours were shared with each country winning one and sharing the third.

subscription to a magazine. Often, there was no tangible reward at all other than recognition in *The Bee* and the financial cost to the business was relatively small at only £4,853 in 1937 (0.3% of salaries).[670] While the competitions continued into the 1930's, they received less prominence in *The Bee* and largely ended in 1939.

The range of incentives used by Boots emphasises the breadth of methods firms can employ to motivate performance. Some are formal and offer tangible rewards such as bonuses or prizes. Others are more informal and intangible such as recognition though personal feedback or in the pages of magazines. However, in the stores, all of them were based on the same objective - to promote sales growth and the drivers of sales growth (customer service, 'own brand' sales, increased basket size, trading up to higher value products). Therefore, they remained consistent with the overall objective of the firm.

The competitions and other techniques also helped promote behaviours. In the early 1920's, they were used to create a sales culture in the stores where staff were praised as "not mere clerks or shop assistants but Salespeople."[671] They also brought the shops and Head Office closer together, promoting informal ties. In the annual 'October Cup', first run in 1921, each director took charge of three territories and competed on who could grow sales the most. The Directors visited every one of their stores and *The Bee* reported their plans, celebrated the winners and interviewed managers about their successful strategies.

Curiously, the symbolic incentives became less important by the end of the 1920's and rarely mentioned in *The Bee* thereafter. It is not clear why. No explanation was provided in *The Bee* and there are no references in memos. It may have reflected an attempt by John Boot to shift away from salesmanship towards customer service as the principal driver of sales growth.[672] John Boot published his Service Letter No. 1 in 1925 and in 1928, the firm used a 'Casual Customer' to visit stores. He reported directly to the directors and wrote articles in *The Bee* on the quality of

[670] BTC 461 - Statistical Book 1937.

[671] *The Bee*, September 1922.

[672] The importance of "salesmanship" did not disappear from *The Bee.* In 1935, the Sales Director continued to promote its importance (*The Bee*, June 1935).

service received - effectively a shift away from incentives to feedback to drive sales.[673] The reports in *The Bee* from the 'Casual Customer' continued until the 1950's. The first post-war edition of *The Bee* in 1948 also acknowledged that there had been shifts of emphasis between service and salesmanship and called for increased focus on salesmanship going forward.[674] However, the competitions were not reintroduced. These shifts help demonstrate one advantage of maintaining a broad rather than specific objective - 'sales growth' accommodated changes in emphasis over time (for example between customer service and salesmanship) without needing to change the overall objective.

Measures

This section will consider how important measures were in managing the overall performance of the business. It will examine both the financial and non-financial measures the firm used. In particular, it will consider whether there was a key performance measures or a wide suite of measures and how these changed.

Greenwood stated that before 1920, Boot had been concerned about the time it took to generate the statistical records and did not know the profitability of individual stores.[675] As noted above, there was a restructuring in the early 1920's and this also led to improvements in the statistical information. By 1922, the business was generating a wide range of statistics covering sales, stocks, expenses and profit.[676] However, despite the range, in the performance reports, correspondence with stores and articles in *The Bee,* one measure stood out - sales. Or, to be more accurate, sales and the various drivers of sales - customer transactions, customer spend per transaction, sales of 'own-good' products.

Table 3.5 shows the measures that were recorded on the front page of the Statistical Book in various years. Forming the summary of performance, they

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[673] *The Bee,* July 1925 and July 1928.

[674] *The Bee*, Summer 1948.

[675] Greenwood, *Cap*.

[676] *The Bee*, March 1922.

provide an insight into the key performance measures of the business. The book was first published in 1925 and subsequently every year until 1969. Based on the circulation list, it was distributed to the Executive and may have been circulated more widely. It highlights the importance of sales measures over other measures and the lack of change in the core measures.[677]

Table 3.5: Measures on Summary page of Statistical Book

Measure (current and prior year)	1925	1930	1969
Sales (£)	✔	✔	✔
Expenses (£)	-	✔	✔
Salaries (£)	-	✔	✔
Number of employees	✔	✔	✔
Customer transactions (no.)	✔	✔	✔
Average value per customer transaction (£)	✔	✔	✔
One penny per customer (£) [b]	✔	✔	✔
Number of branches	✔	✔	✔
Number of branches opened in the year	✔	✔	✔
Number of branches closed in the year	✔	✔	✔
Greatest number of branches open at any one time	-	-	✔
Comparative shops [c]			
Retail sales (£)	✔	✔	-
Customer transactions (no.)	✔	✔	-
Average value per customer transaction (£)	✔	-	-
Total number of NHS items	-	-	✔
Average value of NHS items (£)	-	-	✔
Average value per customer transaction (including NHS) (£)	-	-	✔

[b] Potential increase in total sales for each penny increase in the average transaction value

[c] Open two complete years

Source: BTC 461 and 462 - Statistical Books

677 Comparative shops remained a measure until 1962 but Boots extended their stores in the 1960's without adding many new shops which made the measure less useful.

The detailed schedules which followed the summary page were similarly dominated by sales data. In 1939, the book contained 13 sales schedules. However, it included only two schedules relating to stock, four to expenses and one to margins. There was more balance in the more specialist reports produced by the Expense and Accounting Departments. In particular, summary reports produced by the Management Accounting Department from the middle of 1930's to the early 1950's analysed gross margins in more detail with particular emphasis on 'own-brand' sales and margins.[678] However, this was in addition to rather than instead of sales - the Expense Report produced in 1930 and 1932 had as many pages devoted to sales as to expenses.[679] Table 3.6 lists all of the sales schedules included in the 1939 Statistical Book. It demonstrates that directors received information on the total sales of the business but also the sales performance of individual stores and emphasises, as already explained in the section on 'Evaluation' above, that directors were keen to understand performance at an individual store level.

The prioritisation of sales over other measures is echoed in other sources. Every copy of *The Bee* in the 1920's included tables showing relative performance of territories or stores against various sales measures. These were often included within articles providing advice on particular drivers of sales (volume, average value, customer service) or types of sales (product, 'own-brand). While there were references to expenses and stock, they were rare by comparison and rarely included statistics. The focus on these was managing to a ratio or quota. Similarly, *within* store, sales measures dominated. Stores were encouraged to post their daily sales on boards for all employees to see showing the performance of particular products or of their sales assistants. During competitions or sales promotions when a 'quota' might have been set, stores used barometers to show progress.[680]

[678] BTC 1167 - Final Accounts

[679] BTC 345/2 Expense Report 1932.

[680] *The Bee*, April 1922; October 1922; September 1923.

Table 3.6: Sales Schedules in Statistical Book (1939)	
	Explanation
Store Sales:	
Comparative stores	Total sales for comparative stores (open two complete years)
Territory sales	Descending order based on % growth. Comparative stores only.
20 largest stores	Annual sales and year-on-year growth of each of the 20 largest stores in descending order (12.4% of total retail sales)
20 smallest stores	Annual sales and year-on-year growth of each of the 20 smallest stores in ascending order.
Stores with sales declining by 10% year on year	List of each store with more than a 10% year on year decrease
New stores (£)	Lists of all new stores with average weekly takings (£)
Closed stores (£)	Lists all stores excluded from 'comparative' sales due to closure/ alterations.
By month	Total sales for each month of the year.
Product Sales	
By department	Shown as supplies to stores. Separately shows 'own-goods' supplies.
Prescription sales	Volume and value of prescription sales. Includes prior 10 years.
Drivers	
Volume - no. of customers	By Territory.
Value - avg. value of each transaction	By Territory and by quarter.
Value - one penny per customer	Potential increase in total sales for each penny increase in the average value.
Source: BTC 461 - Statistical Book (1939)	

After the 1920's, there was a notable decline in the reporting of sales statistics in *The Bee* as emphasis shifted in the articles towards customer service as a driver of sales. Performance was still reported but it was qualitative: an article in 1934 reported how a TGM had ranked all of his stores on four aspects of customer service and found, for example, that in only two of the twenty-one stores did the transaction involve "a skilful and intelligent salesperson who can take advantage of opportunity to introduce and sell further products, particularly Boots."[681] Awards

[681] *The Bee*, November-December 1934. The other aspects were: "a person of pleasing personality, a person clearly possessing the spirit of true service to consider my needs, a person who, when possible, readily produces a choice of articles for my inspection and is capable of giving expert advice as to the best for my purpose."

were also given for good service and winners were named in the *The Bee* but criteria were again qualitative.[682] In 1936, an article identified five broad questions which could be asked to assess the performance of a store: Is the branch well managed? Is the branch making progress? Are the displays good? Is the staff good? Are customers well received and served? The author broke down each question into five to seven sub-questions but very few could be measured quantitatively (e.g. are more customers being served?).[683] The focus on a broad range of qualitative measures continued after the war. The shift in focus in *The Bee* appears to be not a rejection of sales as an objective but rather a recognition that sales are generated by a range of drivers of which only a few are easily measurable.

Modern PMM systems advocate a broad set of measures which reflect the strategic initiatives of the organisation. These measures should be focused on vision and strategy and, unlike traditional measures, provide learning rather than control. Measures should also be dynamic, they should change as the strategy changes. The range of measures should include both output measures which record whether an objective has been met but also input measures which assesses drivers of future performance. Finally, they should be cascaded through the organisation.[684] There are several features on how Boots used measures in their internal reports which stand out from the modern PMM systems.

(1) Throughout the period, the business focused on a relatively narrow range of measures. Stores in particular focused on sales and the drivers of sales. While other measures were used, they were used differently. Expenses and stocks were measured but subject to standards and normally expressed as a ratio to sales. These measures received relatively little focus in reports and correspondence. It appears that at Boots there was a distinction between

682 *The Bee*, January-February 1935.

683 *The Bee*, March 1936. The article was written by a TGM aimed at store managers and other TGM's.

684 Summary from Kaplan and Norton, *Balanced Scorecard.* An example of an output measure is 'sales growth'. An example of an input measure is 'hours of sales training' which should generate future sales.

measures which drive performance and are under constant scrutiny and measures which need to be controlled and therefore managed by exception.

(2) There was a distinction between the measures used in stores (sales) and Head Office (sales but also 'own-brand' performance, margin and expenses). This emphasis mirrored the different bonus schemes: the store manger's bonus was primarily based on sales growth while Head Office manager's bonus was based on company profit. This may have been linked to accounting issues as standard margins were used in stores rather than actual product margins making it harder for store managers to interpret margins. However, given the large number of stores, it could have reflected the simplicity created by communicating one consistent message to stores (more sales) rather than asking them to focus on several different areas of performance.

(3) While the range of measures used was relatively narrow, reports measured performance from overall business down to Territory and Store. In the Statistical Book the Executive could therefore analyse the annual sales performance of the overall business (1939: £13.3 million) and of the smallest store (£1,507) within a couple of pages (see table 3.6). The focus on individual store performance emphasises that the store was the primary unit of analysis and the Executive were expected to understand performance at this level. This is consistent with the Executive visiting stores regularly and a structure which narrowed the gap between the Executive and the store. It differs, however, from PMM systems where the Executives focus primarily on the consolidated measures and is based upon a principal of aggregating and then analysing. The average becomes the proxy for performance but offers little indication on how the average was achieved. This principle will be considered in more detail in the overall conclusion as it reflects current concerns about the use of measures to assess performance.

(4) There was very little change in the measures reported in the internal reports between 1925 and 1969. There were also no new non-financial measures introduced after 1925. The lack of new measures was despite investments made elsewhere by Boots in understanding sales and service - in 1929, they employed J Walter Thomson to conduct market research on customers and from 1928 onwards they employed a 'casual customer' who visited shops anonymously and reported regularly in *The Bee* on the quality of service received and also sent a report of each visit to the Executive.[685] Similarly, while employee numbers were included on the front page of the first Statistical Book through to the last, there was no development of the measure - peers were reporting vacancies, average length of service, reasons for leaving from the 1930's onwards.[686] There were also no new measures added even when they were used elsewhere in the business. The Expenses Department calculated profitability by store from the 1940's and sales per square foot was used in *ad hoc* exercises from at least 1963 but neither were incorporated into the Statistical Books or other management reports.[687] Perhaps not surprisingly, Peat Marwick were critical of the statistical data produced when they conduced their review in 1966.[688] Given the focus on developing measures in the early 1920's, the failure to develop them subsequently is curious but not unique - it is also reported in the literature on current PMM systems.[689] Part of the reason may be due to institutional factors and the company were slow to develop their management structures generally in the post-war period as the Peat Marwick report showed. However, current literature suggests firms may choose to retain broad general measures as they allow greater flexibility over time.[690] In Boots, as evidenced in articles in *The Bee* in the 1930's, there was a recognition that sales growth was a response to several drivers - customer service, salesmanship, store environment, etc. The use of a general measure such as 'sales' conveyed the core objective to the organisation while also allowing the

[685] BTC A 48/1; *The Bee,* November 1928 and frequently thereafter. The Casual Customer was still operating after the War (*The Bee*, July 1949).

[686] For example, in Marks & Spencer and the John Lewis Partnership (Cox, *Spedan's Partnership*).

[687] Store profitability per Greenwood, *Cap;* Sales per square foot were used in the review of London operations (BTC 784/ 4 The London Study 1964) Both measures would have been helpful in the 1960's given the heavy investment in increasing store trading space.

[688] BTC 314/3 - Peat Marwick Mitchell Report Part I.

[689] Melnyk *et al*, *Fit for the future,* describe the paradox where managers don't change measures despite recognising changes in the environment and company strategy.

[690] Melnyk *et al. Fit for the future.*

store manager the flexibility to focus on those drivers most suitable to their local environment.

Linking the system

This section will examine how the separate elements described above were connected and the strength of the links. The analysis should help our understanding of the strength of the overall system - whether the whole was greater than the sum of the parts. Included in this section will be consideration of not only tangible but also the intangible elements such as cultural factors which helped bind the overall system together.

Even a cursory review of the structure, processes and measures highlights the alignment between them and the overall objectives of the organisation which were expressed simply in the first edition of *The Bee* - "More Sales."[691] This was particularly the case in the 1920's and 1930's when the organisational structures were still relatively new following the acquisition by Liggett's but still evident in the 1960's although, by then, the overall 'system' was operating less effectively.

The simplicity of the objective and its consistency over time made alignment across structures simpler. However, communications between Head Office and stores played an important role. Aside from daily and weekly operational newsletters issued to stores, *The Beacon* and *The Bee* were important conduits for communicating to stores. While the two magazines, especially *The Bee*, conveyed guidance and instruction, they were also an important tool in bringing employees together. The first edition of *The Beacon* in 1919 explained its purpose:

> "The Beacon shall be a magazine for ALL. It shall ignore no class and injure no individual, but serving all interests which bind us together as members of one FIRM, shall itself become one of the strongest of these bonds."[692]

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[691] *The Bee*, November 1921.

[692] *The Beacon*, September 1919.

The Beacon reported the activities of the sporting clubs, societies and various social gatherings which Boots operated throughout the period. It also ran human interest stores linking the current employees with their past. In 1933, for example, it included a series of articles from G. Elliott who described what it had been like working alongside Jesse Boot in the 1880's.[693] *The Bee*, particularly in early editions, promoted the key objectives of the business and, in reporting performances, describing processes and sharing ideas, it demonstrated how the different elements of the business fitted together. Like *The Beacon*, however, it also had a strong social element and this increased over time. Sharing stories about the firm and its employees and highlighting the social activities that Boots provided for its employees all helped create bonds of loyalty between employees, directors and firm.[694]

Communication and consistency of message was also helped by the narrow reporting lines. As George Gales explained in 1920, the TGM structure was created, “in order to bring about closer co-operation and co-ordination and a more harmonious and sympathetic understanding of the various problems incident to our business."[695] The TGM's visited stores regularly throughout the period and could ensure alignment between the actions of the Head Office and the Stores. There were also regular TGM conferences that took place from the 1920's through to the end of the 1960's which helped ensure alignment between each other.[696] However, personal visits and conferences also established relationships between Head Office and branch employees and could reinforce the cultural messages that the business sought to convey.

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693 *The Beacon*, January 1933 to January 1934.

694 The use of company magazines to promote the culture of companies is well documented in the literature - see Heller, *Company Magazines*; Griffiths, *Give my Regards.*

695 Memo to Branch Managers 5 August 1920. BTC A 361/3 Memo’s re TGM’s

696 There are regular references to TGM conferences throughout the period in the sources. For example - *The Bee*, December 1922, February 1923; TGM Conference Booklet, 1960 (BTC A 129/ 6 Cut Your Losses - an Action booklet for managers and various other); Cockfield speech at TGM conference, 1967 (BTC A 129/8 - Briefings to Senior Managers).

Alignment was also helped by the regular visits by the Executive to stores. *The Bee* reported in 1922, after the October Cup, that the director responsible for their territories during the competition had visited every one of the stores and highlighted a TGM's view of the benefit of this:

> "All realise that the members of the Executive are human beings with an intimate knowledge of the difficulties that arise day to day in the branches and not simply individuals who formulate policies without any thought for the people who have to carry them out."[697]

While visiting stores therefore helped the Executive understand performance, it also built informal relations and helped break down the distance between director and employee.

Evidence from *The Bee*, *Liggett Leader* and personal performance evaluations also show that in nurturing relationships between Head Office and stores, the firm deliberately sought to promote loyalty and embed it within the culture of the organisation. Gales, in a speech to employees, highlighted its importance - "the key-note of the whole organisation is LOYALTY, the biggest thing in life."[698] *The Bee* reproduced an article from the *Liggett Leader*, the American company magazine, which showed that loyalty was similarly important for them:

> "Loyalty is the only foundation, and no other foundation can any man lay, for a business such as ours - loyalty to the Company we represent, loyalty to its high ideals and policies, loyalty to its exacting selling standards."[699]

Similar sentiments were echoed by directors, TGM's and store managers in *The* Bee. One director commented that the success of one of his stores in the 'October Cup' was due to loyalty and that "every day he becomes more convinced that if there is one mutual asset more valuable than any other between two individuals or

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[697] *The Bee*, December 1922.

[698] From a speech given by George Gales to staff and reproduced in *The Bee*, April 1924.

[699] *The Bee*, March 1928.

two parties (in this case the firm and the employee), that asset is loyalty."[700] Loyalty was more than just rhetoric, however, and employees were graded on their loyalty as part of their annual performance review.[701] TGM's were also encouraged to assess the loyalty of their managers during store visits.[702] The sources show that the firm was also an early investor in welfare which helped to promote loyalty towards the firm. They appointed their first welfare officer in 1911 and, of the 60 welfare officers employed in British companies in 1913, four were employed at Boots.[703] Culture and, more specifically, loyalty helped bind all parts of the business towards the aims of the organisation and consequently helped link the various elements of the performance management system.

In modern PMM systems, it is measures which are credited with linking the separate elements. In Boots this was true in only the crudest sense. Sales growth may have been a measure which sales assistants through to directors focused on and it remained the primary measure throughout the period but the firm actually used many ‘sales’ measures - customers, average sale, one penny per customer and the various disaggregation of these measures across product and place. Instead, the *objective* of ‘sales growth’ acted as the unifying force. More important than measures, therefore, were a clear, simple objective, a structure which developed close working relations between Head Office and stores and the development of a common culture.

Conclusion

The case of Boots differs from the other case studies because it introduced a new set of PMM structures and practices in the early 1920's and then retained these, largely unchanged, until 1970. Moreover, the practices were, at the least, heavily

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700 *The Bee*, February 1926. Also referred to in the 1930's in articles written by stores managers. One manager argued that employees needed to champion the business in their own homes (June 1932) and another argued the it was as important as customer service in improving performance (January 1938).

701 Performance evaluation of Mr Steer, 1941. BTC 298 - Personnel file of Mr Steer.

702 Internal memo to TGM's. BTC A 89/33 - Role of the Territorial General Managers.

703 BTC 2979/ 21 Personnel Various.

influenced by the practices of its new American owner.[704] As explained in the opening chapter, American retail practices were considered ahead of those in Britain at the time. The case of Boots therefore contrasts with the case of WHS which clung to their historical PMM structures and practises until the 1950's.

The evidence suggests that the business in the 1920's and 1930's had a strong focus on PMM and had structures, processes and measures which were aligned to the objectives of the firm. They also show, however, that Boots subsequently lost this focus and by the 1960's their structures and processes were not operating as effectively as they had in the early period. The evidence suggests this was largely due to organisational issues. Based on the reminiscences of Greenwood and the testimony of the other employees that contributed to Chapman's books, the weaknesses appear to reflect divisions within the Executive and at least partly attributable to John Boot's style of management. These are not explored further in the conclusion as they are beyond the scope of the thesis. Instead, the conclusion draws together specific points raised at the end of each of the above sections to identify a number of principles which underpinned Boots' approach to PMM. As might be expected, all are closely linked.

Firstly, directors were expected to have a broad <u>and</u> deep understanding of performance. Understanding transcended functional responsibilities - in the 1920's, the Director of Accounting, for example, visited stores, commented on the capabilities of the manager and competed against fellow directors in the 'October Cup'.[705] The knowledge also had to be deep. As directors, they were expected to understand performance at a consolidated level but also at an individual store level - statistical packs showed the performance of individual stores from the largest to the smallest and they all visited stores regularly. The organisational structure facilitated the breadth and depth of understanding by creating close links between directors and stores. TGM's reported directly into the Executive and

[704] It is difficult to assess how much Boots' new structures and processes were a direct copy of those in Liggett's or were adapted. However, organisational structures including terminology (Executive Committee structure and TGM's), bonus schemes (store manager sales bonus), promotional competitions (October Challenge Cup) and even the style of the in-house magazines were the same.

[705] His team won the challenge in 1922. *The Bee*, December 1922.

completed a weekly performance report which went directly to the Chairman. This structure lasted throughout the period but its persistence was due to more than inertia - Cockfield's defence of the role in 1967 despite his desire to change other aspects of the Boots organisation shows the importance that he placed on being close to store performance. The role of the directors in understanding performance reminds us that PMM systems are primarily about feedback and learning as documented in much of the literature and discussed in the introduction.[706] However, where Boots differs from the PMM literature is the depth of understanding expected of the directors. While modern scorecards and frameworks provide a broad range of aggregated measures which allow directors to assess whether the strategy is on target, the systems at Boots helped directors understand and analyse performance in detail, before aggregation. It is consistent with the practices of directors at M&S but also with recent literature on the performance evaluation of both businesses and individuals, not widely cited in the PMM literature, and will be explored in more depth in the overall conclusion.

Secondly, and closely linked to the first point, the primary focus of performance management was the store - the best way to maximise the performance of the business as a whole was to maximise the performance of *each* of the stores.[707] The focus on individual performance reflected the belief that each store faced its own local challenges/ opportunities and performance needed to be be managed accordingly - finding the right fit between environment and individual. Guidance to TGM's in the 1930's, reminded them to challenge store managers on their knowledge of the local market and store managers had the freedom to tailor their product offer to local conditions by choosing which Head Office products they wanted to stock.[708] In 1967, Cockfield was still reminding TGM's of the need for

[706] The importance of 'learning' is emphasised in Ferreira and Otley's definition of a PMM system as discussed in the introduction. As noted there, however, it is not a view held universally with some arguing that the principal role of a PMM system is control.

[707] The focus is therefore on the range of performance rather than the average performance of stores. It is illustrated by information within their own corporate reports - in 1939, sales grew by 1.0% but the largest 20 stores grew by 2.75% and even this average masked a range of between +25.2% and -8.6%. Only 7 of the 20 were within 1.0pp of the average (BTC 461 Statistical Books).

[708] The questions were part of a memo sent to TGM's titled "TGM Duties". BTC A 89/33 - Role of the Territorial General Managers

local planning to reflect the local environment.[709] The case therefore helps illustrate PMM issues in wider debates on centralisation/ decentralisation. Boots' approach to performance management was to create formal structures which narrowed the gap between head office and stores and to measure and evaluate the performance of the overall business alongside the performance of individual units within the business. This contrasts with the more hierarchical PMM structures advocated in frameworks such as the balanced scorecard which cascade down through the business.

However, even at this level, the practices at Boots suggest that evaluation needs to go further. In Boots, much of the performance evaluation took place in store through *informal* processes. At this level, quantifiable performance measures provide only a limited insight into performance. In Boots, TGM's and store mangers were advised to analyse a range of activities to understand the performance of the store - store cleanliness, customer service, store layout as well as conventional measures such as sales growth.[710] Each contributed to performance but they were also interdependent. Few of them were quantifiable and there is no evidence that Boots even attempted to quantify them. The case highlights the difficulty in understanding performance by using a small number of aggregated key performance indicators evaluated in formal review processes. It may explain why Boots, after developing a wide range of measure in the early 1920's, did not continue to develop them subsequently. This raises the question about whether 'measures' can ever be the central part of a PMM system - can they replace observation and expertise in assessing many of the drivers of performance and the complex links between those drivers? The case also emphasises the importance of informal evaluation and the weaknesses inherent in formal measures. It also provides some clues about how these informal evaluation processes can be nurtured. *The Bee* emphasised the importance of visiting stores through articles, running competitions and reproducing speeches of directors. This meant that every store was regularly visited by somebody from Head Office - a

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[709] Speech at TGM conference 22 February 1967. BTC A 129/8 - Briefings to Senior Managers

[710] *The Bee*, March 1936; BTC A 89/33 - Role of the Territorial General Managers.

contrast with the pre-1920's Boots.[711] The techniques used highlight that informal processes can be created rather than left to evolve. While the importance of informal evaluation is recognised in the literature, it is not widely researched and presents opportunities for further research.[712]

Thirdly, Boots' objectives and principal measures (sales growth) were broad and applied across the period. This contrasts with modern PMM systems where measures are specific and change in response to the strategy and external environment. One of the advantages of having a broad based measure such as 'sales growth' was that it gave store managers the flexibility to tailor their approaches to their local environments. They could, therefore focus on promoting volume by selling more products to each customer or promote the average value of a sale by encouraging customers to purchase higher priced alternatives. Similarly, head office managers could encourage them to sell more 'own label' products or shift focus to customer service from salesmanship. *The Bee* provided advice and ran competitions which encouraged all of these activities. However, there was a clear hierarchy - any specific actions they took had to achieve overall sales growth. This was built into the store manager reward scheme - while the bonus rewarded sales growth, stock management and 'own brand' sales, the latter two were only payable if the former was achieved. Melnyk *et al.*, based on studies of current PMM systems, make a similar point although they argue that it is volatile environments changing over time rather than the differences between environments which encourages firms to maintain their existing set of measures.[713] These findings highlight that in certain cases, retaining a general set of measures over long periods outweighs the advantages of changing them. However, our understanding of where these cases arise is still weak. Further research will allow us to add to these examples. Firms which operate across several different complex environments such as multi-national corporations or

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711 Greenwood, *Cap.*

712 Ferreria and Otley, *Framework*, refer to informal evaluation but in the context of how senior management communicate to employees on what is important. Johnson, *Lean*, has documented his observations at Toyota but his work is not widely referenced in PMM literature.

713 Melnyk *et al. Fit.*

firms which delegate much of the decision making to their operating units may be particularly fruitful areas for research.

Chapter 4: WH Smith and Sons

Introduction

The chapter presents the case of the British retailer WH Smith (WHS). They have a number of similarities with the other firms in the thesis. Like the other two firms, it was a multiple retailer which operated throughout the whole period and still trades today. While not a direct competitor, it operated in similar locations and faced the same operational pressures that all large multiple retailers faced with a large number of shops dispersed geographically across the country. However, it is the differences which provide a potentially alternative perspective on how multiple firms managed their performance. Firstly, it was much older than either M&S or Boots. Founded in 1792, by 1880, before Boots opened its second shop, WHS already operated 450 bookstalls.[714] Secondly, it was a wholesale distributor before it was a retailer and unlike either Boots or M&S, did not develop its own manufacturing capability or network. Thirdly, it retained its original ownership model longer than the other two. It was a partnership until 1929, a fully owned private company until 1949 and a public company thereafter although still under the control of the founding family. It was not until 1972, with the retirement of David Smith as Chairman, that the firm was managed by a non-family member for the first time. Finally, as will become clearer, WHS was also slow to adopt the innovative performance management practices adopted by Boots and M&S and therefore provides insights into an older form of performance management and measurement.

As in the other case studies, the principal sources were the company archives, supplemented by existing academic studies.[715] There are few restrictions on access to the archive records. Only personnel records and Board minutes for meetings held within the last fifty years are restricted. The principal sources used

[714] Wilson, *First*, 182.

[715] The only corporate history was Wilson's *First with the News* which was published in 1985. Otherwise, WHS has only appeared as part of broader histories on retail and publishing.

were Board minutes, consulting reports, oral and written reminiscences, accounting records and the internal company magazines, *Newsbasket* and *Talking Shop*. However, the whole catalogue was reviewed to identify any other potential relevant sources based on the descriptions (such as letters, copies of speeches, internal reports). Any gaps in the sources are identified in the main sections of this chapter. *Newsbasket* and the oral reminiscences were particularly important sources because they provided insights into the corporate culture, identity and behaviours which played a greater role in performance management in WHS than the other two case studies. Given their importance, they are discussed in more detail below.

Newsbasket was first published in January 1908 and produced monthly thereafter.[716] Although not clear in the sources, the timing may have reflected the expansion of the store chain between 1905 and 1906 and the need to build better communication channels between Head Office and its dispersed workforce. Content and style were quite different from *The Bee* in Boots. The tone of the magazine was celebratory or, in times of change such as when the firm incorporated, reassuring. Business topics were rarely featured and most of the content related to reporting social matters - dinners, outings and the activities of their sporting teams and clubs. This was supplemented by human interest stories such as biographies of long serving employees or profiles of specific stores and their staff. It also communicated company wide news such as the creation of new departments or changes in responsibilities of senior managers.

It is difficult to assess the extent to which the partners/ directors influenced the content. Little is known about the editors and there were no bylines. However, both partners and senior managers used the magazine as a platform to express their views through articles or interviews. The magazine also routinely reproduced speeches made by the partners. Given the uncritical support given by the magazine to the firm's decisions, partners probably exerted considerable influence, perhaps indirectly, over the direction of the magazine. Editorially, the themes and messages communicated through the magazine were also consistent

[716] All of the copies of Newsbasket are available in the archives.

with other sources such as Board minutes, at least until the 1950's when the business was changing its structures and when the partners themselves were less sure about the future direction of the business. Even then, however, the magazine was not explicitly critical of them nor the business more generally.

Newsbasket's value as a source is two-fold. First, it chronicled many events that took place. We discover, for example, what was celebrated, who attended the celebrations, who gave speeches and what they spoke about (sometimes verbatim including the pauses for laughter or applause). It provides the dates of key appointments, retirements and organisational changes. Secondly, it provides an insight into how the firm was projected to its employees, most of whom had no direct contact with Head Office. The editors chose what stories to report (and what to omit), they wrote the headlines, they summarised the speeches, they selected the photographs and the language used to describe events. *Newsbasket* therefore helps us to understand what was important to the partners and what they wanted their employees to hear.

Another important source was the oral reminiscences recorded between 1977 and 1986. It is not clear why they were recorded and although the recordings may have been linked to Wilson's history of the company, published in 1985, the interviews were not conducted by Wilson and the last were recorded after his book was published.[717] The interviews were unstructured and there was little probing of the interviewee's testimony. Rather, they reflect a celebration of the firm and of the individual's role within the firm. As a historical source, their primary value lies not in providing the facts but revealing how employees made sense of the firm's development. As such, they provide important insights into the cultures and behaviours within the the firm. The interviewees can be grouped into three broad categories. The first group includes Lady Hambleden, whose husband controlled the business between 1928 and 1948, and partners who managed the business through most of the period - Michael Hornby, AW Acland and James Smith. Although they worked in the business from the 1920's to the 1960's, their links with the firm stretched back further - their fathers had also been partners in the

[717] WHS Q series. Wilson does not refer to the recordings although he did interview some of the same employees (Wilson, *First*, Preface).

business. The second group includes directors who joined after 1950 and were instrumental in driving through organisational change. They include Peter Bennett who became a director in 1951, a non-Executive Director (HN Saunders) who joined in 1956 and H van Straubenzee who joined the firm in 1956 and became Personnel Director. All had experience of working in other businesses before joining WHS. Also included in this group is Lady Helen Smith whose husband (David Smith) was the Chairman between 1948 and 1969. The final group includes several employees who joined the firm in the 1920's and early 1930's in junior roles in the shops, wholesale houses or head office departments and continued to work into the 1970's.

While all of the Board minutes, consulting reports, finance reports and copies of *Talking Shop* were reviewed, some sampling was done for *Newsbasket*. *Newsbasket* was published monthly from 1908 and had 15 to 25 pages per edition. In order to manage the volume of data, the review focused on the first two years (1908 to 1910), the first and last five years of the period studied (1920 to 1925 and 1965 to 1970) and the five years between 1955 and 1960 when the firm started a restructuring process. In addition, magazines published around key periods in the firm's history were also reviewed - when the firm became a private limited company (1928 to 1930) and when it became a public limited company (1948 to 1950).

Wilson's corporate history was an important source, particularly in providing background information about the history of the firm in the 19th century. Wilson does not explain his motivation for writing the book but acknowledges the support of its directors. Unfortunately, he can be somewhat uncritical of the role of the partners/ directors and the actions they took. Although Wilson referenced his sources, the archive has been re-catalogued and therefore his book had only limited use as a basis for more detailed research.

The chapter follows the same format as the chapters on M&S and Boots. The first section is contextual and describes the historical development of the industry (newspaper, magazine, book and stationery trades) and identifies its core characteristics. The section is followed by a brief summary of the historical development of WHS from 1792 through to 1970. The bulk of the chapter follows and documents how each of the separate elements of a PMM system operated in WHS using the framework from Chapter 1. The chapter finishes with a short conclusion which highlights the main findings of the case study.

Background and Context

The newspaper, magazine, book and stationery trades

The market for newspapers, magazines and books was gradually transformed over the 19th century through changes in taxation, improving literacy rates, growing wealth and innovation. Most of these improvements stemmed from the middle of the century. In the 1850's and early 1860's, the so-called taxes on knowledge which had hampered growth in the first half of the century were abolished (advertising tax, 1853; newspaper stamp duty, 1855; paper duty, 1861).[718] Literacy rates also received a boost in the second half of the century following the introduction of universal education in 1880. From a technology perspective, the expansion of the railway network increased the speed that newspapers and magazines could be distributed from London. There were also advances in production with linotype and the letterpress towards the end of the century reducing costs but also increasing production speeds.[719]

In newspaper and magazine publishing, publishing firms increasingly took advantage of the opportunities these improvements provided. Early attempts to create a mass market appeal had met with mixed success. Periodicals such as the *Penny Magazine* launched in the 1830's and the Penny Dreadful genre in the 1840's had been popular but financial success had not always followed.[720] In the 1890's, a new type of proprietor emerged. Led by Harmsworth (later Lord Northcliffe), they were determined to aggressively grow the market by driving volume. Harmsworth launched the *Daily Mail* in 1896 which achieved a circulation

[718] Cox and Mowatt, *Grub Street,* 14.

[719] Jefferys, *Retail Trading,* 282.

[720] Cox and Mowatt, *Grub Street*.

of 1 million by 1900. Pearson launched the *Daily Express* in 1900 and the *Daily Mirror* was launched in 1903.[721] A volume led strategy dominated the market over the next fifty years. Between 1930 and 1950 the number of newspapers taken per household practically doubled, and individual titles continued to dominate the market; in 1920, only two of the national dailies sold more than a million copies, by 1930 there were five and by 1939, two of these sold more than 2 million copies a day.[722] Between 1900 and 1950, despite some periods of stagnation, newspaper and magazine sales grew faster than the population and retail sales.[723]

The book trade followed a different trajectory. By 1890 it was in a precarious situation. Attempts to control prices had failed in 1852 after the Campbell Committee reported against fixed prices. The ensuing price competition meant that booksellers chose to stock only the fastest selling lines and publishers struggled to find outlets to sell their more serious publications. In 1890, MacMillan made a new proposal to control prices. While the process took ten years, by the turn of the century he had convinced retailers, authors and publisher to sell books at fixed or 'net' retail price. The Net Book Agreement (NBA) came into force on 1 January 1900. Publishers had the right to fix a price and, in return for a fixed discount, retailers were obliged to sell at that price. Retailers who refused would not be supplied with books by any publisher of 'net' books. The NBA was challenged in the first few years but there were only minor changes over the coming decades. Although the practice was reviewed as part of the investigation into resale price maintenance, it was excluded from the 1956 Restrictive Practices Act, a decision upheld in 1962 by the restrictive practices court.[724] It was finally repealed in 1997.[725]

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[721] Jefferys, *Retail Trading,* 282.

[722] Jefferys, *Retail Trading,* 284; Cox and Mowatt, *Grub Street*, 55.

[723] Between 1900 and 1950, 'reading matter and stationery' grew from 2.4% of retail sales to 3.8%. Derived from Jefferys, *Retail Trading,* 453.

[724] Feather, *British Publishing*, 148.

[725] Utton, *Books are not different.*

The NBA improved the profitability of book publishing and led to a long period of stability in the industry with little innovation before 1970.[726] There was, however, growth. Although statistics on the volume of books sold after the First World War are not available in money terms, Jefferys estimates that they kept pace with the growth in newspapers and magazines.[727] Post-war, growth was driven by a rapid expansion in the number of books published; there were 10,000 books published in 1950 and 23,500 in 1970.[728]

Newspapers, magazines, books and stationery were sold through two main formats. Kiosks and bookstalls proliferated in busy high streets and transport hubs such as railway stations. The former was dominated by the independents but in the latter the railway companies preferred to contract the whole of their network with a single retailer. From the 1850's onwards, this market was dominated by three retailers: WHS, Wyman and Sons and John Menzies. WHS was comfortably the largest with 652 of the 977 stalls they ran between them in 1920.[729] The other main format was the bookshop. While most remained specialists selling only books, the multiples typically stocked a broader range which included books, newspapers, magazines, stationery and 'fancy goods'. WHS also dominated the market with 223 shops in 1914 while the next largest retailer had less than 25.[730] As in other retail sectors, the multiples took an increasing share of the market. Table 4.1 shows the multiple share of the newspaper, magazines, books and stationery trade between 1910 and 1950. They are based on statistics prepared by Jefferys. While statistics are available for 1950 to 1970 based on the Census of Distribution returns, they include confectioners and tobacconists which are excluded from Jefferys calculations. However, the census data suggests that

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[726] Feather, *British Publishing*, 193. The only notable exception was the introduction of paperbacks in the 1930's.

[727] Jefferys, *Retail Trading,* 285*.*

[728] Feather, *British Publishing*, 219.

[729] WHS bookstall numbers from WHS X 15 Aggregate statistics. Total of bookstalls operated by multiples from Jefferys, *Retail Trading,* 287*.* Over the next 30 years, the number of bookstalls remained about the same but the volume of trade increased as footfall increased (Jefferys, *Retail Trading*, 287).

[730] WHS shops from WHS X 15 Aggregate Statistics. The next largest was W. Straker Ltd (Jefferys, *Retail Trading*, 286)

multiple share grew only 4.2pp between 1950 and 1970 (to 15.5%) implying much lower growth rates than in the retail sector as a whole.[731]

Table 4.1: Multiple share of retail goods sold

	1900	1910	1920	1930	1939	1950	1961	1970
Multiple share (%) of:[a]								
All retail goods	3.0-4.5	6.0-7.5	7.0-10.0	12.0-14.0	18.0-19.5	21.9	29.2	39.0
Newspaper, magazines, books and stationery goods	n/a	5.0-6.0	6.0-7.0	9.0-10.0	15.0-17.0	15.0-18.0	n/a	n/a
Firms with 10 or more shops	n/a	n/a	7	10	11	17	n/a	n/a

[a] Multiple defined as 10 or more stores

Sources: 1900 to 1950 from Jefferys, *Retail Trading,* 290. Data for 'all retail goods' for 1950 to 1970 from Monopolies and Mergers Commission, Discounts to Retailers, 80, Table 5, published 31 May 1981 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/235898/0311.pdf).

The newspaper, magazine, books and stationery retailers faced a particularly concentrated supplier base in terms of both location and product. Multiple retailing in the sector started in the mid-19th century when railway companies offered exclusive rights to retailers to operate bookstalls across their networks. This provided an important new revenue stream but it also made them dependent upon a relatively small number of railway companies. Typically, contracts were fixed for a duration of between five to ten years and rent was based upon a percentage of receipts or fixed.[732] The length of the contracts provided a level of secure income as retailers invested in their distribution network but margins could be tight and estimates in the 1880's suggest that between a third and a quarter of railways

[731] Monopolies and Mergers Commission, Discounts to Retailers, 80, Table 5, published 31 May 1981 (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/235898/0311.pdf).

[732] Wilson, *First*, 147.

bookstalls were not profitable.[733] Contract renewal could be particularly difficult and as railway revenues fell from the 1890's onwards, the railway companies looked to increase their income from bookstall rents.[734] For a firm like WHS, the risk of losing a contract was significant - in 1905, bookstalls generated sales of £1.403 million compared to £0.932 million from their wholesale operations.[735] And, while this represented a 17% increase in turnover compared to 10 years before, rents payable to the railway companies had increased by 29%.[736] The bookstall revenue stream remained important to the multiple retailers throughout the period but there was further consolidation in the railway industry culminating in the nationalisation of the railways in 1948. WHS secured the 21 year contact with British Rail but it was at a fixed rent and unlikely to have generated significant profit.[737]

To publishers, the long-term bookstall contracts and the concentration of those contracts among only three retailers appeared more like a monopoly. Before 1890, newspaper and magazine publishing was controlled by self-funded, family owned firms. However, by 1900, it had been transformed into a capital intensive industry dominated by only three publishing houses - Harmsworth, Pearson and Newnes.[738] They in turn owned a small number of high circulation publications (such as the *Daily Mail*) which provided leverage on the retailers. They soon took the retailers on. In 1898, Harmsworth launched a new magazine, the *Harmsworth*

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[733] Wilson, *First*, 149. Wilson's source was the Smith family private papers but there may well have been some exaggeration. While Smith complained about the profitability, when he died in 1893, he left nearly £2 million in his will (Wilson, *First*, 204).

[734] The growth in railway net revenues slowed in first decade of the 20th century despite the attempts to increase income: net receipts in 1899 were £40 million compared to £44 million in 1913. (Jefferys, *First*, 202).

[735] Wilson, *First*, Appendix 3.

[736] Rent payable from Wilson, *First,* Table VII.5, 183. Turnover from Appendix 3.

[737] WHS' accounting records did not allocate gross profits to Bookstalls. While they may have conducted their own calculations of the profitability of the rail contract, they have not been retained. However, based on operating costs of 20.8% of sales for Bookstalls and an average gross margin for the business of 29.2%, Bookstalls contributed about 8.4% to Head Office costs in 1948 compared to 11.3% for the shops (WHS X 169 - Audited Balance sheet; WHS X 15 Aggregate statistics A and B shops and stalls 1904 - 1959).

[738] Cox and Mowatt, *Grub Street,* 35.

Magazine, priced at 3d, half the price of competitor magazines. WHS argued that they could not make a profit at those prices and refused to sell it. Using his own publications, Harmsworth accused WHS of operating a monopoly and drew support from other publishers. He also threatened to bypass WHS and sell through alternative channels. Harmsworth eventually backed down, raising the price to 3.5d.[739] However, the altercations continued sporadically over the next 70 years although they took different forms - sometimes there were circulation wars where newspapers fought for share or other times the publishers colluded by increasing prices to the retailers.[740] Both threatened retailer margins.

By the end of World War 1, the principal characteristics of the newspaper and magazine industry were set and, aside from further consolidation, remained the same for the next 50 years. The industry was dominated by a small number of large firms. By 1919, Harmsworth's companies were among the 20 largest corporations in Britain.[741] The influence of these firms was further enhanced by the prominent positions held by their proprietors in public life, several of whom were ennobled (Northcliffe, Beaverbrook, Rothermere, Camrose, Burnham).[742] There was further consolidation over the period and despite a Royal Commission in 1947 and calls for another one in 1961, the formation of the IPC in 1963 created a virtual monopoly in magazine publishing.[743]

The market environment faced by WHS was therefore quite different from both M&S and Boots. The prices at which they could both buy and sell their main products were fixed to a much greater extent than even Boots, where only some of their products were influenced by RPM. The NBA covered nearly all books and the powerful publishing firms could dictate the prices of newspapers and magazines. These factors may explain why multiple retailers took a relatively smaller share of

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[739] Wilson, *First*, 196.

[740] In 1904, *The Times*, cut its prices and challenged the NBA (Feather, *British Publishing*, 184). In 1929 there was a circulation war and in the following year the Newspaper Proprietors Association imposed price increases on retailers (Wilson, *First*, 323).

[741] Cox and Mowatt, *Grub Street,* 37.

[742] Cox and Mowatt, *Grub Street,* 62, 64.

[743] Cox and Mowatt, *Grub Street,* 77, 90.

the market than in other retail sectors. And, with the exception of WHS, the small number of branches they controlled - in 1950, the 16 other multiple firms owned an average of only 19 stores each (see Table 4.1).[744] However, the multiples did have some opportunities to grow their share of the market:[745]

(1) They could expand the range of products sold to those not covered by price restrictions. The largest multiples expanded into stationery and also experimented with gramophone records and small leather goods. Table 4.2 shows the mix of sales in WHS' bookshops and bookstalls in 1920 and 1958. The table shows how WHS expanded its non-core product ranges into its smaller formats over the period.

(2) They could, alternatively, narrow their product range and become specialists, offering a deeper range and a better customer service. Apart from WHS, Wymans and Menzies who all operated bookstalls, the other multiples were specialist bookstores.[746]

(3) They could integrate backwards into publishing. Opportunities were, however, limited given the strength of the publishing houses.

(4) They could acquire competitors or open shops in prime locations to compete with the existing news kiosks. This was less attractive for those firms (such as WHS) who also had wholesale operations as they risked cannibalising some of their own sales.

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[744] Excludes bookstalls. WHS had 363 stores by comparison (see Table 4.3).

[745] Scott and Walker, *Retailing,* highlight opportunities for large scale retailers to grow despite constraints from RPM.

[746] Jefferys, *Retail Trading*, 287.

Table 4.2: Mix of WHS products by store format						
	Large Shops[a]		**Small Shops**		**Bookstalls**	
	1920	**1958**	**1920**	**1958**	**1920**	**1958**
	%	**%**	**%**	**%**	**%**	**%**
Books	n/a	44	27	27	14	12
Newspapers and Magazines	n/a	17	42	27	82	73
Stationery and other products	n/a	39	31	46	4	15
Total	**n/a**	**100**	**100**	**100**	**100**	**100**

[a] Based on sales. Small stores and bookstall based on supplies. No data available for large stores before 1939 when the comparative shares were 30%, 31% and 39%. For definitions of large and small stores see section on Organisational Structure below.

Source: WHS X 15 Aggregate Statistics. 1958 was the last date that the firm recorded the mix in these formats. Analysis done by Peat Marwick showed that News, Magazines and Books still accounted for 55% of gross profit in 1968 but they did not break the split by type of format. WHS 554/9a Report (Peat Marwick): Internal Performances 1960/61-1967/68; 29 Nov 1968.

As will be become evident, WHS tried all of these tactics but only to a limited extent and they prioritised stability over growth.

WH Smiths: Background 1792 to 1970

WHS was founded in 1792 when the family opened a shop in London. It focused on bookselling and binding before expanding into selling newspapers and stationery. However, rapid expansion of the business only occurred after 1829 when William Henry Smith took sole charge of the business and grew the newspaper distribution operations. By using the morning coaches and subsequently the railways, WHS could distribute newspapers from London to the regions half a day earlier than the Post Office. Although initially supplied from their premises on the Strand in London, they subsequently set up a series of wholesale 'houses' across the country with the first opening in Birmingham in 1853. By 1920, there were 36 wholesale houses contributing about 25% of the operating profit of the business.[747] Wholesale remained a core part of the business throughout the period and contributed 34% to net operating profit in 1968.[748]

Expansion of the retail side of the business started in 1848 when WHS secured a contract with the London and North Western Railway to operate bookstalls on station concourses. The success of the venture led to further contracts with the other railway lines. By 1920, they had 652 bookstalls selling newspapers, magazines, books and a small amount of stationery (see Table 4.2). WHS continued to operate bookstalls although the numbers decreased and by 1970, they only had 189. The reduction reflected the poor profitability of Bookstalls in secondary locations and they closed many of these in the 1960's.[749]

WHS only started to expand their chain of stores in 1904 when they opened 9 branches primarily in holiday destinations.[750] However, the firm lost two railway contracts in 1905 and, to maintain the business, they rapidly increased the rate of store openings. By the end of 1906, they had opened a further 188 shops close to the stations where they had lost contracts.[751] By 1920, they had 224 shops generating just under half the sales of the bookstalls. Over the next 50 years there was a gradual increase in the number of shops to 329 in 1970.[752] The product range was broader than the bookstalls (see Table 4.2) and they also operated a lending library until 1959.[753]

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[747] The actual contribution of the Wholesale Houses to the overall profit may have been higher as the Houses used HO merchandise departments to source some of their supplies. WHS X 141 Balance Sheet & A/Cs: W.H.Smith & Son 1920.

[748] Based upon analysis completed by Peat Marwick. The figure is not directly comparable to the quoted 1920 share of 25% due to changes in allocations and accounting conventions in the intervening years. WHS 554.

[749] From the late 1950's the Board reviewed profitability of stores routinely and store closures were presented to the Board: 5 June, 1959, (WHS Y 173 - Minute Book), 19 April 1962 (WHS 816: Minutes: Holdings Executive))

[750] List of stores and their opening dates published in *Newsbasket*, November 1955.

[751] *Newsbasket*, November 1955.

[752] Published Annual Accounts, 1970.

[753] WHS Y 173 - Minute Book 1956/60.

Table 4.3 shows some key statistics relating to the business over the period of this study. As noted in previous chapters, the statistics are presented as context only and are not indicative of the success or otherwise of the firm's performance management practices. They should also not be used to compare the performance of WHS with Boots or M&S. As will become clearer in the sections below, WHS had different objectives to the other firms.

Table 4.3: Key statistics

	Retail Sales	Profit available for partners/ shareholders[a]	Number of Stores			Number of Employees[b]
	£'000	£'000	Large[c]	Small[c]	Bookstalls	
1920	3,831	436	22	202	652	11,772
1925	4,349	460	28	232	617	n/a
1930	4,457	419	35	266	605	n/a
1935	4,390	287	33	295	638	14,273
1940	4,875	272	28	333	638	14,554
1945	7,859	295	32	312	573	12,270
1950	12,564	662	27	336	602	16,814
1955	16,492	776	24	351	526	18,104
1961[d]	21,707	850	n/a	n/a	n/a	18,574
1965	27,073	1,202	n/a	353	n/a	19,177
1970	42,039	2,115	n/a	329	189	18,523

[a] Includes Wholesale House profits. Generating a 'retail' profit which is comparable over the period would be misleading due to changes in the way that WHS allocated head office costs. Alternatively, WHS could not generate consolidated sales before 1960.

[b] Includes Wholesale employees. Not all data is available and the numbers for 1910, 1915 and 1920 actually relate to 1911, 1917 and 1921 respectively. There is no split between retail and wholesale in the sources.

[c] WHS classified their stores as large ('A' stores) and small ('B' stores) but did not define what constituted an 'A' store. The classification affected how they were run (see 'Structures' below).

[d] As the firm changed their accounting year end in 1960, 1961 has been reported to ensure that a full year's results are included.

Sources: Retail sales and store numbers to 1955 from X15, thereafter from Wilson, *First*. WHS no longer distinguished between large and small stores after 1960. Profit from audited accounts to 1949 and published accounts thereafter (X 141 to X 170). Employee numbers from Wilson, *First*, Appendix 2.

Legally, the business operated as a partnership until 1929 when if became a private limited company and 1949 when it became a public limited company. Both times the change was triggered by the death of the head of the family and the need to fund death duties. Before 1929, all of the capital had been provided by the Smith family and they retained ownership of all of the shares after incorporation. They did, however, sell preference shares to the other partners to raise funds. External shareholders were introduced in 1949 but the family retained 34% of the shares and a further 18% were held by other members of staff.[754] A member of the Smith family (David Smith) also remained Chairman until 1972. The Smith family were paid a fixed return on the capital they had invested until 1929 when the firm was incorporated and a dividend thereafter.[755]

How the Smith family managed the business between 1920 and 1970 is explored in detail in subsequent sections of the chapter. The practices, however, changed significantly over the fifty years. Between 1920 and the late 1940's, there was stability and little change to management processes. The subsequent period to 1970 was more turbulent as the firm went through a significant reorganisation which lasted more than 20 years.

Table 4.4 summarises the key dates in WHS' history and is for contextual purposes only.

[754] Wilson, *First*, 351.

[755] Wilson, *First*.

Table 4.4: WHS expansion - key dates	
Year	
1792	Firm founded when HW Smith opened a news shop in London.
1829	WH Smith takes sole charge of the business and expands wholesale operations. All supplied from their London premises.
1848	The firm won their first contract to manage bookstalls on station concourses with London and North Western Railway.
1853	First regional wholesale house opened in Birmingham.
1891	WH Smith dies and replaced by W. Frederick Smith (Lord Hambleden). He persuades a close friend, CH StJ Hornby, to join the firm in 1893. Hornby remained with the firm until his death in 1946 and was the most influential partner from the early 1900's.
1905	Lose railway contract with LNWR and GWR. Expansion of retail stores.
1929	Firm becomes a private limited company after the death of WF Smith in 1928. All shares retained by the Smith family. WH Smith becomes Chairman.
1948	Appointment of Charles Troughton to the Board. Peter Bennett joined in 1951. They were the first non-family appointments to the partnership/ Board since 1894.
1949	Firm becomes a public limited company after the death of WH Smith in 1948. Majority of shares controlled by the Smith family and employees. David Smith, youngest brother of WH Smith, becomes Chairman.
1956	Start a major review of the businesses organisational structures, processes and measures. Reorganisation was a consistent feature of the next 15 years.
1960	New corporate structure announced to the firm.
1969	David Smith resigns as Managing Director of WHS but remains Chairman until 1972 when he is is replaced by Charles Troughton.
Sources: Wilson, *First.*	

Performance Management and Measurement

As discussed in Chapter 1, and following the same format as the chapters on M&S and Boots, the following sections will describe how each of the main elements of a PMM framework operated in WHS. While much of it is descriptive, to allow an assessment of the system as a whole, more detailed discussion and analysis is presented in each section on those areas which are specifically relevant to the research questions raised in Chapter 1. A conclusion at the end draws together the main findings.

Objectives of the Organisation

In the literature, all of the separate elements of a PMM system should be aligned to deliver the objectives of the organisation. This section will consider what the objectives of WHS were and whether they changed over the period. It will also consider how these objectives influenced the running of the business. Later sections explore alignment between objectives, structures and processes.

Before 1970 and the publication of its first corporate plan, the firm did not explicitly state its objectives. However, based upon the sources, the business appears to have been guided by three principle objectives. Firstly, ensuring the continuing viability of the family firm and a consistent return on their capital (especially before 1949). Secondly, supporting both employees and local communities (throughout the period) and, thirdly, and only latterly, growth (primarily after 1950).

The first two objectives were strongly influenced by the personal objectives of the Smith family. A 1936 memo to the partners by the solicitors of WH Smith (Lord Hambleden) described his principal objectives:

> "1. that he shall be in the position at his death of passing on the business and its control in as nearly as may be the same condition as that in which he inherited it and;
> 2. that future of the present Managing Directors of the Company shall be assured (so far as is reasonably possible) in the event of his dying before them."[756]

The objectives appear unambitious but highlight a dynastic determination to maintain a family business which was already 144 years old and the sense of responsibility he had towards those it employed. His father had expressed similar views in a speech to over 1,000 employees at a celebratory dinner in 1920 where he made repeated references to maintaining the family business, to the importance of maintaining the traditions of the business and to the importance of

[756] The memo outlined options to limit death duties and was presented to the directors by Bircham & Co. WHS 912/ 7 (8 October 1936).

maintaining the loyalty and trust that existed between the family and the employees.[757] David Smith, who was Chairman between 1948 and 1972, shared similar views. He was described by a non-executive director as a "very fine man who believed himself to be the trustee of the whole business and not just of his families fortune but of every employee in it."[758] This sense of trusteeship and determination to preserve the stats-quo was particularly expressed during times of change. After the firm became a public limited company in 1949, David Smith reassured employees that there would be little change.[759] Similar comments had been made when it was incorporated in 1929 and WH Smith reassured his staff that the firm would continue much as it had: "though legally speaking, the Firm will in future be a company and heads of it Directors, I hope that to the staff we shall continue to be 'The Firm' and 'The Partners' as heretofore."[760] And they were, for the next 30 years.[761]

The sources suggest, however, that trusteeship of the firm went beyond the Smith family. Partners and employees were repeatedly reminded that they too had a responsibility to maintain the traditions of the firm. When a dinner was held in 1922 for the recently appointed partners, *Newsbasket* reported that "one feels confident that they have started well and will equip themselves for the great work they are undertaking - the carrying on of the traditions of WH Smith & Son."[762] One of the other partners (Hornby) also reminded the employees of their own responsibility to the firm in a 1920 speech:

> "And this brings me to my last word of all, which is that we are all of us servants of the Firm, which is the true and living entity, which outlasts the

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757 *Newsbasket,* October, 1920.

758 WHS Q 14 Reminiscences: H N Saunders (1910-87), (Non-executive Director 1956-78); 4 Jun 1979.

759 WHS Q 31 Reminiscences: P W Bennett (1917-96); May 1982. Bennett argued that it conversely had a profound impact on the employees.

760 *Newsbasket*, March 1929.

761 The term 'partners' was still used to describe the directors in 1960 but less evident in the sources thereafter (*Newsbasket*, July 1960).

762 *Newsbasket,* February 1922.

span of our short lives, whose high traditions it is our bounden duty to hand on untarnished to those who come after us."[763]

The sources suggest that the focus on stability was matched by a conservative approach to managing the business. The priority was ensuring a return on capital ahead of longer term growth and investment was constrained. Despite the rapid expansion in multiple retailing in other sectors, four times between 1923 and 1931, the partners wrote to senior management forbidding further capital expenditure.[764] Correspondence between the accounts department and store managers focused more on management of stock, cash and expenses than on sales.[765] In the minutes, the few discussions on performance focused on balance sheets.[766] The partners themselves managed the main bank account in the 1920's and 1930's. One partner later recalled why: "I used to be terrified of having to do the reconciliation at the end of the week… it did at least tell everyone whether we were solvent or not, and now I know only once a month when Mr Alfred tells me."[767] The concerns may have been exaggerated, WHS never made a loss in the period and only three times resorted to an overdraft at the end of the year.[768]

The second objective suggested by the sources, and linked to the first, was the responsibility the firm felt for its employees. This was consistent throughput the period. In 1970, the first 5 year Plan started: "In origin, WH Smith & Son Limited is a corporate body made up of a variety of human beings, governed by a number of legal rules and guided by certain moral conventions" and went on to state that

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763 *Newsbasket,* October 1920. Ideas of family, tradition, loyalty and continuity were repeated frequently in *Newsbasket* in the early 1920's and are discussed in more detail in the section 'Linking the System' which explores the culture within WHS.

764 WHS 215 Partners Minute Book: 26/11/23, 24/09/25, 25/9/29; WHS Y 119: 7/7/31.

765 WHS X 3 Bournemouth Balance Sheets (1923 to 1958). Included an annual letter sent by the accounts department commenting on performance.

766 In one typical entry, a manager was told that "the seriousness of his excessive and increased stock was pointed out and he was given a hint to the effect that other managers could be found to produce better profits with less capital." WHS 215 Partners Minute Book. 3 July 1923.

767 WHS Archives: WHS 285/11 Extract of speech given by M Hornby 1965.

768 Audited accounts. (WHS X141 to X160).

"finally and perhaps overriding all else, the continuing and increasing profit must provide a secure base for the development of the lives of the people who work for the Firm."[769] The patriarchal responsibility was reflected in where the Smith family focused their own attention - WH Smith personally championed and launched the new Welfare Department in 1943/44.[770] When directors were finally allocated specific areas of responsibility within the firm in the late 1950's, David Smith managed the 'Staff Director.'[771]

The objective helped contribute to a sense of loyalty among employees towards the firm and reflected in unusually long lengths of service.[772] The term 'loyalty' is a common feature in the sources from the 1920's and still evident at the end of the period. Loyalty and the culture of the organisation is discussed in more detail in the section on 'Linking the system' below as it helped align the objectives of employees and the organisation in the absence of structures and process.

The final objective of the organisation was growth. As the 1970 5 year plan stated in its introduction "The first economic task is to make a continuing and increasing profit."[773] It was not until the 1950's that the directors regularly referred to growth. Although there were occasional references to sales and profit before the war in minutes and *Newsbasket* articles, they tended to relate to specific shops or products. A Wholesale employee later recalled that they never really knew how much profit they made and did not really think about the future.[774] From the mid-1950's, internal speeches made by David Smith more explicitly referred to

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[769] From the opening paragraph of the first 5 Year Plan 1970 (WHS 650).

[770] The new department "concerns, in particular, the mental, spiritual and physical well being of the staff). From a copy of his 1943 speech presented around the country (WHS 1570)

[771] WHS 816: Minutes: Holdings Executive; 1960-62. January 1962

[772] In 1920, a senior manager argued that they had more long-serving employees than any other firm in the British Empire (*Newsbasket*, October 1920). In 1979, Straubenzee refers to the unusually long length of service in the 1960's compared to firms such as Marks and Spencer (WHS Q 2 Reminiscences: H H van Straubenzee (1914-2002)

[773] WHS 650 Five-Year Plan: WHS (Holdings) Ltd; 1970/71-1974/75

[774] WHS Q 10 Reminiscences: K A Jessup (1914-2002), H A Johnston (1907-81); W Spicer (1909-81), C E Woodhurst (1910-88).

profit and sales growth.[775] A new magazine was introduced in 1948, *Talking Shop*, which was aimed at store managers and allowed them to share best practice in improving sales and more generally managing their stores.[776]

In WHS, the evolution in the objectives of the organisation provides a contrast with the other two case studies where objectives were broadly maintained throughout the period and were based on growth rather than stability. WHS therefore provides some insights into how changes in objectives influence how performance is managed and the extent to which a performance management system can be dynamic (see Chapter 1). PMM literature, following Chandler, argues that structures change/ need to change following changes in objectives and strategy. And, in a feedback loop, the information which then flows from the revised PMM system in-turn can lead to further changes in objectives and strategy. The literature implies a relatively deterministic and linear relationship. As will become evident, the experience of WHS highlights just how messy and complex the changes can be in practice.

Organisational Structure

This section will consider how WHS structured its organisation and the extent to which this influenced its performance management and measurement processes. It will also explain the roles and responsibilities of directors and employees within the structure. Given the changes in the firm's objectives, it will also describe how the structures changed over the period. It is split into two sections.

1920 to the late1940's

The structure that existed in 1920 had evolved over the previous 75 years as WHS expanded its operations. When the business started opening stores in 1904 they simply copied the structures used to manage Wholesale Houses for the larger ('A')

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[775] *Newsbasket*, May 1955, November 1955, February 1956, May 1956.

[776] Early editions included articles such as “Ten minute talks to ambitious assistants - Put first things first,” “No such thing as an unimportant Customer,” “A better Business Chart” (February 1948).

stores and Bookstalls for the the smaller stores ('B') Stores. The resulting structure was a curious mix of centralised and decentralised structures that lacked an obvious logic. It remained, however, largely unchanged until the 1950's.

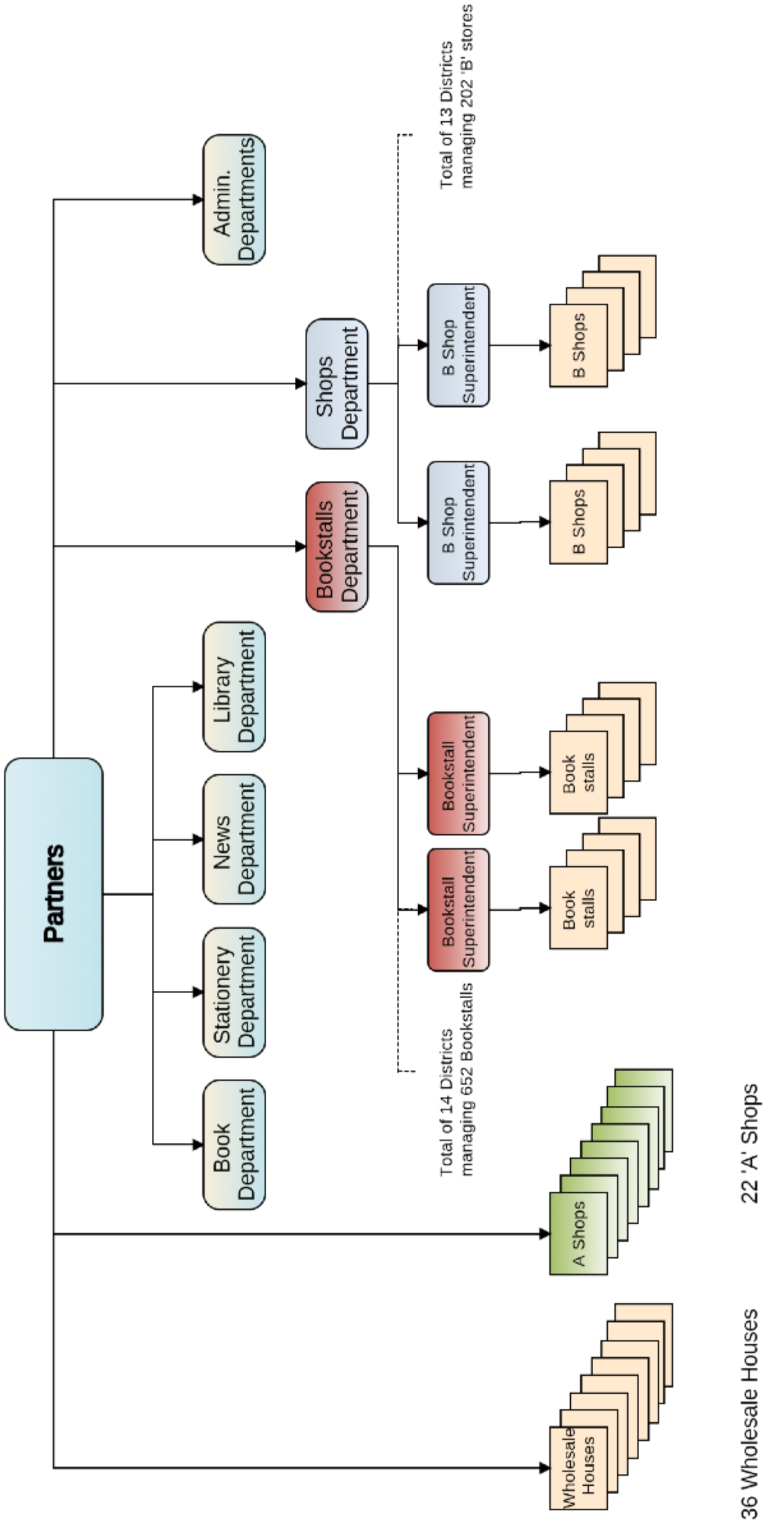
Figure 4.1 shows how the business was organised in 1920. The organisation chart has been created from several sources none of which describe on their own the overall structure and there may be some smaller departments not included. It does, however, identify the primary departments in the organisation and shows the different reporting structures for the 'A' stores and Wholesale Houses from the 'B' stores and Bookstalls. It highlights the large number of departments/ wholesale houses/ 'A' stores reporting directly into the partners. Each element of the structure is described in more detail below.

The Partners/ Directors

The partners (who retained the title until 1960 despite becoming 'directors' in 1929), principally comprised extended members of the Smith family. A few close family friends had been appointed in the 19th century, but between 1894 and 1948 every appointment to the Partnership/ Board was a relative of an existing partner.[777] Numbers varied over the period but there was never more than seven.

[777] CH Hornby, a close friend of WF Smith, was appointed in 1894. CHW Troughton, another family friend, was appointed director in 1948. (WHS Y123 Minutes and WHS Q 15 Reminiscences: Hon. J F A Smith (1906-80))

Figure 4.1: WHS Organisation Chart in 1920



Sources: Departments as separately identified in the accounting records (WHS X 143) and substantiated by references in Newsbasket and the partners minute book (WHS 215). Store numbers from Statistical book (X15). District numbers based on an internal accounting report produced in 1921 (WHS 254)

Family members were invited to join the firm by Lord Hambleden almost immediately after University and had little or no business experience. Their two/ three year training programme involved working in all departments.[778] According to an article in *Newsbasket* in 1920, it was a training programme which had changed little since the 1840's.[779] A training programme for new partners in 1952 highlights little further development between 1920 and 1950.[780] Having joined, partners typically remained with the firm for the remainder of their working lives. Table 4.5 shows the partners/ directors at selected dates, their length of service at the time and their relationship to the Smith family. It highlights the influence of the family and the length of service of some partners at any point in time.

Table 4.5: Managing partners/ directors at selected dates

1920	Appt	1931	Appt	1962[a]	Appt
WF Smith (founding family)	1891	WH Smith (son of WF Smith)	1925	D Smith (brother of WH Smith)	1935
AD Acland (brother in law)	1885	CH StJ Hornby (friend of WF Smith)	1894	M Hornby (son of CH Hornby)	1924
CH StJ Hornby (friend of WF Smith)	1894	AD Power (cousin)	1911	AW Acland (son of AD Acland)	1924
AD Power (cousin)	1911	WHD Acland (brother in law)	1914	CW Troughton (friend of WH Smith)	1948
WHD Acland (brother in law)	1914	E Seymour (brother in law)	1924	P Bennett (brother in law of Troughton)	1951
		M Hornby (son of CH Hornby)	1924		
		AW Acland (son of AD Acland)	1924		
Avg. length of service	*21*		*15*		*26*

[a] Represents the members of the Holding Executive.

Source: Newsbasket (October 1920); Board Minutes 13 July 1931 (WHS Y 119); Holding Executive Minutes January 1962 (WHS 816).

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[778] Recalled by Michael Hornby in a speech given in 1965 (WHS 285/11).

[779] *Newsbasket* October 1920.

[780] WHS 588 Minutes/Papers: Directors' Informal Meetings; 1952-55. Training programme for Alfred Acland and Julian Smith 1952 - 1954.

Within the sources, there is no explanation of why they retained the structure. Literature suggests that family structures like WHS continued into the 1950's and 1960's but is less clear on the relative merits of these structures and their impact on long term performance.[781] However, from a performance management perspective in WHS, the persistence of the structure is consistent with a conservative and inward looking approach to management evident throughout the sources in the 1920's and 1930's and an objective which sought to preserve the family firm.

The partners sat together in one room and, until the late 1950's, had no specific departmental responsibilities nor specific direct reports. Instead, they were expected to be knowledgeable of all parts of the business.[782] Their activities are not explicitly listed in sources although at least part of them included relatively menial administrative tasks such as making out salary cheques and calculating interest payments.[783] At least during the 1920's and 1930's, some of the partners recalled not being very busy and that the business largely ran itself.[784] This is supported by a management philosophy which placed emphasis on the individual employee and their ability to deliver performance without significant intervention by the partners. CH Hornby wrote to a colleague during World War II that "I have always gone on the principle that it is best to let other people do the work and give them full responsibility as a free a hand as possible."[785] It was later summarised by another partner as a philosophy typified by the idea of the Newcastle Wholesale manager who was "given the money and told to report back at the end of the

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781 Chandler, *Scale and Scope* and Gospel, *Markets,* are generally critical of the approach arguing that family firms failed to invest in their businesses, failed to introduce managerial competencies and were content to prioritise a consistent return on capital rather than growth. The hypothesis, has been challenged with examples of family run firms which adopted modern management structures while retaining family control and invested heavily in the long-term growth of the business (Church, *Family Firm*, Foreman-Peck, *Extreme divorce,* Hannah, *Divorce of ownership*).

782 WHS Q 3 Reminiscences: M C StJ Hornby (1899-1987).

783 Speech given by Michael Hornby in 1965 referring to his career in WHS. WHS 285: Photo/ letters/ speeches M Hornby

784 Q 15 Reminiscences: Hon. J F A Smith (1906-80); WHS Q 4 Reminiscences: A W Acland (1897-1992)

785 Letter from CH StJ Hornby to AD Power referred to in the written reminiscences of AD Power: 50 Years in the Book trade. (WHS PA 445)

year."[786] A consultant report in 1956 similarly referred to "the emphasis placed by the Company on the initiative of the manager in running his branch."[787] It was also evident in the minutes where the performance of business was rarely mentioned and even then erred against intervention. As a board minute stated in 1931:

> "Mr CH StJ Hornby spoke strongly against general Head Office interference with Wholesale House expenses. The Manager's own self-interest should be considered sufficient inducement to him to keep expenses down as far as possible. This was generally agreed."[788]

The structure and approach encouraged performance management by exception as partners left the on-going responsibility for the performance of the departments and stores to their senior managers. This approach would suggest a need for either sophisticated control mechanisms to monitor their performance or for the partners to have considerable trust in their managers. As will become clearer later, WHS preferred the latter - trust in their managers but in return they expected loyalty to their objectives.

Wholesale Houses and 'A' Stores

Until the late 1950's, each of the Wholesale Houses and A' Shops operated as separate, independent businesses with no intermediate structure between them and the partners. Effectively, the partners had up to 70 separate businesses reporting directly into them. Each manager was accountable for the profit of his own store and largely free to operate as he chose. An employee later recalled that "the A shop manger was the kingpin, he bought what he liked, he sold what he liked at what price he liked."[789] The view is supported by statistical data which

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[786] WHS Q 9: Reminiscences: Lady Helen Smith (1908-2003); WHS Q 31 Reminiscences: P W Bennett (1917-96).

[787] WHS 798: Retail Practices Report 29/6/56, Report No. 3.

[788] WHS Y 118: Minute Book, 29 June 1931. There are few references to performance in subsequent years.

[789] WHS Q 17 Reminiscences: A J Watson (1916-82) & C G Baker (1916-2000) (Area Managers to 1978/79) 15 Aug 1979.

shows that they only purchased 34% of their range from a Head Office department in 1919.[790] Partners and the rest of Head Office were kept at arms length and partners were not even invited to the Wholesale Houses annual conferences.[791]

These businesses were run by managers who were promoted from within. The records show that they rarely left the business, transferring between stores if they sought a change. For example, Mr Fox ran the Oxford Street 'A' store from 1931 to 1940, Harrogate from 1941 to 1946 and then Manchester from 1947 to 1953. The Newbury store only had two managers between 1922 and 1958 and there were a number of other examples of store managers working in the same store for more than 15 years.[792]

Buying Departments, Bookstalls and ‘B’ Shops

The remainder of the business operated through a series of Merchandise Departments run by experienced senior managers who were responsible for buying and supplying 'B' shops and Bookstalls. These Merchandise Departments, like ‘A’ shops and Wholesale Houses, had considerable autonomy and produced separate accounts. They reported individually into the partners. Merchandise directors, like all senior roles within the business were generally recruited from within the business but they were not necessarily specialists. The partners chose to rotate senior managers around departments prioritising the personal qualities of the individual over functional expertise. Therefore GW Goad was running the Library Department in 1922 but the Shops Department by 1930 and Spratling was the first head of the Personnel Department in 1949 having previously run the Library Department.[793]

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[790] WHS 254 Accounts, publicity department, shops and stalls 1919 - 1922.

[791] WHS Q 2 Reminiscences: H H van Straubenzee (1914-2002); 4 Aug 1977

[792] Calculated from the accounting records (WHS X 16 Branch Summary Sheets: `A' Shops; 1907/08-1957/58).

[793] WHS 215 Partners Minute Book 1911 - 1933, 1941 - 1946 (1 November 1922 and 15 September 1930); WHS Y 124 - Minute Book 1948/50 (4 April 1949).

The ‘B’ shops and Bookstalls operated as distribution outlets. Unlike ‘A’ shops and Wholesale Houses, these shops were not profit accountable and their gross profits were accounted for within the buying departments. Store managers had to purchase through the Head Office department but could choose what they ordered and how frequently. There were a number of tiers of management between the store manager and the partners. Hierarchically, ‘B’ shops and Bookstalls were grouped into a series of districts run by a ‘Superintendent’. The Superintendents reported into a ‘Shops Manager’/ ‘Bookstalls Manager’ who was based in Head Office and was responsible for liaising with the Merchandise Departments, managing the performance of the stores (sales, expenses and stock) and of managing the store employees. They reported separately into the partners.

The distinction between a ‘buying’ side and a ‘selling’ side of the business is typical of all retailers but in WHS they had both. In 'B' stores, the 'buying' side was dominant and it was the responsibility of the shops to sell what supply bought.[794] In 'A' stores, the 'buying' side had little direct influence. From the late 1950’s, the hierarchy was formally altered as the ‘selling’ side became the dominant party for all stores (see below).

Accounting Department

As in other retail organisations, business performance management was supported by the accounting departments. Their role before the 1950’s, however, was focused on administration and the generation of accurate numbers rather than the analysis and interpretation more closely associated with performance management.

Accounting was performed by the 'Balance Department' (renamed the Accounts Department in December 1944).[795] Its role is not described in the sources until an article they wrote for *Talking Shop* in 1951 which suggests little evolution in its role since the previous century:

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794 Explicitly confirmed in the minutes 24 April 1952. WHS 588 Minutes/Papers.

795 WHS Y 123 - Minute Book 1944/48. December 4 1944. Even in the newly named department there was still a ‘Balance’ section within the Accounts Department.

> "Here the branch balance ledgers and the statistical records are kept in much the same form as they were kept in the days of Mr. WH Smith and his son, his grandson and his great-grandsons… your weekly statements are checked, as they were checked in your grandfather's time, against hand written entries in ledgers."[796]

The description, together with the name of the department, suggests a primary responsibility towards accuracy rather than analysis and interpretation. The view is supported by an examination of the letters they wrote annually to each 'A' store on submission of their annual results which provide little analysis of the drivers of performance.[797] This relatively passive role towards performance management by the accounting department contrasts with the practices in both Boots and M&S. It may also not have been the preferred style of the Chief Accountant. In 1919 and new into his role he was admonished twice by the partners for directly interfering in the performance of individual stores and banned from writing to them directly.[798]

The weakness of the accounting department was specifically referred to in the oral reminiscences. Peter Bennett and a non-Executive Director both described how primitive accounting was when they joined the business in the 1950's.[799] A consultant report in 1956 similarly noted that "the accounting reports reflect the present organisational structure and are not considered to be adequate for effective control by Management" and "are more concerned with accounting finesses than with management control, requiring the detailed scrutiny and interpretation of a trained accountant."[800] However, it is not clear that these weaknesses account for the general weakness in performance management

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796 *Talking Shop.* January 1951 in an article written by the Accounts department to explain their structure and role.

797 WHS X 3 Balance Sheets & A/Cs: 19 `A' Shops; various years 1920/21-1958/59

798 Partnership minutes of meeting. WHS 215 Partners Minute Book: 1911 - 1933, 1941 - 1946. (1 May 1919 and 2 December 1921)

799 WHS Q 31 Reminiscences: P W Bennett (1917-96) and WHS Q 14 Reminiscences: H N Saunders (1910-87)

800 WHS 799: Organisation and Accounting (10/9/56).

practices before the end of the 1950's. Accounting was not the only area where WHS failed to develop its processes. Rather, the lack of development was symptomatic of a more general reluctance (or inability) to modernise the business.

Area Management

Within this structure the District Superintendent (later Area Manager) provided the link between Head Office and the 'B' stores and Bookstalls. However, in the sources it is not clear whether their role was about performance management or compliance/ inspection.

In 1931, when the sales performance generally was poor, the partners expressed some concern that the Superintendents were too focused on administrative tasks such as stock taking and not enough on promoting sales. There was even a suggestion that they should be replaced by a district sales manager and an accountant. The Superintendents disagreed and no changes were made.[801] During the early 1950’s the partners were still concerned that they were too preoccupied with administrative tasks and not operating effectively. A memo to the partners described their role (or lack of role):

> “At present he is a part-time salesman, part-time storekeeper, a part-time clerk, a part-time store manager, a very extensive traveller looking after a large number of widely separated branches. He had many masters - the Firm, the Shops and Bookstall Department mangers, and all the Supply Department Managers.”[802]

A series of memos were circulated among the directors with Peter Bennett, recently appointed as director, proposing changes. The number of branches each one was responsible for was reduced to allow them to spend more direct time with store managers.[803] They were allocated a clerk to undertake the audit roles they

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[801] Summary of conclusions of the Superintendent Conference on January 10 1932. WHS 588.

[802] Memo (2 May 1952) to the partners probably written by the Head of Shops. WHS 588.

[803] Memo written by Peter Bennett to the partners (5/12/52). WHS 588.

had previously conducted and it was made clear that their primary responsibility was towards improving sales. It was also agreed that all information sent from Head Office to the stores would flow through them.[804] The revised responsibilities created a clear responsibility towards managing performance and was a pre-cursor to the wider changes that followed in the late 1950's. The role remained largely unchanged over the next 20 years although they were renamed 'Area Managers'. Interestingly, like in Boots, their role was challenged by an external consultant in the 1960's who questioned whether they should operate as inspectors rather than performance managers. As in Boots, the suggestion was rejected.[805]

1950's onwards - all change

Not surprisingly, 1920 to 1949 was characterised by an extended period of organisational stability.[806] In contrast, the following 20 years marked a significant change in the organisational structure of WHS as they centralised control and the directors assumed greater direct responsibility for the operational management of the business. There was no single cause for the change, no specific crisis. Externally, Britain in the post-war period experienced 30 years of rapid economic growth with rapid technical development, relatively full employment, increasingly influential unions and greater competition. These factors placed pressure on existing corporate structures, created opportunities for change and contributed to a general modernisation in management practices in the 1950's and 1960's.[807] These factors may have influenced change in WHS but the service sector more generally and retail specifically had been undertaking structural change since the

[804] Memo (2 May 1952) to the partners probably written by the Head of Shops. WHS 588.

[805] WHS 812: Report on Retailing and Wholesaling Emerson 1965.

[806] The reasons for the long period of stability are not the subject of the thesis and possibly linked to wider themes of structural inertia (Stinchcombe, *Social Structures*; Fligstein, *Organisational Sociology*).

[807] Gospel, *Markets.*

1920's - compared to them, WHS was an exception rather than following wider patterns in British industry.[808]

The sources attribute the impetus to change in WHS to the Chairman. In the oral reminiscences three directors attributed the start of the change process to the Chairman who, they argued, recognised the firm had fallen behind other multiple retailers.[809] There is some support for the view in the actions of Smith. He took responsibility for establishing a personnel department in 1943, already common in other multiple retailers.[810] He also recruited two external directors in the 1940's, the first from outside the families since 1894. Both already had business experience; Troughton was a lawyer and Bennett a retailer. Smith also chose his more reform minded youngest brother (David) to succeed him as Chairman over the middle brother. Whether Smith realised the impact that these actions would take is not recorded. A further impetus for change was also created when he died in 1948 and the business had to become a public limited company. It forced what had been an inward looking organisation to consider their external shareholders and led to the appointment of several 'non-executive' directors.

The structure which emerged was more consistent with both Boots and M&S. Figure 4.2 shows how the organisation was structured in 1960. It is based on a description of the new structure in *Newsbasket* (July 1960) which showed membership of the Boards and from the Holdings Executive Minutes which described activities.

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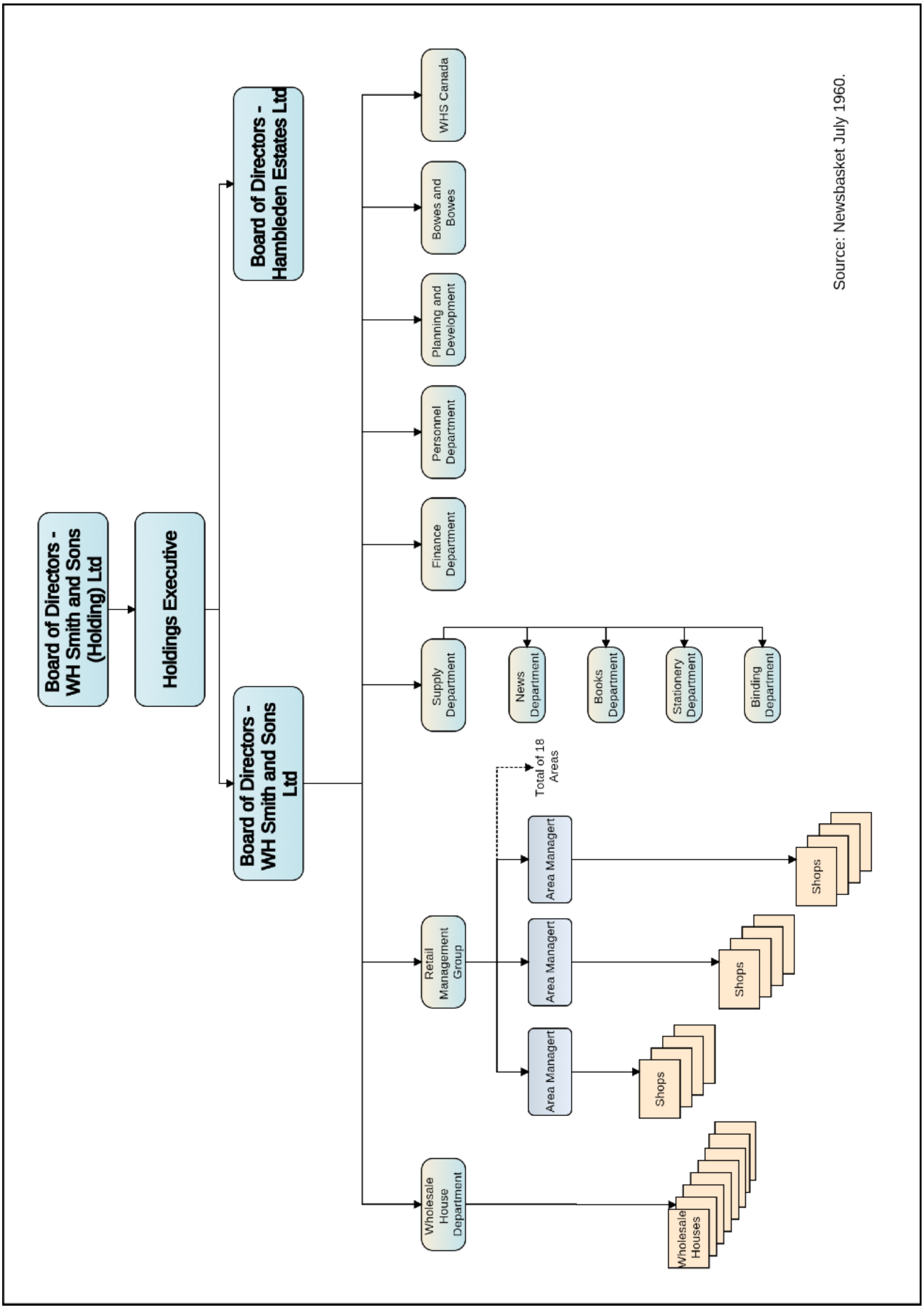
[808] Banking, for example, which shared similar traits to retailers such as high transaction volumes and branches geographically spread, underwent substantial structural changes in the 1920's (see Wardley, *Commercial banking Industry;* Batiz-Lazo and Wardley, *Banking on Change.)*

[809] Bennett, Julian Smith and Saunders (WHS Q 31/ 15/ 14 reminiscences).

[810] WHS 1570 Viscount Hambleden Speeches 16 June 1943. Boots, Marks and Spencer and John Lewis all had personal departments before the war.

Figure 4.2: WHS Organisation Chart in 1960



The principal changes were as follows:

(i) There was alignment across the structure and the distinction between 'A' and 'B' stores was ended. Accounting systems and reward systems were aligned between the two.[811]

(ii) A hierarchy was created which eliminated the large number of departments/ shops/ wholesale houses reporting directly to the directors. All stores reported into a Retail Management Group (1957) and all Wholesale Houses reported into a Wholesale Department (by 1960).[812] In 1962, a Central Buying Group was established for buying departments.[813] A matrix still existed but according to a memo written in 1963, the sellers were acknowledged as the dominant party and buyers had no authority over shops.[814]

(iii) Directors were given specific responsibilities with the largest areas managed by the newer directors. Bennett managed the stores and Troughton the buying and wholesale departments.

(iv) A new board structure was created. The existing executive board and its members were maintained (but renamed as the Holdings Executive). The purpose of the Executive was more performance oriented focusing on, as *Newsbasket* reported, "objectives, policies, plans and standards."[815] Based on minutes of their meetings, they were also involved in evaluating performance.[816] Reporting into the Holdings Executive, the Board of Directors of WH Smith and Son Ltd was essentially an operating board, responsible for implementing the policy decisions made by the Executive.[817] However, it also created pathways for employees to become directors for the first time.

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811 WHS 1090: Review of Retail Managers Pay Structure

812 WHS Y 173 - Minute Book 1956/60: 15 October 1957.

813 WHS 816: Minutes: Holdings Executive; 1960-62: 1 August 1962.

814 WHS 816: Minutes: Holdings Executive; 1960-62. (24 January 1963).

815 *Newsbasket*, July 1960.

816 WHS 816: Minutes: Holdings Executive; 1960-62.

817 *Newsbasket,* July 1960.

The reorganisations, however, had a wider impact than just the organisation structure. Minutes, *Newsbasket* and consulting reports provided evidence of the extent of the changes. WHS introduced new management processes and even established a subsidiary which advised other companies on reorganisation.[818] Accounting systems were modernised and reward mechanisms overhauled.[819] They recruited externally for a number of senior positions and made redundant several long serving senior managers - unheard of before 1950.[820] They also looked externally for advice. Saunders later commented:

> "I think that one of the things which Troughton and Bennett realised was that the company was very much dependent, too dependent on its own knowledge and own experience and wasn't outward looking or seeking outward assistance."[821]

In 1952, Deloitte's were employed to conduct a review of budgetary control.[822] In 1956, two separate reviews were started into 'Retail Practices' and 'Organisation and Accounting' which lasted over two years, generated more than 25 reports and led to the reorganisations that culminated in the announcement of the new structure in 1960.[823] Over the next 14 years, there were at least a further 11 reviews conducted by external consultants.[824]

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818 *Newsbasket,* April 1966. Research and Marketing Limited was established in 1959.

819 WHS 1090: Review of Retail Managers Pay Structure.

820 Henry Straubenzee was recruited in 1957 as managing director of a subsidiary company before becoming Staff Director in 1960 (*Newsbasket* July 1960), Keith Oliver was recruited from Boots and became Merchandise Director in 1962 (WHS 816: Minutes: Holdings Executive; July 18 1962), Peter Bagnall and Malcolm Field, both of whom later became directors, were appointed in the early 1960's (WHS Q 14 Reminiscences: H N Saunders); Minutes recorded several long-standing managers made redundant from 1957 onwards.

821 WHS Q 14 Reminiscences: H N Saunders (1910-87)

822 WHS 588 Minutes/Papers: Directors' Informal Meetings; 1952-55. (May 1952)

823 WHS 798: Retail Practices Report 29/6/56 and WHS 799: Organisation and Accounting 10/9/56

824 WHS 554/2: Papers (WKO/SMH): Merchandise Director's; 1962-73.

The changes largely brought WHS into line with practices in other multiple retailers and the structure had a more obvious performance orientation. For the purposes of this study, however, what is more noteworthy is not the structure that was created but the time taken and the opposition encountered in making the changes which is described below. They highlight the difficulty in changing processes, sometimes forgotten in PMM literature which advocates the importance of making systems dynamic.

Minutes of what were described in the sources as 'Director's Informal Meetings' show that Bennett and Troughton were presenting proposals for change from the early 1950's and consultants were first employed to look at processes from 1952.[825] They also show opposition from other directors and senior managers with one manager arguing that change was 'impossible'.[826] By 1970, reorganisation was still not complete with further revisions to the Board structure announced in *Newsbasket* at the end of 1969.[827] The sources do not directly refer to opposition to change. A handwritten minute written by Troughton in 1957 referred to the need to introduce new directors implying opposition from the existing ones.[828] Speeches of some of the older senior managers reported in *Newsbasket* suggest that they still looked to the past and the traditional way of doing things.[829] However, the difficulties that the firm had in making change is reflected in the messiness of the process itself. Budgets were first proposed by external consultants in 1953 but not introduced until 1960.[830] The Directors agreed not to change the relationship between buyers and sellers in 1952 as “it would be nearly impossible to sweep

[825] WHS 588 Minutes/Papers. 26 June 1952.

[826] WHS 588 Minutes/Papers. 24 April 1952. The same manager (Yates) became the first internal person promoted to Director in 1956 suggesting he had some support from other directors.

[827] *Newsbasket*, September 1969.

[828] All other minutes were typed highlighting the sensitivity of his proposals. WHS 588 Minutes/Papers: Directors' Informal Meetings, November 1957.

[829] While speeches by David Smith encouraged the firm to look forward and to the future, others reported in *Newsbasket* urged the firm to look to the past and carry on the traditions of the firm.

[830] WHS 588 Minutes/Papers. 26 June 1952 and WHS 808: Report (Peat Marwick): Management Accounting; 5 Jan 1960.

away the old established responsibilities” but reversed the decision in 1957.[831] A new bonus scheme was introduced in 1958 but core elements of the old scheme were reintroduced in the early 1960’s.[832] A restructure of the shops division created the Retail Management Group in 1957 but after failing to “introduce a more relaxed and enlightened senior management attitude” it was reorganised and renamed the Retail Directors Office in 1964.[833] The Holdings Executive was created in 1960 but replaced by a Holdings Board in 1967.[834]

The organisational inertia before 1950 and the subsequent change process present interesting questions in their own right. However, within the context of this thesis, the two more pertinent issues arising from the examination of WHS' organisational structures were the apparent weakness of the pre-1950 structure and the difficulty they subsequently had in changing the structure.

The pre-1950 structure was not standardised and, with more than 60 departments/ wholesale houses/ stores reporting directly into the partners, made an active approach to performance management difficult. Hornby stressed that he preferred to delegate responsibility to senior individuals within the organisation and it appears that Wholesale Houses and 'A' stores had considerable freedom to run their own businesses. However, given the structure, he may have had little choice. The weak management structure that seemed to exist at WHS is consistent with Chandler's description of British family firms which were slow to professionalise their structures.[835] The partners might respond that there was no need to 'professionalise' given the business continued to meet its objectives. Perhaps a strong hierarchy is not always necessary to manage firms, even those with large numbers of branches spread far from the direct control of the owners. But, if not structure, how was control maintained? How did the firm ensure that it continued

[831] WHS 588 Minutes/Papers, 24 April 1952. Decision overturned 29 April 1957 (WHS 799: Organisation and Accounting Reports).

[832] WHS 1090: Review of Retail Managers Pay Structure.

[833] WHS 812. Report on Retailing and Wholesaling Emerson 1965, 4.

[834] *Newsbasket*, September 1967.

[835] Chandler, *Scape and Scope*.

to meet its objectives? It may have been that the external context made it easier for WHS to survive. Price competition was hampered by the NBA/ RPM and there were no other large multiple retailers in their sector. However, the independent news sector was strong and part of WHS' product range (stationery, small leather goods, gramophone records) faced competition from variety stores. At least part of the explanation for their failure to develop their organisational structures is therefore that there were other features in their structures and processes which compensated for the apparently flawed structure. These are explored in later sections

The second distinguishing feature of this section is the difficulty that the business had in implementing change in the 1950's and 1960's and, while they may have finally created what Saunders described as "a company which was structured from a management point of view and marketing point of view upon modern lines", the journey was difficult.[836] While the difficulties of organisational change are well documented in the literature, the example of WHS helps illustrate the length of time that reorganisations take, especially those that touch all of the separate elements of a PMM system. Perhaps the creation of a 'dynamic' PMM system advocated in the current literature and which responds to changes in strategy and external environment is not achievable and, if it isn't does this undermine PMM systems as we currently understand them? This will be explored further in the overall conclusion to the thesis.

Processes

The next sections review the performance management processes operated by WHS over the period. As in both Boots and M&S, three broad groups of processes are analysed: those that focus on future performance (planning, targeting, forecasting), those that focus on evaluation of performance and finally, those that focus on motivating and rewarding performance.

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836 WHS Q 14 Reminiscences: H N Saunders (1910-87) (Non-executive Director 1956-78).

The sources (or lack thereof) suggest that pre-1950's WHS was a 'process lite' organisation. A guide had been produced in 1908 ("Store Manager Guide") which, at 127 pages, was comprehensive but it was guidelines rather than rules and almost entirely ignored processes.[837] There is nothing in the sources to suggest that the guide was updated. There are copies of the 1915 and 1930 "Printed Rules to be Followed by Managers and Staff" but they were only one page long and, as the name suggests, were rules rather than description of processes.[838] It is unlikely that other manuals existed - a 1956 consultants report noted the general lack of standardised processes and the reliance placed instead on the store manager's initiative.[839] It was only in the latter half of the 1950's, that policy manuals were introduced. For example, in 1958, a 'Retail Manual of Policy and Practice' was introduced by the newly formed Retail Management Group.[840]

Planning for the future: strategic planning, budgeting, forecasting and targeting

In PMM, the strategy and long-term planning help ensure the objectives of the organisation are translated into activities. This section will explore the processes that WHS used to plan for the future and consider how these were converted into measurable targets or budgets.

Before 1950, there is little evidence of formal planning. Although the business grew, expanded into new areas and the partners examined opportunities for potential future growth, initiatives were not part of a well defined process but appear to be a response to immediate crises/ opportunities or to ideas generated by individuals from inside or outside the business. In a speech, Hornby credited the opening of the Stationery Division at the start of the century to a suggestion by

[837] WHS O 51 - Shop managers Guide 1908 p. 12

[838] WHS 446 - Printed rules to be observed by managers and staff. 1915 and 1930

[839] WHS 798: Retail Practices Report 29/6/56

[840] WHS A 299 - Staff Development Programme

Lord Northcliffe.[841] *Newsbasket* explained the opening of shops in 1905 as a response to losing two railway contracts: "if the railway bookstall could no longer be the home and centre of their activities, some other place should be found."[842] During the 1920's and 1930's, minutes show that a number of proposals were presented to the partners by employees including a mail order business, a cheap bookshop concept and a children's bookshop but these appear to have been ideas generated by the employees rather than the result of any process.[843] There were no references in the pre-1950 minutes to planning future performance.

From the early 1950's, the minutes show that the directors increasingly considered the longer term and the board conducted meetings where they explicitly debated the future. The outputs, however, were general and did not lead to specific plans. The following comment after a discussion about the British economy in January 1954 was typical:

> "What should our policy be with regard to capital expenditure in England? The feeling was that it would have to be at a reduced rate this year and it might be wise to pause and to take stock on the shops' side as to how and where we want to spend money in the future."[844]

It was not until 1964 that they considered a more formal process. In that year Peter Bennett recalled attending a conference in Zurich on strategic planning. It took him, however, a further two years to persuade David Smith of the need for a long term plan.[845] The first five year plan (1970 to 1975) was finally presented at

[841] From 50th anniversary speech given by Hornby in 1943. WHS 587 Loose Papers: from Partners' Room; 1919-54

[842] From a history of the firm presented as a supplement in *Newsbasket* October 1920 p. 10.

[843] WHS 156: Cheap Books Scheme; WHS Y 119 - Minute Book, 29 February 1932; WHS Y 120 - Minute Book, 10 December 1934.

[844] WHS 588 Minutes/Papers: Directors' Informal Meetings; 1952-55 (12 January 1954)

[845] WHS Q 31 Reminiscences: P W Bennett (1917-96); May 1982

the end of the decade.[846]

There are no mention in minutes or *Newsbasket* articles of formal processes for budgeting, forecasting or targeting before the end of the 1940's. Reminiscences from Hugh Saunders confirm their absence.[847] In 1952, they commissioned Deloitte's to undertake an investigation into budgetary control but it was not until a further review in 1960 by Peat Marwick that a comprehensive budget process was introduced.[848] There were few references to the processes in the following years.

There is some (limited) evidence that informal targeting and forecasting may have been more common at a District or shop level at a much earlier date. Correspondence between 'A' stores and the Balance Department in the 1920's and 1930's suggest that store managers were making estimates for the following year but not across all shops and not across all years.[849] In 1948, one shop manager wrote a letter to "*Talking Shop"* in which he showed how he measured his performance against a weekly sales target but, given that his letter was to encourage other managers to do the same, it appears that it was driven by his own personal initiative.[850]

The evidence suggests that planning was not an integral part of WHS central processes before the 1960's and that even after initially considering it in the early 1950's, they took a long time to create comprehensive processes. Instead, it was left to local managers to develop their own plans and targets (if at all). The findings are consistent with an organisation that prioritised stability over growth, delegated performance management to individuals in the organisation and struggled to develop processes quickly once they recognised the need.

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[846] Five-Yr Plan: WHS (Holdings) Ltd; 1970/71-1974/75

[847] WHS Q 14 Reminiscences: H N Saunders (1910-87)

[848] WHS 588 Minutes/Papers: Directors' Informal Meetings; 26 June 1952 and 24 September 1953; WHS 808: Report (Peat Marwick): Management Accounting; 5 Jan 1960.

[849] Commentaries attached to the annual balance sheet. For this store, the Balance Department twice suggested what sales could be achieved the following year (1924 and 1934). WHS X 3 Bournemouth Balance Sheets.

[850] *Talking Shop* February 1948.

Evaluation

This section considers the formal and informal processes the organisation used to evaluate their performance. It considers not only the evaluation of the financial performance but also the evaluation of employees.

Based on the minutes, memoirs and accounting schedules, there are no references to processes where the partners evaluated the *consolidated* performance of the business before the 1950's. This may be due to gaps in the sources but, it would have been difficult for the partners to do so anyway as the business could not generate a consolidated sales figure until 1964 and attempts to recreate earlier figures by their own accountants and by external consultants failed.[851] Even below the total business level, the sources are unusually silent on the formal processes that existed to assess performance. There is evidence that the partners received financial reports. While only a short series of financial reports produced between 1919 and 1921 are available in the archives, both the Balance Department and consultants reports referred to performance reports distributed to the partners.[852] Unfortunately, the minutes make few references to performance. It may have been that performance was discussed in separate meetings but there are no references to these meetings in the sources. And, the occasional reference to performance by partners in the minutes suggest that performance discussion were not outside the scope of the main board meetings. Sharing a room, the partners may have discussed the overall schedules and only brought specific issues to the board meetings by exception.

While the evidence suggests a lack of regular, formal processes in place for partners to discuss performance collectively, there were processes to discuss

[851] The sales figures in 10 Year Summaries in published accounts were left blank for all years before 1964. Peat, Marwick, Mitchell & Co. had to limit sales comparisons with peer companies to post 1964 in a review despite access to the accounting records. ("WH Smith & Son Ltd. Study of Internal Performance Years 1960/61 to 1967/68" (29/11/68). WHS 554 - Papers (WKO/SMH): Merchandise Director's; 1962-73)

[852] WHS 254 Accounts, publicity department, shops and stalls 1919 - 1922; WHS 799: Organisation and Accounting 10/9/56, Report 17; *Talking Shop,* January 1951..

them at an individual level. MH Hornby later recalled that the partners separately met the District Superintendents once a month. The purpose was to keep "in close touch with the progress made by individual branches and [we] got regular assessments of the capabilities of managers and staff."[853] On an annual basis, they also met each of the Wholesale House managers to discuss their annual performance and again shared out the meetings between themselves.[854] The process, appears, however to have been unstructured as a Wholesale manager later recalled:

> "You could either be in 2 minutes, 10 minutes or an hour depending upon how your year had turned out. In this particular year it was quite good and we were finished, it fact it never started, we watched the race on TV. Then we had tea together, Mr David and I, and then I think the balance sheet took about 3 minutes… we didn't look at any figures at all."[855]

Directors continued to meet Wholesale House Managers individually until 1962 and a similar process operated with the heads of the Merchandise Departments until 1964.[856] Hornby's comments suggest that the reviews were as much about understanding the performance of the manager and his employees as it was about the drivers of performance in the store/ wholesale house.

While the pre-1950's formal processes were relatively underdeveloped compared to peer companies, there were informal processes which appear to have been the primary mechanism that partners and senior managers used to understand and evaluate performance of the stores and, in particular, the individuals in the store. Personnel knowledge of the performance of each store and its employees was considered important and remained a constant feature of the business throughout the period. The sources show that direct contact between partners and the shops

[853] M Hornby speech in 1965 - WHS 285: Photo/ letters/ speeches M Hornby

[854] WHS 816: Minutes: Holdings Executive, 12 April 1962.

[855] WHS Q 10 Reminiscences: K A Jessup (1914-2002), H A Johnston (1907-81); W Spicer (1909-81), C E Woodhurst (1910-88); 14 Feb 1979.

[856] WHS 816: Minutes: Holdings Executive, 12 April 1962; WHS Y 174: W.H.Smith & Son Ltd; 21 April 1964.

was important throughout the period. AD Power was appointed in 1911, partly to ensure that there were enough partners to visit all stores regularly: “two partners and a third doubtful one would be tied to the office in London more that they ought to be if personal knowledge of the branches is to be maintained.”[857] David Smith aimed to visit every shop within a three year period.[858] In 1952, the partners agreed that they would each spend 2 weeks every year visiting branches.[859] In the same year, the reason for expanding the number of Superintendents, despite the cost, was “to allow the Superintendents to have more frequent personal contact.”[860] In 1960, one of the reasons given for the reorganisation was explained by the Chairman: “What I am hoping is that, because of the reorganisation, the partners will have a great deal more time to go out and visit branches than they have been having in the past few years.”[861] Peter Bennett may have been responsible for introducing the processes which centralised performance management processes in Head Office in the 1950’s and 1960’s but he acknowledged the importance of visiting stores: “there is nothing like getting the smell of battle” and he went on to explain that one can get endless statistics but if you go out for half a day, you will learn more about what is really happening.[862] Based upon reminiscences of two members to the Smith family, these were not ‘royal’ visits to ‘meet and greet’ staff who rarely had any contact with the partners but about performance. Visits tended to be unannounced and were about understanding how well the shop was run and the ability of the manager and their employees.[863]

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857 WHS 87/1 Letters on ADP partnership 1910 - 1911, 1923, 1928

858 WHS Q 17 Reminiscences: A J Watson (1916-82) & C G Baker (1916-2000) (Area Managers to 1978/79); 15 Aug 1979

859 WHS 588 Minutes/Papers: Directors' Informal Meetings; 1952-55 (8 January 1952)

860 Memo from Peter Bennett 5 December 1952 in WHS 588 Minutes/Papers: Directors' Informal Meetings; 1952-55

861 *Newsbasket,* July 1960

862 WHS Q 31 Reminiscences: P W Bennett (1917-96); May 1982

863 WHS Q 9: Reminiscences: Lady Helen Smith (1908-2003); 10 Jan 1979; WHS Q 8: Reminiscences: Patricia Hambleden (1904-94); 26 Oct 1978.

While informal processes were a constant feature throughout the period, from the 1950's onwards, there was an increasing shift towards more centralised processes. In 1952, the partners challenged whether they were getting sufficient information to make decisions.[864] They started to demand routinised data they had not previously received.[865] In 1957, they commissioned a report by the Economics Intelligence Unit into the firm's performance compared to peer companies.[866] In 1959 they introduced new processes to evaluate the performance of store managers.[867] From the 1960's onwards, the principal focus at Holdings Executives was financial performance with the first agenda item specifically relating to financial issues. Every quarter, they conducted a review of results of each department. The WHS Limited Board also reviewed "Progress Reports" presented by each director.[868] Evaluation also extended beyond the purely financial with the introduction of a 6 monthly "Staff Report" which included statistics on turnover including reasons for leaving.[869]

The formal processes introduced during the 1950's and 1960's brought WHS in line with formal processes at peer companies. However, despite the introduction of formal processes, WHS directors continued to visit stores and observe the performance of their managers first-hand. This suggests that formal processes could not replace the informal processes - a finding consistent across all of the retailers studied as part of this thesis.

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864 "Expenditure on shops and stalls. Do we get sufficient details to help us to make up our minds?" Minute on 8 January 1952. WHS 588 Minutes/Papers: Directors' Informal Meetings; 1952-55.

865 WHS Y 172 - Minute Book, 8 February 1954 and 2 November 1954.

866 WHS 802 - Analytical and Comparative Studies in Company Performance and Finance: Economics Intelligence Unit 1957.

867 WHS 806: Retail Management Group Area Managers Conference January 1959.

868 WHS 816: Minutes: Holdings Executive, 16 July 1962; WHS Y 174 - Minute Book, 21 May 1963.

869 WHS Y 174 - Minute Book, 22 October 1963.

Motivation

This section will examine the formal and informal processes used to motivate performance and includes both an assessment of how employees were rewarded financially but also of any non-financial mechanisms. PMM literature would anticipate that the reward mechanisms would promote the objectives of the organisation. One might therefore expect consistency across similar roles. As will become clearer, however, there were inconsistencies both between tiers of management where salaries ranged from 100% fixed to 100% variable and within the same role where some store managers were rewarded on the basis of profit and others on sales.

There are no descriptions in the sources of the salary structures operating at WHS other than for store staff.[870] The explanations for senior managers are therefore based on some employment contracts, Board minutes and from the accounting records. The sources are partial and there are few sources covering the 1960's.

Wilson's review of partners' contracts between 1890 and 1907 showed that the Smith family received a fixed return on capital (5% from 1905). The partners received a share of the post cost-of-capital profit of the firm.[871] The application of a cost of capital charge differs from the other case studies but it is consistent with the objective of preserving capital before earning a profit. Contracts signed with new directors in 1949 followed a similar principle. The directors shared a 'salary pool' and received a 5% share of net profits over £500,000.[872] There may have been further change to these arrangements but they are not referred to in the sources.

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[870] An internal review was completed sometime in the 1970's of the salary arrangements for 'B' store and Bookstall managers and staff covering the period from 1920 to the 1970's (WHS 1090: Review of Retail Managers Pay Structure. DM Cook Staff and Training Division (not dated)

[871] Wilson, *First*, 263. Including Smith, there were 5 partners.

[872] WHS 1268. Contracts between WHS and Arthur Acland, Michael Hornby and Charles Troughton on their appointments as Managing Directors, 25/08/1949.

In 1930, senior Head Office managers were given a small fixed salary supplemented by a share of profits (10% of the department's post cost of capital profit).[873] It is not clear if this changed in the 1950's. The minutes also show that the fixed salaries differed considerably between the senior managers. While the Head of Shops received £2,500 in 1930, the Chief Accountant received only £1,000.[874] This, however, may have been as much due to who took the relative roles - the new head of the shops had previously run one of the profit centres (the Library). In 1919, the head of the Shops had received only £1,000.[875] Pay therefore was linked to the individual rather than the role.

There is a lack of evidence on District Superintendent salaries. Salary bands introduced after the Second World War suggest they only received a fixed salary.[876] Surprisingly, the maximum was below what some 'A' store managers earned and this perhaps reflects the largely administrative nature of the District Superintendent role in 1951 as described above.[877] The lack of any profit or sales related pay is inconsistent with other managers within the business but no explanation is offered in the sources.

Wholesale House and Store Managers were all paid on the basis of a low/ zero fixed element and a high variable element throughout the period.[878] Minutes and the annual accounting returns from Wholesale Houses and 'A' stores show that managers received a small fixed salary and a share of the post cost of capital

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873 Based on minutes and referring to two Department managers. There were no other references. WHS 215 Partners Minute Book, 30 July 1930.

874 WHS 215 Partners Minute Book, 15 September 1930 and 20 December 1929.

875 WHS 215 Partners Minute Book, 19 April 1919. While there were more stores, wages had generally fallen in Britain between 1919 and 1930 (Gregory Clark, "What Were the British Earnings and Prices Then? (New Series)" MeasuringWorth, 2014 . URL: http://www.measuringworth.com/ukearncpi)

876 WHS Y 123 - Minute Book, 6 August 1946, 2 October 1951.

877 The Birmingham and Bournemouth store managers received £2,538 and £2,174 respectively in 1951 compared to a maximum of £2,000 for a Superintendent. WHS X 16 Branch Summary Sheets: `A' Shops.

878 Apart from between 1958 and the early 1960's when the basis was temporarily changed.

profit of their store (usually 20%).[879] By the 1950's this variable element could represent nearly 100% of their total remuneration.[880] For 'B' store and Bookstall managers it was based upon a % of sales (between 2.5% and 5% of sales). The different bases for 'A' and 'B' shops was probably not a difference of principle but of practical necessity - the business could not calculate profit for 'B' shops and 'Bookstalls' until 1960 when they too switched to profit as the basis of their variable pay.[881] Like 'A' stores, the variable element could represent a high proportion of their pay - 100% for the largest 'B' stores in 1955.[882]

High levels of variable pay could imply a policy to drive profits in the individual units. However, WHS incentivised managers on the basis of their **absolute** profit (or sales) rather than their profit **growth**. Profit was also after making a charge for the cost of capital used. This provided some protection to firm profits - poor store profits reduced salaries. It also reminded managers that their first priority was to earn a return on the capital invested in their store. It may have also created more stable profits - like the Smith family, managers may have preferred a steady return rather than a potential higher return but higher risks.

There were few reward processes beyond salary and profit share. There is no evidence in the sources that WHS used competitions, prizes or other incentives to promote objectives. *Newsbasket* did not publish comparative results nor mentioned the performance of high performing individuals. While the regular visits of partners may have motivated performance, it was a personal and individualised form of motivation.

It is also unclear what the basis for promotion was. There were no formal evaluation processes for employees until 1959.[883] In reminiscences, employees

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879 WHS 215 and WHS X 16 Branch Summary Sheets: `A' Shops; 1907/08-1957/58

880 The Birmingham and Bournemouth store managers received 96% and 97% of their pay as a profit share respectively in 1957. WHS X 16.

881 WHS 1090: Review of Retail Managers Pay Structure.

882 WHS 1090

883 WHS 806: Retail Management Group Area Managers Conference January 1959.

remembered promotion as being “dead man’s shoes” with few opportunities.[884] This partly reflected the slow expansion of the store network but a comment by Saunders suggests it may have also been because they placed loyalty ahead of competence - Saunders commented on the lack of talented senior managers as promotion reflected “a hierarchy up which faithful servants could go.”[885] Conversely, the business was reluctant to ‘penalise’ poor performance. During the 1920’s, the minutes record a small number of times when managers were asked to explain the poor performance of their parts of the business to the partners. While the wording in the minutes suggested a tough approach, the repercussions rarely reflected the words. The case of C Manning is illustrative of the approach. In January 1921, he was warned about the high level of stocks in his Wholesale House and “it is to be noted that many previous warnings have been given to M and this is to be the last.” The following year, after deciding to ask his father to monitor his performance, it was thought ‘advisable’ to give him another chance. Two years later, the partners met him again - “The seriousness of his excessive and increased stock was pointed out and he was given a hint to the effect that other managers could be found to produce better profits with less capital.”[886] There were no other references to his performance until 1949, now managing the largest Wholesale House, when the Directors wrote to him concerned about poor stock control and a loan made to a third party. Manning asked to take early retirement soon afterwards.[887] The attitude did not just relate to senior managers. A consultants report in the mid-1950’s noted how “the Superintendents’ authority is necessarily limited when it is the policy of the Company to allow a manager to remain in a branch as long as he chooses unless he is completely inefficient and when dismissal is on account of dishonesty only.”[888] By the late 1950’s, the

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[884] WHS Q 10 Reminiscences: K A Jessup (1914-2002), H A Johnston (1907-81); W Spicer (1909-81), C E Woodhurst (1910-88); 14 Feb 1979

[885] WHS Q 14 Reminiscences: H N Saunders (1910-87).

[886] WHS 215 Partners Minute Book, 12 January 1921, 19 April 1921, 3 July 1923.

[887] WHS 587 Loose Papers: from Partners' Room; 1919-54

[888] WHS 798 Retail Practices Report No. 3, 29 May 1956.

minutes suggest a change in policy with several references to senior managers being made redundant.[889]

Although the reward practices within WHS appear inconsistent between roles and underwent few changes during the period, they also reflected the objectives of the organisation. A focus on absolute profit/ sales and ensuring that a profit share was only payable once a return on capital had been delivered was consistent with a firm which placed capital maintenance ahead of growth. Their reluctance to dismiss people based on poor performance was consistent with the paternalistic attitude to employees and suggests that performance may not have been as important as other factors such as loyalty (see 'Linking the System' below). Promotion for long-standing employees (or 'faithful' ones as Saunders described in the earlier quote) was also consistent with rewarding loyalty to the family and firm. Although the objectives changed gradually during the 1950's with an increasing focus on growth, it is not clear whether the variable pay structures changed as well. Accounting improvements allowed a switch from a sales to a profit basis for 'B' store managers in 1960 but this only brought them in line with large stores.[890] There are few other references in the sources and this could reflect that there were few other changes to reward or simply gaps in the sources.

Measures

This section will consider how important measures were in managing the performance of the business. It will examine both financial and non-financial measures and in particular, will consider whether there was a dominant measure or a wide suite of measures and how these changed over the period.

Analysis, however, is hampered by the lack of statistical records within the archives. Compared to the other case studies, there are fewer statistical reports and those that exist include little detailed analysis or commentary. References elsewhere in the archives suggest that the firm did produce reports regularly

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[889] WHS Y173, 30/12/58; WHS Y 174: 20/2/61, 20/5/61, 7/11/61, 28/12/61.

[890] WHS 1090, 1 February 1960.

although questioned their usefulness.[891] The few which are available are discussed in more detail below.

A Statistical Book summarised a limited range of measures between 1910 and 1958. Table 4.6 shows all of the measures recorded in the book and the date that the measure was first recorded. The book was updated annually and did not include any further analysis or commentary. The table highlights the lack of development in statistics used to monitor the business and the inconsistency between measures for 'A' stores and the rest. The latter was due to accounting issues but what is curious is that no attempt was made to correct the issues until a 1958 consulting report recommended changes - the accounting issues were subsequently resolved within two years.[892]

Table 4.6: Statistics Book to 1957

	First year measure recorded		
	A' Stores	**B' Stores**	**Bookstalls**
Annual sales (£ and % growth versus prior year)	1914	1914	1910
£ Sales split by merchandise group (at cost price)	1938	Never	Never
£ Sales split by merchandise group (at selling price)	Never	1914	1910
% Gross margin	1914	Never	Never
£ expenses by type of expense	1914	1914	1910
% expenses to sales (total)	1914	1914	1910
Net profit (£ and %)	1914	Never	Never
Stock turnover	Never	1929	1929
Debt by age (on credit sales)	Never	1929	1929
Cash deficiencies and overpayments	Never	1914	1910

Source: WHS X 15 Aggregate statistics A and B shops and stalls 1910 - 1959.

[891] *Talking Shop*, Jan. 1951; WHS 254; WHS 799: Organisation and Accounting, No. 17

[892] WHS 799: Organisation and Accounting, No. 17.

The limited range of statistics is supported by copies of quarterly reports produced between 1919 and 1922.[893] All the data are from accounting records with no volume, customer, employee or selling space information used. Interpretation would have been difficult. No adjustments were made for stores opened in the period or closed since the last period although evidence from the other records show several changes.[894] No explanation is given in the commentary for reasons why the sales performance was so poor. Instead, the commentary focuses on the salary savings required to maintain the same salary to sales ratio as the previous year. Although no further examples of the report exist, consulting reports produced between 1956 and 1958 refer to similar reports but also suggest that there had been no development in the measures generated and highlighted how difficult they were to interpret.[895]

Evidence of key measures is also provided by the annual accounting returns of the 'A' stores (1920 to 1958).[896] Along with a balance sheet and profit and loss account, they included several statistical measures. As might be expected in a business which focused on capital maintenance, there were more measures on stock (number of stock lines, aged stock, stock turnover, stock depreciation) than on either sales or expenses. The measures were also unchanged between 1920 and 1958, the last year the stores completed the returns.

The descriptions provided above suggest a very limited use of measures (also perhaps suggesting a limited use *for* measures) with a heavy focus on stock. They also indicate almost no development in the measures between 1920 and 1958. The conclusion is supported by the consulting reports produced between 1956 and 1958.[897] The reports were also highly critical of the range of measures, how they

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[893] There was no analysis of stock as it was only counted in store annually.

[894] 1 ‘A’ shop and 6 ‘B’ shops were opened in 1921 and 30 Bookstalls were closed (net). WHS X 15 Aggregate statistics.

[895] WHS 799: Organisation and Accounting (Report 14 listed the new measures which would be produced and therefore highlight what had previously been missing).

[896] WHS X 3 Balance sheets and accounts: 19 A shops (1920 to 1958).

[897] WHS 799: Organisation and Accounting (Report 14 and 17)

were presented and the difficulty in interpreting them.[898] Although consultant reports can exaggerate weaknesses, the reminiscences of Hugh Saunders and Peter Bennett, both of whom had worked in other large businesses, also describe weaknesses in the accounting systems.[899] The criticisms would not have come as a surprise to the partners. Superintendents in the 1930's had complained about the lack of store profit information available to them.[900] When the statistical department of the Bank of England wrote to WHS in 1931 requesting certain statistical data to be published in the Board of Trade Journal, the partners decided to "decline politely the request owing to the difficulty of providing information that would be accurate."[901] The minutes do not record any concern expressed by the partners that their own statistics may be inadequate or lead to any additional statistics generated in the future which might imply satisfaction with the measures they used.

In contrast to Boots' *The Bee*, *Newsbasket* rarely referred to financial performance. The only statistic regularly reported was a non-financial one. From the 1920's through to the 1970's, *Newsbasket* reported the length of service of employees whether in articles about a store/ department or in descriptions of a dinner held to honour their longevity (for example, in January 1922 the editorial described a dinner for the Counting House where the average length of service of the 65 invited guests was 24 years. In 1966, an article on Gloucester Wholesale House provided the length of service of every employee mentioned in the article).[902] Unfortunately, while WHS must have collected the statistics, there are no copies in the archives. As a measure, length of service was an effective way of communicating the loyalty of staff and this is discussed in the next section in more detail.

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[898] WHS 799: Organisation and Accounting, Report No. 14.

[899] WHS Q 14 Reminiscences: H N Saunders; WHS Q 31 Reminiscences: P W Bennett.

[900] Memo to partners from Superintendent Conference January 1932. WHS 588.

[901] WHS Y 119 - Minute Book 1931/32 (14 December 1931).

[902] *Newsbasket* January 1922 and January 1966.

The failure to develop measures between 1920 and before the late 1950's is curious. Peer retailers were using a wide range of financial and non-financial measures from the early 1920's. The deterioration in the financial performance of the firm in the 1930's might also have acted as a prompt to generate more and better measures (see table 4.3). The failure to develop measures is, however, consistent with the apparent lack of focus on performance management evidenced in the lack of process development described in the sections above. Measures are also less relevant where responsibility for performance is delegated and the partners/ directors manage performance by exception. Indeed, it could be argued that *too many* measures dilutes the responsibility for local managers to take their own initiative in driving performance. However, this is speculation and there is no evidence to support the view. What is clearer is that measures were not a central part of how the partners managed performance between 1920 and the early 1950's.

From 1956 there was a change in approach. Statistical data collection was improved and there were changes in how it was reported. Consulting reports, accounting records and Board minutes show the extent of the changes. Accounting deficiencies were resolved.[903] This enabled quarterly branch profit statements and analysis of the relative profitability of stores or departments within stores. New measures were introduced. From 1959, performance of new lines was reported, in 1960 supply chain volume information was added and by 1962, like-for-like sales analysis and weekly and monthly trading results against budget were used.[904] Non-financial performance measures were also introduced including the analysis of vacancies, staff turnover and the reasons for employees leaving.[905] There was also increased focus on external measures to understand relative performance and retail trading results were reported against Board of Trade Statistics.[906]

903 WHS 799: Organisation and Accounting Report No. 14.

904 WHS 808: Report (Peat Marwick): Management Accounting; 5 Jan 1960; WHS X 19 - Branch Summary sheets; WHS 816: Minutes: Holdings Executive,10 October 1962.

905 WHS Y 174 - Minute Book 22 October 1963.

906 WHS 816: Minutes: Holdings Executive, 10 October 1962; WHS X 19 - Branch Summary sheets.

Not surprisingly, Board minutes show directors using the data almost immediately to take decisions on long standing issues: from 1959, the Board were presented with data to support closing existing stores, the appropriateness of internal transfer prices in determining store viability and opportunities to open stores.[907] The new measures were also used in the monthly performance meetings referred to in the 'Evaluation' section above. While previously the measures had focused on sales and stock, there was a much broader range of measures now used. Sales measures increased in prominence, consistent with increased focus on growth but they were also supported by a range of other measures including external and employee data.[908]

The new measures introduced in the late 1950's were themselves just bringing WHS in line with other retailers. However, of more interest from a PMM perspective is that WHS managed its performance for so long with a set of relatively (compared to peer retailers) poor measures and used them sparingly. PMM literature places measures at the centre of the system; its importance lies in aligning the business to the objectives and providing the information which assesses the firm's progress towards those objectives. Measures, like structures, are expected to change as the external environment and internal strategy change. However, there is an implicit assumption that measurement is *de facto* a necessary and important aspect of performance management. The example of WHS before 1950 questions whether measures need to take a central role. However, if they do not, what alternative mechanisms were in place to align the business and ensure employees continued to meet the firm's objectives. As noted above, there did not appear to be (with the exception of the reward systems) compensating processes. The next section, however, will consider communication systems and in particular, the cultural and behavioural factors which influenced performance management in WHS.

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[907] WHS Y 173 - Minute Book. (3 June 1959, 9 June 1959); WHS 816: Minutes: Holdings Executive (19 April 1962); WHS 817 - Minutes: Holdings Executive; 1963 (18 July 1963).

[908] WHS 816: Minutes: Holdings Executive; 10 October 1962; WHS Y 174 - Minute Book K: W.H.Smith & Son Ltd, October 1963.

Linking the System

This purpose of this section is to examine how the separate elements described above were connected and the strength of the links. The analysis should help our understanding of the strength of the overall system - whether the whole was greater than the sum of the parts. However, even a cursory review of the performance management structures, processes and measures in WHS as described in the previous sections suggest little alignment and little cohesion - the separate elements having evolved along their own paths before a restructure in the 1950's and 1960's. And yet, paradoxically, WHS continued to meet its objectives. Despite the economic depression in the 1930's, WHS paid a dividend to the Smith family, maintained its market share between 1935 and 1950 and profits actually started to grow before the reorganisation (see table 4.3).[909] The Smith family also maintained ownership of the firm and didn't resort to external funding. Although death duties in 1949 required the sale of shares, they still had effective control through their own retained shares and those of other employees. It was also only in 1972 that David Smith resigned as Chairman. From an employee perspective, there continued to be a strong bond between the Smith family, firm and employees whether judged on length of service or on the affection that the staff retained for the family as referred to repeatedly in reminiscences recorded at the end of the 1970's.[910]

The outcomes suggest greater cohesion than might otherwise be expected. Was there a 'system', however loosely defined, which was more effective in managing the performance than simply the sum of the individual parts? Literature highlights the important role that organisational behaviour, social interactions and relationships play in PMM systems.[911] These act as a unifying force which

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[909] Market share of 6.2% in 1935 and 1950. Market share based on WHS retail sales in 1935 and 1950 compared to the total market for newspaper, magazines, books and stationery. WHS retail sales from accounting records (WHS X 15) and market data from Jefferys, *Retail Trading,* 453.

[910] In their reminiscences, both Saunders and Bennett refer to the affection and loyalty that employees continued to have towards the Smith family (WHS Q2 and Q31).

[911] Bititici *et al*, *Challenges for tomorrow.*

strengthens the links between structures and systems or can substitute for them in times of crisis.[912] The Boots and M&S case studies showed their importance in strengthening the existing links. In WHS, did they take on a more important role and compensate for the otherwise apparently dysfunctional PMM structures and systems? Did WHS actively cultivate these factors to achieve their performance objectives?

Identifying evidence of cultural and behavioural factors can be difficult. Company magazines have proven to be an important source for business historians as they illustrate how a firm projects itself to its employees.[913] They have an added importance in multiple retail where the geographical spread of the branches meant they were the only regular source of information about what was happening in the firm. A close analysis of *Newsbasket* confirms their importance as a source. It also suggests that not only were cultural and behavioural factors important in shaping PMM but that the partners understood this and actively developed these factors to manage performance.

In October 1920, *Newsbasket* reported verbatim a speech given by Hornby where he referred to what made WHS special and what had contributed to its success. The speech was given to celebrate (erroneously) the 100th anniversary of the firm in front of more than 1,000 employees.[914] In defining the success of the business, Hornby did not talk about its financial success, indeed, he did not mention a single financial statistic. He did not mention the size of the business - by number of shops it was one of the largest in the country.[915] His focus was on what made WH Smith special and he described:

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912 Euske *et al*, *Performance Management*.

913 Heller, *Company Magazines*; Griffiths, *Give my Regards*.

914 Rowlinson and Hassard, *Invention*, already identified how firms invent anniversaries to promote culture. There is nothing in the sources to suggest the partners deliberately changed the date of their anniversary but only a year later they disclosed that the firm was nearer to 130 years old (*Newsbasket*, October 1921).

915 Jeffreys, *Retail Trading*, 25.

> “a certain innate quality and inherent strength of our business: It is just that ‘intangible thing” which it is so difficult to talk about, but which has been created during a long period of years by generations of Smith’s men, and which is being created to-day by yourselves and ourselves and the initial credit for it is largely due to the founders of our business, the first WH Smith and his more distinguished son.”

He went on to say - “I venture to say that their influence has permeated deeply into the inner life of our business, affecting unconsciously perhaps but still affecting, the daily business lives of almost every one of us.”[916]

As Hornby recognised, defining the 'intangible thing' is difficult but in both his and WFD Smith's speech at the same event, three themes were repeated. The first was 'family' and loyalty to the family. There were repeated references to the role of the Smith family in building the firm and to ensuring the firm remained a family firm. Hornby also equated the firm and its employees to the 'family'. He referred to the event as a 'family party' and he made several references to long-serving loyal employees. He also reminded employees that they, like Lord Hambleden, had a responsibility to serve and "do our duty by the firm." The sense of belonging to the 'family' was reinforced by the invitation list with, symbolically, only those with more than 21 years service attending (about 10% of the total workforce).[917] The second theme was about tradition and the past. Both Hambleden and Hornby equated the success of the business to its traditions and the need to pass these on: "to uphold the old tradition", the "high tradition of long service" and the importance of "personal traditions." Similarly, Hornby reminded attendees about the importance of the past in shaping the firm and pointed out that of those who "have added to the greatness of its future they have also borrowed from the greatness of its past." Finally, both Hornby and Smith referred to the contributions that individual employees had made to the growth of the business, emphasising their loyalty, praising them by name and highlighting their qualities - "tackling their problems

[916] *Newsbasket*, October 1920.

[917] The tradition of inviting only those with 21 years service had been started at the celebration of WF Smiths 21st birthday in 1890. Symbolically, 21 was the age one attained adulthood in Britain and took on family responsibilities.

with foresight and courage, making good in the teeth of opposition, building up great businesses, facing and mastering difficulties with a cheerful optimism."[918]

The sources show the themes remained prevalent in WHS over much of the period, repeated in *Newsbasket* but also in other sources. They also show the range of tools employed to reinforce the themes including narratives, rituals, traditions and artefacts. In 1921, *Newsbasket* printed a family tree to show how the recently appointed new partners were related to the first WH Smith.[919] A portrait of WFD Smith's son was on the front cover to commemorate his 21st birthday in 1924 and family events were periodically depicted on the cover through the whole period including the marriages of Lord Hambleden (1955), Julian Smith (1966) and the birth of Lord Hambleden's fourth child (1960).[920] Employees continued the tradition of giving gifts to the family to commemorate these events, much as they had done at the turn of the century.[921] Long serving employees were also invited to the family estate to celebrate the 21st birthdays of the heirs in 1924 and 1951.[922]

There were also repeated references in the sources to loyalty, particularly in the early 1920's but regularly through to the oral reminiscences recorded at the end of the 1970's. In 1922, *Newsbasket* reported a speech given by Hornby to store managers:

> "Referring to the loyal service of the staff, Mr Hornby said he believed that this was not entirely due to self-interest, but because they realised that the honour of the Firm was so largely in their hands. The loyalty was largely

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918 *Newsbasket*, October 1920.

919 *Newsbasket,* December 1921.

920 *Newsbasket* July 1924, March 1955, November 1960, February 1966.

921 Wedding gifts from employees shown in *Newsbasket* May 1966. JFA Smith remembered that his older brother had been given a model bookstall at his birth in 1903 (WHS Archives: WHS Q 15)

922 *Newsbasket*, July 1924 describes 1,600 employees invited to the party; the 1951 party was described by an ex-store manager. WHS Q 17 Reminiscences: A J Watson (1916-82) & C G Baker (1916-2000)

> personal to the Partners themselves; this was again due to the business being a family one."[923]

Store managers and District Superintendents similarly pledged their loyalty. *Newsbasket* reported that in giving the traditional 'toast to the firm' at the District No. 5 Outing:

> "Mr Turnbull said that he felt it an honour to propose this toast to the men of the north for he knew that they were all loyal to the Firm, and that the Firm were loyal to the men. Loyalty counted a lot in the life of WH Smith men."[924]

At the No. 9 District Outing, a partner noted how "there was no more loyal section of the staff than the managers and assistants of the Bookstalls."[925] Loyalty was still a strong feature at the end of the period. In the oral reminiscences recorded in the 1970's, the loyalty of staff was referred to by both those who had worked in the firm all of their working lives but also by those directors who had joined in the 1950's. Saunders noted, for example, "one of the interesting things that one found, what impressed one, was the immense loyalty to the family of the company."[926]

Themes of family and loyalty was reinforced by those it employed (including the partners) and for how long - the narrative suggests that once they joined, few left before retirement. Between 1894 and 1948, every partner appointment was a relative of an existing partner (see Table 4.5). Elsewhere, there was a tradition of hiring family members. In his written reminiscences from the 1950's, one partner recalled:

> "one cannot help being struck by the family connections among the staff…..I believe there is more than one instance of four generations in direct succession if not five….in the Newspaper Dispatch Department there

[923] *Newsbasket,* November 1922.

[924] *Newsbasket,* October 1921. The tradition of the first toast always being to 'the firm' was documented in *Newsbasket* from 1920 to 1970.

[925] *Newsbasket,* November 1921.

[926] WHS Q 14 Reminiscences: H N Saunders.

can hardly be a man who is not related in one way or another by blood or by marriage, to someone else in the same or another department."[927]

WHS also retained managers for life apparently preferring the loyalty of employees over competency. A Wholesale Manager later recalled how a resignation in Sheffield Wholesale House in 1938 was so unusual that it was talked about by the rest of the staff.[928] In *Newsbasket,* articles highlighted the importance of longevity: a short history of the firm included a section describing a lunch hosted by the partners in 1912 where the average length of service of the 30 attendees was more than 39 years and provided a list of the 12 current employees with more than 50 years service.[929] Photographs of employees or departments with long service were often reproduced in *Newsbasket* and, even by the late 1960's, it was common practice to state how long a person had served in the organisation when they were mentioned in the magazine.[930] The rewards for long service had been made clear in the 1920 speech - "practically all those holding positions of any importance in the Firm, from Manager of a shop or stall upwards, are men who have grown up in the Firms' service."[931]

In the sources, tradition and the past were frequently referenced although less prominent in the 1960's as the business became more oriented to the future. In 1920, *Newsbasket* described District meetings where partners referred back to the firm's long history and, on two occasions, brought artefacts (bookstall contracts from 1847 and 1852) to illustrate their point.[932] *Newsbasket* continued to print

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[927] WHS PA 445 50 Years in the Book trade. Reminiscences of AD Power. Undated but probably sometime in the 1950's

[928] WHS Q 10 Reminiscences: K A Jessup (1914-2002), H A Johnston (1907-81); W Spicer (1909-81), C E Woodhurst (1910-88); 14 Feb 1979

[929] *Newsbasket* October 1920.

[930] For example, in January 1922 the editorial notes a recent dinner for the Counting House where the average length of service of the 65 invited guests was 24 years, a photo in a May 1922 edition showed the 25 members of staff in one department with an average length of service of 46 years; *Newsbasket* January 1966. Commemoration of the Gloucester Wholesale House.

[931] *Newsbasket,* October 1920.

[932] *Newsbasket*, December 1921 and July 1922.

biographies of important individuals in the firm's past and reproduced their speeches.[933] In these speeches, the debt owed to the past was explicit. A 1919 speech by the Head of the Shops was reproduced in 1955: "To understand the present or forecast the future, you must look backward."[934] A speech by a store manager at a celebratory dinner in the same month reminded them that "to-day's staff were inheritors of a tradition that they should pass on."[935] Notably, the narrative had to change when the firm started to modernise and examining speeches by David Smith from the mid-1950's show how he was now dismissive of the past and urged the firm to look forwards. At the 1955 anniversary dinner of the opening of the first shops in 1905, Smith told employees that "looking back on history doesn't do much harm" but "I believe the firm has a tremendous future and I hope you feel so too, for unless we have faith, and unless we see the prospect of going further we shall stay where we are."[936] During the late 1950's and 1960's both his internal and external speeches emphasised the importance of looking forward. The messages were both general ("No business, if it is to be successful, can dwell on past or present") and specific ("We have made a tremendous amount of progress in the past 10 to 15 years and we intend to go on making progress").[937] They were repeated externally as well as internally. After he presented the annual results to investors in 1960, *Newsbasket* reproduced selective headlines from the newspapers which included "This family moves with the times", "WH Smith progress" and "Modernisation Plans."[938] When he announced his retirement after nearly 40 years in the firm, he did not reflect on the past but remained focused on the future: "Finally I should like to thank you all for your loyalty and your efforts over the past years and re-affirm my conviction that

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[933] *Newsbasket:* October 1955 reproduced Hornby's 50th anniversary speech from 1943; November 1955 reproduced George Tyler's retirement speech from 1919; January 1960 and the following months they provided biographies of the prominent senior managers of the pre-war years.

[934] *Newsbasket*, *November* 1955.

[935] *Newsbasket*, *November* 1955.

[936] *Newsbasket*, January 1956.

[937] *Newsbasket*, May 1960; May/June 1967.

[938] *Newsbasket*, May 1960. The headlines were not attributed.

the future of the Firm is a rosy one."[939]

The repeated references in the sources to traditions and the past (pre-1950), family and loyalty and the role of individuals in the firm suggests an attempt by the partners to influence the culture and behaviours of the employees. It also helped support a focus on stability and encouraged a conservative approach to performance.

The focus on traditions and the past were consistent with a business which encouraged stability and was risk averse. Employees who replicated how things had always been done needed less close monitoring. Establishing strong bonds of loyalty between the Smith family, the firm and employees helped align everybody behind the objectives of the organisation. Highlighting the achievements and importance of individuals pushed responsibility for safeguarding the firm on to each employee. It helped develop a system where partners entrusted management to manage themselves, with only a high level overview of the final results. In return they expected complete loyalty towards the aims of the business. When WFD Smith died in 1928, Hornby succinctly described Smith's approach to managing the business: "To those who worked with him and for him he gave the fullest measure of trust, and he was repaid by such loyal service as few employers can boast of."[940]

The extended analysis in this section reflects the importance of both cultural and behavioural influences in WHS and the wider debate of their influence on how firms manage performance. The importance WHS placed on developing their desired culture and behaviours suggests an alternative way to consider performance management and the constituent elements of a PMM system. Rather than focus on organisational structures and fixed processes held together by an integrated set of measures, performance can be managed through relationships and behaviours. At WHS, it was reflected in a system in which the Partners prided themselves on their relationships gained through store visits and personal contact

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[939] *Newsbasket*, July/ August 1969.

[940] *Newsbasket,* July 1928.

but in which they otherwise entrusted management to manage themselves. In return they expected complete loyalty towards the aims of the business.

Viewed in this way, the practices at WHS appear more consistent and integrated than suggested in the opening sentences of this section. Practices which reinforced those behaviours were more developed - reward policies which aligned the objectives of managers and partners, recruitment practices which favoured family members, encouragement of long service and a focus on performance by exception. Conversely, those practices which did little to support the behaviours (or potentially undermined them) were less developed - formal and prescriptive company-wide processes, collective review of collective performance, comprehensive measurement systems.

Conclusion

The following chapter draws on all of the case studies to answer the research questions raised in the introduction. In WHS, the two areas of particular interest are the performance management systems which operated before the 1950's, which provide insights into an older form of performance management, and the length of time it took for WHS to change these practices. Three aspects are particularly relevant to the research questions.

Firstly, promoting a particular culture, influencing organisational behaviours and reinforcing an organisational identity were an important part in managing the performance of the business. This is not a new finding from a PMM perspective. In 1993, Euske *et al.* identified organisational culture as a unifying force in performance management systems and the most important factor in times of crisis.[941] However, since then the organisational influences on performance management have been under researched.[942] And, sometimes assumed to be an

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941 Euske *et al., Performance Management*.

942 Bititci *et al*, *Challenges for tomorrow*; Franco-Santos *et al. Contemporary performance measurement.*

external factor beyond the control of the organisation.[943] The example of WHS, however, emphasises that cultures, behaviours and identities can all be shaped by the organisation through the stories they tell about themselves, traditions, artefacts and the behaviours they reward. WHS, however also highlights that a firm's culture and identity is made of up of several elements which can work harmoniously together or in conflict (backward looking conservatism, family and loyalty). When WHS did decide to change, its previous conservative focus on the past and looking backwards was incompatible with a business which wanted to modernise its performance management processes. It was the family, through David Smith's speeches which led the attack on 'the past'. Those who sought change used the loyalty the firm had for the family to lead this change. While Bennett and Troughton were the architects of change, they were relatively anonymous in the pages of *Newsbasket* and it was was David Smith who was the public face of change.

Secondly, the lack of sophistication in the measures of performance they used and the reluctance to introduce new measures despite known weaknesses appears curious given not only their importance in modern PMM systems but also the role of measures in the other case studies. The evaluations of performance in the limited evidence that is available, however, suggests partners and directors managed performance by exception with a review of a few output measures - how managers met them was less relevant. They also appeared to be as focused on the quality of their individual managers as the results they delivered. This was evaluated in the personal meetings rather than quantitative measures. One might argue therefore, that the lack of measures was less due to incompetence (which the consulting reports of the 1950's imply) or inertia (which the oral reminiscences imply) but rather was consistent with their overall view about how performance should be managed. In WHS performance measures were only one source for managing performance and not the most important. This is discussed in more detail in the conclusion.

Finally, modern PMM systems are expected to be dynamic, responding to changes in strategy and the external environment. The evolution of WHS's structures and

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[943] Ferreira and Otley, *Design*.

processes before the 1950's were far from dynamic. However, given their objectives, there was little need for WHS to abandon the structures and processes which had provided relative stability over more than 100 years. They also operated in an industry where there was little external pressure to change. Both factors created stability. These reasons are consistent with the extensive literature on organisational inertia. When the business did start to focus more on growth, there was also a change in the rest of its structures and processes - also as one might expect from the literature. What is more interesting from a PMM perspective, however, is the length of time it subsequently took WHS to change. Troughton and Bennett, the architects of the change, had already been directors for 11 and 9 years respectively when the restructure was announced in *Newsbasket* in 1960 suggesting difficulties in initiating change.[944] The process of change had also still not been completed by then end of the 1960's. The case of WHS highlights just how difficult it can be to implement change. WHS may be an extreme case. Given its age and the number of long serving employees, ways of doing things may have been more embedded than in other organisations. However, PMM literature has also highlighted that firms struggle to change and adapt their PMM systems. It raises the question about whether PMM systems *can be* dynamic, and if they cannot, does this undermine how PMM systems are currently expected to operate.

[944] Also reflected in the minutes of meetings in the 1950's where there was considerable opposition to changing how things had been done in the past.

Chapter 5: Conclusion

Introduction

What conclusions can be drawn from the cases of M&S, Boots and WHS? Generalising from only a small number of case studies is not convincing unless the results are truly exceptional or truly representative.[945] Historical case studies raise even more questions given the passage of time. For historians, as described in the methodology, their findings are bound by context and cannot be understood apart from their moment in time. And yet, paradoxically, the best historians have a passion for the present and in providing an understanding of the past they improve our understanding of the present.[946] History, after all, is not so different from the present that we cannot take some understanding from it. The three case studies, therefore cannot generate a new theory or even refute an existing one. However, what they can do is show that "it does not need to be this way."[947] It allows us to not only raise questions about how things are done now but also to point academics and practitioners to where they may find answers to their questions.

The conclusion is set out as follows. It starts with a summary of the key conclusions reached in the separate case studies. It is followed by some general conclusions about how the firms managed performance during the period. The main body of the conclusion then examines the three objectives raised in the introduction:

(1) "How did the PMM structures, processes and measures change as the strategy and external environment changed?"

(2) "How did the firms use measures to understand performance?"

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[945] Sigglekow, *Persuasion.*

[946] Bloch, *Historians Craft;* Gaddis, *Landscape;* Evans, *Defence*.

[947] Fear, *Mining.*

(3) "What role did cultural factors play in how performance was managed within the firms?"

Both the general conclusion and the specific objectives will focus on the similarities in how each firm managed and measured performance. As explained in the introduction, while all three firms were multiple retailers operating in similar locations, they sold different products, faced different competitive pressures, had different ownership structures and had different histories and cultures. Similarities therefore help establish some core principles in how they managed and measured performance.

Marks and Spencer - summary findings

The case of M&S provides perhaps the closest approximation to a PMM 'system' as currently described in the literature: organisational structures, processes and measures which were aligned with the objectives of the organisation. However, informal processes played a more important part than the formal processes suggested by the frameworks and models in modern PMM systems. Three features in particular helped establish alignment between objectives, structures and processes. Firstly, the firm had clear objectives which they repeated consistently throughout the period. Secondly, they were run by a small cadre of directors who, in their own words, had been "educated in its philosophy and bred in its traditions."[948] Thirdly, they focused on developing relationships and promoting a common culture/ identity which bound and aligned all employees to the objectives of the firm. Like in the other cases, these emerged and evolved from the firm's own history and the case reminds us of the importance of understanding firm specific historical context when assessing a PMM system. Furthermore, these three features contributed to a 'stable' system for managing performance - there were few changes to structures, processes or measures during the period and this contrasts with the 'dynamic' systems advocated in PMM literature where the PMM system is adjusted to reflect changes in strategy and the external environment.

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[948] "Marks & Spencer Ltd." Financial Times [London, England] 5 June 1969: 26. Financial Times. Web.

M&S also reminds us that the most important feature of a PMM system is learning. PMM systems can provide an element of control but the focus of store visits, 'probing' and the weekly performance meeting was about understanding performance which helped *all* employees take appropriate actions. The emphasis in memos and speeches by Simon Marks, Israel Sieff and Marcus Sieff on 'probing' also shows that they believed learning could be embedded and become part of the operating routines of the business. The emphasis in these memos and speeches emphasised the personal responsibility that employees had to learning and therefore managing performance. Both Simon Marks and Marcus Sieff referred to the 'unseeing eye'. Israel Sieff was similarly critical: "The robot mind merely records. It has no perception, no understanding, and it cannot take initiative."[949] Therefore, informal processes and the encouragement of a 'way of thinking' about performance were more important than the formal processes. The focus on learning is consistent with PMM literature but although the importance of informal processes are recognised, they are still relatively under researched in both the PMM literature and the related management control literature.[950] This represents an opportunity for further research as discussed in more detail below.

The case of M&S also challenges current practitioners, particularly Executive and senior managers, on the breadth and depth of the understanding required to manage performance. At M&S *all* directors were expected to understand *all* aspects of the business - to be an expert in 'M&S' as a Harvard researcher explained it.[951] This was helped by ensuring that directors worked in several functions during their careers and by promoting from within as well as creating a performance oriented 'way of thinking' as described above. Breadth helped directors take a holistic view of performance - to understand not only the individual drivers of performance but also the complex interplay of those drivers. It also helped them avoid a narrow functional view on performance - a criticism of modern

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[949] “A Definition of Probing” Memo written by Israel Sieff. (M&S CR/C/2/80 Collated Business Reports 1950 - 1984).

[950] Boland, *Interpretive Act*, is still widely referenced but nearly 25 years old. Berry *et al, Emerging Themes,* describe the gap between theory and practice.

[951] M&S A04/117 I Harvard Business School Case Study 1975, 33.

organisations.[952] This way of managing performance, however, was reliant on the capability of the senior managers to understand the interdependencies rather than rely on reports and measures. Management capability in PMM systems, whether to interpret the outcomes of PMM systems or to replace the need for a formal PMM system, is an area which is still under researched.[953]

However, in addition to a broad view of performance, directors were expected to have a deep understanding of performance. Directors examined individual garments, took food ranges home to try at the week-end and were presented with detailed information about dyeings and cloth types used in their products. The deep knowledge this created is perhaps one of the reasons why M&S was sceptical of the value that measures could provide and why they were the most vocal of all of the case studies in condemning the value of performance measures. As Marcus Sieff said in 1969 of the weaker employees: "Where they depend upon statistics, it means, in effect, a lack of knowledge of what is really happening in the stores."[954] The challenge that Sieff makes of his staff is also a challenge which can be levelled at modern measurement systems - are they capable of providing sufficient knowledge about the performance of the business. This is considered in more detail below in the section on measurement.

Boots - summary findings

The case of Boots provides an example of a firm which adopted new ways of managing its performance at the very start of the period but then kept them relatively unchanged until the late 1960's. The structures and systems they introduced in the early 1920's were influenced by (or perhaps copied from) their American owners and represented something very different from how Jesse Boot had managed the business up to that date. Based on the evidence, what we find in broad terms, is a performance management system which aligned structures,

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952 See Tett, *Silo Effect*, on the dangers inherent in focusing too narrowly within an organisation.

953 Franco-Santos *et al., Contemporary.*

954 Memo from Marcus Sieff to the Executive Board, 26 February 1969 (CR/B/2/2 Israel Moses Sieff: Business Papers)

processes and measures behind the objectives of the firm. Certain features, however, stand out.

Like M&S, the case of Boots reiterates that performance management is primarily about learning rather than control. At Boots, learning primarily took place at the stores where the interaction with customers took place. Structures and reports therefore sought to narrow the gap between Head Office and the stores. Consequently, there was only one tier of management between the Chairman and a store manager - the TGM. The Chairman also received a report every week from every TGM on the performance of the stores he had visited. This continued throughout the period despite the growth in the size of the business. Statistical reports also closed the gap by reporting not only the aggregate performance of the business but also by including several tables which reported the sales of individual stores. However, the business also encouraged informal contact to promote learning; speeches, articles in *The Bee* and competitions encouraged directors and senior managers to spend time in stores and engage with store managers and employees. The principle that directors and senior managers should engage in PMM at both an aggregated but also local level is consistent with the other retailers in the case study. It differs, however, from PMM frameworks such as the Balanced Scorecard which advocate a hierarchy with objectives and measures cascaded down through the accountable managers.[955]

The case of Boots also illustrates the importance of understanding performance by observing the interdependency of the drivers of performance rather then separate measures - a holistic rather than an analytical approach to understanding. Examples in *The Bee* and memos to TGM's show that sales resulted from a complex set of interdependencies including service, product environment and, although less so because of RPM, price.[956] Many of these were not quantifiable or Boots chose not to measure them. Instead, directors and managers were encouraged to observe them operating in store. Consequently, like in M&S and

[955] Kaplan and Norton, *Mastering, Using*; Ittner and Larcker, *Coming up short.*

[956] Each of these were broken down further - see section on "Evaluation" in Chapter 3 (Boots)

WHS, directors were expected to have both a deep and broad understanding of performance.

Another feature of how Boots managed performance was its preference for a primary, broad measure of performance (sales growth) which it retained through the period rather than a larger number of specific measures which were frequently updated. It offered greater flexibility but also created a simpler system. This helped store managers respond to local competition without affecting how they were measured (e.g. they could choose to focus on high value products or promote a specific product as long as they increased sales). A broad measure could also accommodate changing priorities in Head Office. Hence, the firm could promote customer service as part of sales without having to change the overall performance measure. PMM systems have advocated specific measures which are updated regularly to reflect changes to strategy and the environment.[957] The case of Boots demonstrates that there are also advantages to maintaining a broad measure over time. This is explored further in the section on change below.

Finally, like the other case studies, the firm emphasised the importance of developing a culture, a shared identity and in particular, loyalty. *The Bee* reported speeches from directors where they emphasised the importance of loyalty. The firm was also an early investor in welfare and TGM's were encouraged to look after the welfare of their employees which helped to promote a loyal workforce. Loyalty was also built into the processes. The loyalty of store managers was formally assessed in annual performance reviews. The importance of culture in general and loyalty in particular is under researched in PMM literature and is discussed in more detail in the section on culture below.

WH Smith - summary findings

The case of WHS showed a very different way of managing the performance of the business from M&S, Boots or, indeed, modern PMM systems. The differences reflected the specific objectives of the firm, its external context and also its own

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[957] Melnyk *et al, Fit for the Future.*

historical development. While these differences make it difficult to argue that WHS operated a PMM 'system' as we might describe it now, the firm still managed to deliver its objectives throughout the period. The case reminds us that PMM systems are firm specific and reflective of both the external context in which the firm operates and its own historical development. The specificity was one of the reasons why Lebas argued that defining PMM was so difficult - every PMM system is different.[958] It also helps to explain why modern firms have struggled to implement generic PMM systems and is consistent with Ittner and Larcker's criticism of businesses which apply "boiler plate solutions partly out of laziness and thoughtlessness."[959] Three feature of how WHS managed performance over the period stand out.

Firstly, the firm's culture and identity were important elements in ensuring that the objectives of employees and partners were aligned. Partners could trust employees to deliver performance without extensive (and expensive) control mechanisms. This was particularly important in multiple retail where employees are distant from Head Office control and where local employees need to respond to the local market. The partners also recognised that culture and identity were endogenous factors that can be used to influence behaviours. This was demonstrated in the speeches made at the firm's celebration of its 100th anniversary in 1920 and in their subsequent use of narratives, artefacts, and the establishment of traditions described in *Newsbasket* and in the oral reminiscences.[960] When the firm decided to change, they also used the firm's focus on family and loyalty to drive the change. David Smith was the public face of change and his message was simple - the firm needed to stop looking backwards and replicate how they had done things in the past but instead look to the future. While the recognition that organisational culture is an endogenous factor has long

[958] Lebas, *Performance Measurement.*

[959] Ittner and Larcker, *Coming up short,* 89.

[960] It is not clear whether the partners knew that the firm was actually much older but manipulation of anniversaries to influence culture has been identified in cultural literature from the late 1920's (Rowlinson and Hassard, *Invention).*

been recognised in both history and literature on culture and identity, it has been largely ignored in the PMM literature.[961]

Secondly, in evaluating performance, the partners appeared to place relatively little reliance on aggregated performance measures and instead relied on personal contact with those responsible for delivering performance. There was almost no development in their already limited set of performance measures before the end of the 1950's despite known weaknesses. This may have been due to organisational capability issues not clear in the sources but when they decided to update their measures at the end of the 1950's, it took them only two years to do so. Prior to that, evaluation focused more on personal meetings between partners, superintendents and managers whether in Head Office or in the stores. From the limited evidence in the sources, these meetings appear to be as much about assessing the qualities of the superintendent/ manager and their staff as understanding the financial performance of the store. It is consistent with a firm which placed reliance on the qualities of those who had to deliver performance rather than the performance itself.

Thirdly, when the firm decided to modernise in the 1950's as it became more focused on profit, it went through a process of changing every element of its PMM system. Change was slow, lasting more than 20 years, and new processes evolved as ideas were tried, adjusted or rejected and new ideas tried again. A consultant reporting in 1965 had despaired at the process - "we have come to the conclusion that progress by trial and error experiment seems to have become institutionalised, to the point that progress can be very slow indeed."[962] The experience of WHS highlights how difficult change can be. While, WHS' experience is consistent with the evolutionary processes described by Nelson and Winter, it contrasts with the deterministic perspective in PMM literature.[963] WHS

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[961] Hobsbawm, *Invented;* Rowlinson and Hassard, *Invention*; Giorgi *et al., Many Faces*; Weber and Dacin, *Cultural Construction;* Suddaby *et al. Rhetorical History;* Anteby and Molnar*, Collective Memory.*

[962] WHS 812, Report on retailing by Emerson, 1965, 4.

[963] Nelson, *Firms Differ*; Becker *et al., Organisational Routines*. Melnyk *et al., Fit for the Future.*

may be unusual, given its age and how embedded existing processes were, but its difficulties at least challenge the idea that a modern PMM system can really be dynamic. This is discussed further in the section on change below.

General Conclusions

The conclusions described above offer challenges to how we understand modern PMM systems. Indeed, the way that the firms used (or did not use) performance measures and the importance of socio-cultural factors raises important questions about the theoretical bases on which PMM systems are founded. These are explored in more detail in answering the specific research questions in the next sections. Before examining the individual areas, however, a few general conclusions are offered.

In the introduction, it was explained that the primary aim of the thesis was to understand how multiple retailers managed and measured their performance during the period 1920 to 1970. In doing so, the thesis reviewed all of the constituents of a PMM system to understand not only how each of the parts contributed to how the firm managed performance, but also whether the parts were linked. The study found that all of the firms used a combination of structures, processes and measures which helped deliver the objectives of the business. In M&S and Boots, the alignment between formal structures and processes was particularly evident while in WHS, it was less clear. However, in all three firms socio-cultural factors and informal processes supplemented the formal ones. Did these operate like modern PMM systems as currently defined? Perhaps not - modern systems rely on formal strategic processes and require a broad suite of performance measures which these firms did not have. However, all three firms relied on the interdependency of structures, processes, measures and organisational culture and identity to deliver the objectives of the firm. In this broad sense, they operated PMM systems.

However, examining each firm in detail shows that they each managed performance differently, albeit with strong similarities in underlying principles. As explained in the individual sections, how the firms managed performance was strongly influenced by both their own history but also the external context in which they operated. For example, the slow development of WHS' PMM practices reflected not only their age and the extent to which existing ways of working were embedded in their routines but also the highly price regulated market in which they operated which limited the opportunities for competitors. The examples also showed that when they decided to change their structures and processes, it was a complex, messy and slow process - in M&S it took 15 years, in WHS it took nearly 20 years.[964] This may have reflected just how interconnected all of the separate parts were. Modern firms, as noted in Chapter 1, have struggled to implement PMM systems. Many of these systems are based on generic frameworks or models. However, these models do not accommodate the specific history of the firm nor the specific context in which the firm operates. Firms should therefore tailor the frameworks but have not always done so and most implementations fail.[965] The case studies therefore offer a challenge to current PMM researchers - how can they build the firm's own history and the external context into their models and frameworks?

The case study also offers a challenge to the traditional view of the development of PMM systems, which is summarised in Brudan's comment that "analysing the history of performance management illustrates that its evolution for most of the 20th century was driven by command and control and mechanistic thinking."[966] These case studies, in addition to the contemporary American literature on retail practices described in Chapter 1, suggest that this was not the case for multiple retailers. WHS had few formal processes and gave local managers freedom to manage themselves and deliver the objectives of the organisation. M&S and Boots, however, introduced new structures, processes and clear hierarchies in the 1920's and 1930's; well before the 1950's/1960's which, according to both Chandler and Gospel, was when British firms started to modernise their

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964 In Chandler's, *Scale and Scope*, Sears, his retail case study, took 15 years to introduce a new structure.

965 Ittner and Larcker, *Coming up short;* Franco-Santos and Bourne*, Examination.*

966 Brudan, *Rediscovering,* 115. Also repeated in Bourne, *Handbook*; Eccles, *Manifesto*; Bititci *et al., Challenges.*

structures.[967] In addition, both firms gave considerable freedom to store managers and employees to manage performance and tailor it to the local environment. Structures and processes were designed to bring stores and Head Office closer together and to help information to flow between the two. The insight is important because it challenges the deterministic, contingent view of PMM change that dominates much of the literature. If the firms did operate effective PMM systems in the 1920's to the 1970's, do they still do so now?[968] Further research, tracing what happened to the three firm's PMM 'systems' after 1970, could provide interesting insights. More work also needs to be completed to identify other firms which contradict the conventional narrative offered by Chandler. Retail banking, for example, another service business with operating units spread far from Head Offices, could be a rich source for further analysis. Research already shows that they were early adopters of new structures in the 1920's and research could be completed on all of their PMM practices.[969]

The following sections consider the three specific questions raised in the introduction:

(1) "How did the PMM structures, processes and measures change as the strategy and external environment changed?"

(2) "How did the firms use measures to understand performance?"

(3) "What role did cultural factors play in how performance was managed within the firms?"

PMM and Change

In the introduction, one of the on-going issues concerns whether PMM system are dynamic - changing to reflect changes in the strategy and the external

[967] Chandler, *Scale and Scope;* Gospel*, Markets.*

[968] The financial performance of M&S and WHS in particular suggest not.

[969] Wardley, *Commercial Banking*; Bátiz-Lazo and Wardley, *Banking on change.*

environment. There was concern that while firms understand the need to keep their PMM system up to date, they often fail to adjust them in practice. One of the objectives of the research, therefore was identified as :

> "How did the PMM structures, processes and measures change as the strategy and external environment changed?"

What is not clear from the literature is *how much* change is required to make a system dynamic. In terms of large scale change, for each of the case studies, periods of change were preceded and followed by longer periods of stability. The periods of apparent stability outlasted periods of change. Hence, M&S reorganised and introduced new structures in the 1930's and 1940's but the formal structure which emerged after the war remained largely the same throughout the rest of the period.[970] In Boots, there was an initial period of reorganisation after the American acquisition. New organisation structures were created, new processes were introduced and new measures reported. However, there were few significant changes to these subsequently. At WHS, the situation was reversed, a long period of stability was followed by extensive changes over the 1950's and 1960's. In terms of large scale change, therefore, the simple answer to the question raised is that the PMM processes and measures did not change to reflect changes in the strategy and external environment.

The difference between the expectations presented in the PMM literature of a responsive and dynamic PMM and the evidence in these case studies is reflective of debates in the closely related field of management control. The more traditional perspective mirrors the view expressed in much of the PMM literature. It is reflective of a rational, contingent, view where accounting is changed as the environment changes.[971] It is a view now strongly contested. Business historians have shown that accounting change is rarely as smooth as imagined. John criticised Chandler, for example, for ignoring the "booming, buzzing confusion of

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[970] They did introduce a Management Committee in 1964 and formalised some review processes but the overall structure remained largely the same. See Chapter 2.1 and the section on Organisation Structure.

[971] Luft, *Historical theorizing*; Modell, *Accounting Change*; Napier, *Accounts of Change.*

everyday life."[972] Hopwood showed how difficult accounting change is even when the case is clear and emphasised the social and organisational factors influencing change.[973] The views are supported by organisational scientists who have highlighted that change is multifaceted and involves historical, political, cultural, structural and social factors as well as rational choice.[974] These make organisational change difficult. The cases of WHS and M&S in particular show the complexity and indicate why firms are reluctant to drive change. In both firms the process was slow, messy, experienced reversals and seemed to reflect an approach based on trial and error rather than a planned change programme. Once started, the changes also expanded to include all of the structures, processes and measures associated with a PMM system.[975]

These examples suggest that the failure of firms to constantly change their structures and processes as the environment changed is not surprising - not necessarily a case of inertia but more a recognition that PMM structures and processes are so embedded in the organisation and so interlinked that change is hard to do. Does this mean that PMM systems cannot be dynamic? Exploring some specific examples from the case studies suggests that by focusing on behaviours and having broad objectives, loosely defined processes and broad measures, the firms were able to retain dynamism without resorting to continuous organisational change.

At Boots in the late 1920's and early 1930's, there was a change in strategic focus (but not in objectives). Investment in manufacturing facilities between 1928 and 1933 increased the output of own-goods products and this presented an opportunity to increase gross margin. At the same time, the firm shifted from a focus on 'salesmanship' to a focus on 'customer service' to grow sales.[976]

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[972] John, *Elaborations,* 99.

[973] Hopwood, *Archaeology*.

[974] Pettigrew, *Field research on change;* Stinchcombe, *Social Structures*; Hannan and Freeman, *Organizational Ecology.*

[975] Kelly and Amburgey, *Organisational inertia,* also noted that firms tend towards inertia but that once started, change can create its own momentum.

[976] See section on Motivation in Chapter 3 (Boots).

However, they achieved the changes *within* the existing PMM framework. To promote own-goods, the firm retained its focus on sales rather than change to margin-based measures. They emphasised the importance of own-goods sales in *The Bee*. They also introduced a new bonus in 1930 which rewarded store managers for sales of own-goods products. However, this did not replace the existing sales bonus, rather the new bonus was subsumed within the existing bonus and was only payable if the store achieved overall sales growth. The primary objective for store managers remained unchanged as did the primary way of rewarding them. In order to promote customer service, the firm changed the focus through communication in *The Bee.* The sales competitions and symbolic incentives of the early 1920's were scaled back. Instead, John Boot launched his 'Service Letter No. 1' in 1925 and customer service was emphasised increasingly in articles. In 1928, a 'casual customer' was introduced to tour stores and write articles about the good and bad practice experienced. The overall objective for store managers remained the same - more sales. They were also still encouraged to tailor their approach to suit the local environment. However, the firm hoped to change emphasis and behaviours through communication without changing objectives or introducing new measures.

At M&S, the firm shifted from an emphasis on statistics, formal measures and processes to understand performance in the 1930's to evaluation which prioritised personal 'probing' from the 1950's. It represented a shift towards an 'informal' process for learning about the performance of the business. It was achieved not through the creation of new structures, processes or measures. Indeed, through Operation Simplification, procedure manuals were removed and significant amounts of data were no longer collected. Perhaps more importantly, however, Simon Marks, Israel Sieff and the other directors emphasised repeatedly the importance of probing and the responsibility for all employees to understand performance.[977] The emphasis was still prevalent when the Harvard researchers undertook their analysis in the 1970's.

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[977] See section on Evaluation in Chapter 2 (M&S)

The examples suggest an alternative way of achieving the dynamism considered an essential part of modern PMM systems. Rather than relying on formal, prescriptive processes and specific measures which need to evolve as the strategy and environment change, firms should consider using broader objectives and general measures which can accommodate change. These should be underpinned by emphasis of the expected behaviours. It is a point which has only recently been recognised in the PMM literature. As Melnyk *et al.* highlight, it is difficult to identify specific measures when the outcome is uncertain.[978]

The findings, however, can be broadened to consider not only change in the environment over time but also the different environments encountered by firms with large numbers of operating units. In the case studies, each of the firms recognised the diverse range of environments in which their stores operated - a small store in an affluent town in Oxfordshire faced different challenges from a large store in inner-city Manchester.[979] Broad measures and loosely defined processes provided the flexibility for managers to tailor their approaches to the local environment. They also provided assurance to Head Office that all shops were aligned behind the core objectives of the firm. Beyond retail, few firms have similar numbers of operating units, the environments in which they operate may however be more diverse. Manufacturers, whether operating units spread across countries or working within networks, operate in environments with different histories and cultures. This is recognised in recent PMM literature as an area in need of additional research, whether focused on international organisations or on collaborative networks.[980] The case studies support the view. What may be particularly interesting would be international retail firms - there are examples of retailers who have succeed overseas (Ikea, H&M, Zara) but many have struggled (Wal-Mart in Germany, Tesco in the United States, Marks & Spencer in nearly all overseas locations). Understanding their different approaches to PMM could provide important insights.

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[978] Melnyk *et al., Fit for the future.*

[979] As reflected in the focus of individual store performance in the statistical packs of both M&S and Boots.

[980] Franco-Santos *et al. Contemporary*; Bititci *et al. Challenges.*

Measurement in a PMM system

The introduction explained that performance *measurement* has been the central theme of the PMM literature over the last 25 years. While it has been argued that performance measurement cannot be separated from performance management and there have been calls for more focus on measurement within management, articles exclusively on performance measurement continue to outnumber those on performance management.[981] The introduction identified, however, some specific issues with performance measurement which challenge their central role in a PMM system:

(1) Not all drivers of performance can be easily measured. Proxies may help communicate intent but lack validity, reliability or both. There have been particular problems with input measures and those that try to measure capability.

(2) Firms have struggled to link the different measures in a PMM system and don't understand the interdependencies between measures.

(3) Even when an individual measure is analysed, it may not provide the level of understanding required to manage performance. Measures, such as averages, provide only a partial understanding of performance and require interpretation. Interpretation requires capability.

Given the widespread concerns in the literature, a second objective for the case studies was identified:

> "How did the firms use measures to understand performance?"

The findings from each of the case studies support the views expressed in some recent research which argues that measures are "just indicators of performance

[981] See Chapter 1 - Introduction.

and not real performance."[982] Indeed, one could go further, how the three firms used measures suggests that measures may not even be good indicators of performance. Each of the firms had compensating mechanisms in place to provide the level of understanding required to manage performance.

In the case of WHS, the paucity of measures before the 1950's and the apparent limited use made of them could relate to accounting weaknesses, a management system which delegated responsibility for performance down the hierarchy and an objective which prioritised a steady return over growth. The cases of M&S and Boots, however, suggest something more relevant for modern PMM systems. Both firms developed sophisticated measurement systems in the 1920's (Boots) and 1930's (M&S). Performance reports showed the range of measures employed and management commentaries demonstrated detailed analysis of the measures. However, in the case of Boots, there was little development in the measures generated after 1930 with statistical packs and reports relying on the same measures in 1970 as 1930. Quantitative performance measures, reported widely in *The Bee* in the 1920's, were hardly reported at all in the magazine from the 1930's. By the 1950's, management reports were increasingly focused on just financial measures and ignored operational drivers of performance.[983] M&S went further. Management reports in the 1930's to the mid-1950's demonstrated a capability to report and interpret a broad range of financial and non-financial measures. However, from the 1950's onwards, M&S became vocal critics of over reliance on measures and the criticism continued throughout the period under examination. Through 'Operation Simplification', they even stopped collecting data which had been used to measure performance in the 1930's.[984]

The specific criticisms of measures and the ways that the firm used them echo concerns raised in the current literature and highlighted in the three points above.

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[982] Bourne *et al. Emerging.*

[983] This is consistent with the findings of Johnson and Kaplan, *Relevance Lost*.

[984] Employee turnover and absence data. See section on "Measures" in Chapter 2 (M&S)

Firstly, the firms recognised that performance is driven by many factors and not all are measurable. In the case of Boots, the example from *The Bee*, also reflected in guidance for TGM's, showed the range of factors which contributed to a high performing store. Of the 37 factors identified, however, less than five could be measured quantitatively and the remainder were subjective.[985] Boots did not even try to create quantitative measures for the subjective factors - when they increased their focus on customer service in the late 1920's, they used a 'Casual Customer' who toured stores anonymously and reported his experience directly to the directors and wrote articles for *The Bee*.[986] In M&S, the focus was more on the product than the store. However, many of the factors that were important to understand performance were subjective and difficult to measures. A director for example, pointed out that Checking Lists concealed the detail of "fast sellers, slow sellers, good colours, bad colours, correct and incorrect size ratios, good quality, poor quality."[987] Both examples also illustrate a focus on input measures - understanding the drivers of *future* performance. Modern PMM systems identify the need for input measures but practitioners have reported that they are hard to quantify and therefore use.[988]

Secondly, the examples illustrate that performance is driven by several factors. They can be examined separately (e.g. store cleanliness/ quality of material) but they also need to be examined in relation to other factors (holistically). For example, whether the store environment promotes sales reflects store cleanliness but also product layout, the customer greeting, etc. The saleability of a dress reflects the quality of the material but also the colour, shape of the cut, etc. This suggests two levels of analysis - at an individual level but also at a holistic level where the individual elements come together in what the customer sees or experiences.

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[985] Such as store cleanliness, levels of service, quality of staff, the greeting customers receive. See section on "Evaluation" in Chapter 3 (Boots).

[986] See "Evaluation" section in Chapter 3 (Boots).

[987] GD Sacher, “Probing in the Seventies”, 25 June 1969 M&S E7/19 Corporate Governance Management Committee 1968 - 1972.

[988] Melnyk *et al, Fit for the future*.

Thirdly, they recognised that statistics do not always provide sufficient detail to understand the variance in performance. In performance reports, both firms reported overall sales (i.e. the average) but also the sales of individual stores (largest stores, smallest stores, fastest growing, etc.) In M&S, directors also looked at individual product performance in detail receiving copies of Checking Lists throughout the period. Actual results from the 1939 Boots statistical pack help to illustrate why directors focused on the individual performance and not just the aggregated performance - of the 20 largest stores, only 7 were within 1 percentage point of the average of 2.7% year on year sales growth. The range was from +25.1% down to -8.6%.[989] The best performers highlighted opportunities to improve the rest, the worst could indicate risks which might affect other stores.

The examples challenge whether performance measures alone can provide the level of understanding required to manage performance, particularly where reliance is placed on aggregated measures reported in a framework such as the Balanced Scorecard. The examples also suggest that the answer lies not in better measures but rather a reconsideration of how directors and senior mangers located in distant Head Offices can understand the performance of their business. In all three firms, there was an expectation that employees had both a deep understanding of performance but also a broad understanding which transcended their own areas of functional responsibility. This was achieved by narrowing the gap between Head Office and the stores. This aim was evident in the case studies at both the start and end of the period. The firms achieved this by encouraging Head Office staff to visit stores, attend regional conferences, and examine and try products. Structures and formal reporting processes were created to narrow the gap but the informal processes and behaviours were more important.

The examples reflect a challenge to how current performance measurement and management systems are described in the PMM literature. Here, the focus of directors is on strategy and the PMM system ensures that they obtain the information needed to manage strategy delivery through monitoring

[989] Their analysis excluded non-comparable stores which, for example, were being extended or refurbished. Boots (BTC 461 Statistical Pack)

dashboards.[990] This is some way from how the three firms managed performance. One might dismiss the difference as particular to these three firms and the period in which they operated. Firms, one might argue, are more strategically focused now and the role of directors is to manage the long term strategy rather than immerse themselves in the detail. Technology now allows for faster and cheaper data processing and process development has improved the capability of firms to analyse the data. Evidence presented in the introduction, however, suggests that despite these advances, the measures used in PMM systems are failing to deliver the knowledge required to manage performance.[991] There is also a growing body of evidence presented in recent literature, but not widely referenced in PMM literature, that the approach of M&S, Boots and WH Smith is not as 'old-fashioned' as one might think.

Rose has highlighted the fallacy of using aggregated data to understand performance, in his case in relation to educational achievement, and highlights the importance of understanding individual performance to understand the whole - to analyse and then aggregate rather than the other way around.[992] Johnson describes practices at Toyota where senior managers immerse themselves in the detail by observing performance first hand. As he argues, their approach reflects a view that "results (and problems) ultimately emanate from and are explained by complex processes and concrete relationships, not by abstract quantitative relationships that describe results in simple linear, additive terms.[993] Mintzberg has consistently argued that directors and managers need to spend more time with employees "on the ground" and observe first-hand how the business is

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[990] Kaplan and Norton, *Mastering*.

[991] Bourne *et al., Emerging*, argue that if PMM systems were effective, why did the banking crisis come as such a surprise to firms. It is an interesting reflection given that PMM systems are supposed to be about learning but a major criticism of the bank's directors was that they did not understand the risks that their businesses faced. The economist John Kay of the Financial Times argued that accounting practices which give "an appearance of precision" were partly to blame ("Don't always believe a Balance Sheet", *Financial Times* on-line, 17 February 2016, (https://www.ft.com/content/95895178-d49c-11e5-829b-8564e7528e54)

[992] Rose, *End of Average*.

[993] Johnson, *Lean*, 8.

operating.[994] The views link with what has been described as a "profound shift" in how firms now 'try to learn' in a business. While previously the focus was on analytical thinking (dealing with *independent* variables), it is now about holistic thinking (understanding *interdependent* sets of variables).[995]

These examples seem to describe the historical practices at M&S, Boots and WHS more than the descriptions of current PMM systems in the PMM literature. They suggest that the practices at the three firms cannot be dismissed as historical anomalies. They support the view that we need to reconsider the way modern firms use measurement to understand performance.[996] They also suggest a way that further research can be done - by observing the informal practices directors and managers use to understand performance. This implies observing practices in store or on production lines. It requires understanding how managers and directors interpret what they observe and how the learning they gain from these visits is translated in Head Offices into actions - both strategic and operational. This represents an opportunity for further research albeit difficult to undertake. This form of research is resource intensive and time consuming. It also requires a researcher to have a deep understanding of the industry they are observing. It echoes a call by Berry *et al.* in the related field of management control where they call for more research on "real control systems" in order to narrow the gap between theory and practice.[997]

PMM and Culture

As the introduction explained, the impact of socio-cultural factors have not been adequately researched in PMM systems. While there is a recognition that they are

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[994] Quoted in "Some half-truths of management", 22 March 2017 (http://www.mintzberg.org/blog/half-truths-management) However, he has been a long term advocate of managers and directors immersing themselves in the detail. Mintzberg, *Musings; Managing; on management.*

[995] Gharajedaghi, *Systems Thinking*.

[996] Bourne *et al, Emerging;* Gray *et al., Measurement Madness.*

[997] Berry *et al., Emerging Themes.*

important, it is not clear in what way. The objective raised in Chapter 1 specifically focused on how culture is used by firms to influence PMM systems:

> "What role did cultural factors play in how performance was managed within the firms?"

The findings from all three case studies suggest that cultural factors were the most important factor in shaping how performance was managed. Specifically, all three firms sought to nurture a culture which generated loyalty among employees. At M&S, Simon Marks said that loyalty and the devotion of the management and staff was one of the firms great assets.[998] At WHS, one of the non-executive directors reflecting back on the firm noted that, "one of the interesting things that one found, what impressed one, was the immense loyalty to the family of the company."[999] At Boots, the Chairman reported that "the key-note of the whole organisation is LOYALTY, the biggest thing in life."[1000] The three examples were not isolated references but repeated throughout the period.[1001]

Based on the sources, the firms used a number of tools to promote their culture, identity and loyalty to manage performance.

Firstly, all three firms used their history. WHS stressed its heritage, links with the family and traditional way of doing things to promote its conservative approach to performance. They achieved this through celebrations of anniversaries, use of artefacts, rituals and narratives.[1002] M&S also referred to its traditions and the debt it owed to its past in both internal and external speeches. Simon Marks, in particular, was keen to anchor the firm's development in the actions of his

[998] Simon Marks: Thinking about the Business. 1954. M&S CR/C/2/80 Collated Business Reports 1950 - 1984.

[999] WHS Q 14 Reminiscences: H N Saunders.

[1000] From a speech given by George Gales to staff and reproduced in *The Bee*, April 1924.

[1001] See "Linking the System" section in each of the case study chapters. While there were references to loyalty in M&S and WHS throughout the period, it was only heavily referenced in Boots in the 1920's. It is not clear whether this reflects gaps in the sources or a change in view.

[1002] See section on "Linking the System" in Chapter 4 (WHS).

father.[1003] In Boots, although there is less evidence, both *The Bee* and *The Beacon* included stories about the firm's past and reproduced interviews with older employers who recalled the firm's origins.[1004] Training material in the 1960's also highlighted the firm's origins and the role of Jesse Boot.[1005] A particular feature in the narratives and rituals was linking the firms' histories to the founding 'family' but extending the 'family' to include all members of the firm. Notably, in WHS, all employees with more than 21 years service were invited to the coming of age party for each succeeding generation of the Smith family.[1006]

Secondly, the firm's repeatedly reminded employees of the importance of loyalty. At WHS, the first toast at company celebrations was always to "The Firm" in 1920 through to 1970. It was an opportunity for employees to reaffirm their loyalty to the firm. As one of them said in a toast, "loyalty counted for a lot in the life of WH Smith men."[1007] At Boots, the importance of loyalty was stressed in *The Bee* by directors including George Gales. Guidance to TGM's also reminded them to assess the loyalty of their managers on store visits.[1008] At M&S the importance of a loyal workforce was highlighted in AGM's as well as internal speeches.

Thirdly, each of the firms built 'loyalty' into their processes. At Boots, loyalty was one of the specific attributes employees were assessed on in their annual performance evaluation. WHS appeared to prioritise recruitment in favour of the family of existing employees - not just as director level but also in departments and stores.[1009] At M&S, only members of the Marks/Sieff families or long-serving employees were appointed executive directors. The store structure in M&S, with a store manager and store manageress, as Harvard researchers pointed out, was created to mirror a family structure in store.

[1003] See the "Introduction" in Chapter 2 (M&S).

[1004] *The Beacon*, January 1933 to January 1934.

[1005] BTC 450/10 - Training Notes of Miss M Waterhouse (early 1960's).

[1006] See section on "Linking the System" in Chapter 4 (WHS).

[1007] WHS *Newsbasket,* October 1921.

[1008] BTC A 89/33 - Role of the Territorial General Managers

[1009] See section on "Linking the System" in Chapter 4 (WHS).

Fourthly, each of the firms were early investors in welfare. There may have been altruistic reasons but M&S in particular argued in external speeches that it promoted loyalty.[1010] Welfare services extended beyond medical and pension provision. Each of the firms created sports teams and social clubs where employees could compete equally alongside employees from all levels in the firm.

Finally, each of the firms had company magazines which they used to share stories about themselves. Although *The Bee*, *Talking Shop* and the *Bulletin* were more business oriented, the others were socially oriented reporting on marriages, births and celebrations. They reported the activities of sports and social clubs. They also reproduced the speeches of directors at various company social events ensuring messages were spread across the entire store network. Retailers were not alone in using sports clubs and company magazines to promote cultural values but the benefit was more pronounced in firms where employees were spread across the country, far from the direct influence of Head Office.[1011]

If the firms sought to cultivate certain cultural drivers, what was the relevance from a PMM perspective? Promotion of a common culture and identity, particularly one associated with loyalty, helped bind the employees to the objectives of the directors and their principles. This was particularly important given the operational problems faced by multiple retailers; Head Offices were far from stores, store managers and customers. Store managers were responsible for safeguarding the relationship with the customer but also the largest assets (property, stock, cash) and for managing the largest operating expense (salaries). However, promotion of loyalty went beyond controlling the actions of managers. Each of the firms recognised the store as the primary unit of performance. They recognised that each store faced its own local competition and had to respond to the local environment. Managers therefore needed to have the flexibility to respond to the local context. Directors had to be confident that managers would do this for the best interests of the firm without constraining their actions.

[1010] See section on the Objectives of the Organisation in Chapter 2 (M&S).

[1011] Heller, *Company Magazines.*

The firms' use of culture to align employees behind the objectives of the firm shows an alternative to the command and control structures and processes assumed to exist at the time in PMM literature.[1012] It also shows an alternative to the formal frameworks and models of modern PMM systems where targets and measures bind employees to the the firm's objectives. It supports the view that PMM systems are social systems. As such, the cases bear some resemblance to the purposeful socio-cultural systems described as part of third generation systems thinking.[1013] Such systems are said to resemble living systems which organise through cultural codes, are knowledge based and rely on holistic rather than analytical thinking.[1014] These systems eschew reliance on traditional management accounting controls to manage performance.[1015] Indeed, the more complex the formal controls become, the harder it can be for an organisation to maintain control.[1016] Therefore a firm such as WHS can operate successfully in the absence of formal structures and processes with few measures. M&S could similarly afford to dispense with procedure manuals and measurement data because "by replacing them with a set of principles and an understanding of the Company's philosophy, management began to manage instead of becoming interpreters of the written word."[1017] All three built systems which prioritised loyalty (and two focused on family and kinship). All three focused on understanding performance holistically by observing it in store rather than rely on management accounting information.

The case studies therefore challenge the way we think about PMM systems. Euske *et al.* had shown the importance of cultural factors in managing performance of international firms in the early 1990's. They noted how important

[1012] See Chapter 1.

[1013] Gharajedaghi, *Systems Thinking*.

[1014] Gharajedaghi, *Systems Thinking; Johnson, Lean.*

[1015] Johnson, *Former.*

[1016] Fear, *Thyssen*, 785.

[1017] Speech about Operation Simplification. "The War on Paper Bureaucracy" Lecture by Sir Derek Rayner to the Institute of Administrative Management at Painters Hall, London, on 22 May 1975. (A04/117 K Various Papers and Speeches) culture was in guiding the actions of employees particularly in times of uncertainty.[1018] Since then, socio-cultural factors have not received the attention they warranted in PMM literature.[1019] More recently, that has started to change with a several papers explicitly acknowledging that PMM systems are social systems.[1020] And, understanding the implications of this is said to be one of the biggest challenges for PMM research going forward.[1021] The case studies support this view but also emphasise that firms can cultivate the culture to achieve their performance objectives and use culture to manage performance on an on-going basis - culture is therefore an endogenous rather than exogenous factor and needs to be built into frameworks accordingly.[1022]

Further work needs to be undertaken. Examining what happened to the case study firms after 1970 might shed light on whether they lost their holistic approach to performance management. David Sieff, grand-son of Israel Sieff, lamented in 2004 that M&S's subsequent decline was at least partly because of the loss of shared culture - they had stopped probing, recruited a Chairman externally and forgotten the principles on which the firm was founded.[1023]

The developing area of systems thinking also represents an interesting avenue to take research on PMM systems. Gharajedaghi argues that systems thinking represents a new way to consider how we manage firms in complex, chaotic environments.[1024] Johnson attributes it to Japanese practices.[1025] Both encourage

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[1018] Euske *et al. Performance Management.*

[1019] There have been some studies (Henri, *Organisational Culture*; Bititci *et al., Dynamics.*) but they can be partial and culture is still recognised as an areas needing further research.

[1020] Bititci *et al. Challenges*; Gray *et al. Measurement Madness;* Melnyk *et al. Fit for the future*.

[1021] Bititci *et al. Challenges.*

[1022] See recent culture literature - Weber and Dacin, *Cultural Construction*; Giorgi *et al, Many faces*.

[1023] "Sieff's despair at lack of 'probing' at M&S" *Retail Week*, 18 June 2004 (https://www.retail-week.com/sieffs-despair-at-lack-of-probing-at-ms/1714678.article)

[1024] Gharajedaghi, *Systems Thinking*.

[1025] Johnson, *Lean*.

its wider use. However, the cases of M&S, Boots and WHS suggest that some British firms adopted at least some of the principles some time ago.[1026] Business historians therefore have an opportunity to explore systems thinking in a historical context. Importantly, if a systems approach to performance management did operate in the past, why was it subsequently lost. The pressure that both Boots and WHS were under from external consultants in the 1960's to adopt divisional structures, convert TGM's/ Area Managers into inspectors and create a more control oriented system may offer some clues.[1027] For PMM researchers, more actively engaging in systems thinking may identify new challenges. In particular, is Johnson's challenge that firms do not need measures to manage performance practical?[1028] The case studies do not explicitly support this but they do show that measures are not as important as current PMM research suggests and that socio-cultural factors were perhaps the most important tool available to manage performance in the past.

[1026] Recent corporate histories identify the importance of cultural factors in the management of businesses - Fear, *Thyssen*; Jones, *Unilever*.

[1027] See sections on "Structures" in Chapter 3 and Chapter 4.

[1028] Johnson and Broms, *Profit beyond Measure*.

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Declaration of Original authorship

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.

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