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978-0-521-44963-2 - Performance at the Limit: Business Lessons from Formula 1 Motor Racing, Second Edition

Mark Jenkins, Ken Pasternak and Richard West

Excerpt

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1 *Introduction*

Since publishing the first edition of *Performance at the Limit* in 2005, the authors have introduced concepts from the book to thousands of executives and business-school students, Formula 1 enthusiasts and, more interestingly, non-fans through our speaking engagements, teaching assignments and Pit Stop Challenge events.

The BBC introduced these concepts to an even wider audience, numbering in the millions worldwide, by airing ‘Formula for Success’, an eight-part television series on BBC World during the autumn of 2007. Our book served as the inspiration for this well-produced and insightful series. The authors and their insights were featured throughout the production.

The parallels that we explore between Formula 1 and the business world at large seem to resonate with all of these audiences. Our narrative has opened discussion in several important management and business disciplines, has wide international appeal and has proved to be of interest not only to diehard fans of Formula 1, and to our relief has not been perceived as only an exercise in examining ‘toys for boys’.

The relevance of our comparisons between the Formula 1 industry and the business environment that corporate executives face day to day lies in the fact that both:

- are highly competitive;
- experience change on a constant basis;
- require continual innovation to stay ahead of the competition;
- rely on sharing of knowledge across functional divides;
- require teamwork to achieve common goals; and finally
- in both the most important measure of success is actual performance.

Much has changed during the five years since we did our original research. Teams have left the arena while new ones have taken their

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place on the grid. Equally, much younger drivers have entered the sport and, in the case of Lewis Hamilton, exploded onto the scene in his rookie season of 2007. The sport's governing body, the FIA, has, through the Technical and Sporting Regulations, continued to make changes in Formula 1 in an effort to contain the growth of costs, make a statement about becoming more environmentally aware and also to continue to make the sport safer.

In addition, two new racing venues have been added: Valencia, Spain and Singapore in 2008, the former a street race similar to that which takes place in Monaco, and the latter the first night race in Formula 1 history.

Abu Dhabi is already a scheduled addition to the 2009 calendar while South Korea and New Delhi are planned for 2010. Many also hope that a Grand Prix in the US will reappear on the race calendar. Moscow, Mexico City and several other cities are in contention to bring the total number of Formula 1 races to twenty, a number which most participants in the sport believe is the maximum that the infrastructure, budgets and personnel can handle. All these new locations would of course be at the expense of losing some of the more traditional circuits situated in Europe.

To our readers, please note that this is not a book just about the sport of Formula 1. It is not just about racing cars, commercial sponsorship or the politics of motorsport. It is about something which we believe to be far more important and enduring. This book focuses on the problems of sustaining organisational performance in dynamic and competitive environments. We are concerned with how organisations achieve performance levels at the limits of their financial, technological and human potential. It is a book which considers the turbulent ride between outstanding success and humiliating failure and explores the reasons for such outcomes.

To survive and prosper the organisation of today has to be both lean and agile, creative and efficient, effective at recruiting, motivating and retaining the highest calibre of staff, and also able to restructure and redeploy these individuals into teams across a range of challenging tasks and locations. Such demands are accepted as part of the dynamic business environment of today.

However, the ways in which such management challenges are met and addressed are rarely examined in detail. While there is a wide range of work that has considered generic issues such as best practice

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and performance across many global industries, these often lack the specific insight to help deal with such challenges on a day-to-day basis. In this book we offer a different approach. We do not attempt to distil generic characteristics of performance success across a range of business contexts; this has already been effectively done in a range of management texts such as Peters and Waterman³ and Collins and Porras.⁴ Our agenda is to examine a highly specialised industry in depth. We do so because we believe that this particular industry encapsulates many of the challenges faced by today's managers across many different types of organisation and sector.

Further to the concepts mentioned above, these challenges include: increasing knowledge creation and transfer; working in global and virtual teams; managing across boundaries; enhancing innovation and creativity; accelerating speed to market; effective execution of strategy; creating transformational change and, above all, through all of these challenges, creating sustained levels of performance which competitors are unable to live with. Many of these issues have already been considered in management texts such as Richard D'Aveni's work on hypercompetition⁵ and Shona Brown and Kathy Eisenhardt's consideration of fast-paced organisations that are highly adaptable and responsive to change.⁶ We are not claiming that the detailed issues we examine provide quick transferable solutions to other organisations, or that we are able to prescribe easy panaceas, but we do believe that the case histories and examples that we examine provide both inspirational and instructional guidance to those seeking to achieve levels of performance – at the limit of possibility.

In this book we draw on accounts of ambition, wealth, enduring relationships and, most of all, levels of passion and commitment which are inspirational to those involved in shaping and managing organisations. In this chapter we first outline some of the key insights we have drawn from our study, we then describe the research process we have adopted and conclude with a statement on the overall purpose of the study.

First, as a preview of our findings, which are developed in detail in Chapter 12, we present the core characteristics of an organisational system (we use this term to emphasise the role of partner organisations in creating performance outcomes) that achieves 'Performance at the Limit'. We do not purport these factors to be necessary or adequate

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in themselves; however, we found them to be central in the success of Formula 1 teams and the general distinctiveness of the industry.

Characteristics of ‘Performance at the Limit’

- *Maintain open and constant communication.* A constant flow of open communication to all in the organisation is critical to ensure that everyone is aware of how things are developing and where potential sources for improvement can be found.
- *Isolate the problem, not the person: the ‘no blame’ culture.* The readiness of everyone to be open and honest about their mistakes. What is surprising is that this occurs in a context that has its fair share of inflated egos, but there is a widespread recognition that the whole system can only improve when this happens, and this can only be created where the whole organisation is underpinned by a warts-and-all, ‘no blame’ culture.
- *Build the organisation around informal processes, networks and relationships.* Very often the structure and roles within the organisation will emerge from the particular competences of and relationships between individuals. In this case, rather than creating the structure and fitting individuals into predefined roles, we see the structure emerging from the capabilities of individuals within the organisation, thereby allowing their potential and the performance of the organisation to be maximised.
- *Alignment of goals between individuals, teams and partners.* Alignment at all levels is critical to success. This is both in terms of everyone sharing the same goals, which is perhaps easier in Formula 1 than other situations, but also in terms of everyone understanding how they and the groups they participate in contribute to this performance.
- *Focus, focus, focus.* The successful teams are those which are focused. When teams take their ‘eye off the ball’ they are vulnerable to competitors who are more committed and more focused.
- *Make quick decisions and learn from the results.* The pressure of Formula 1 is such that the teams have to arrive with a competitive package every two weeks, and sometimes even on consecutive weekends. This puts a premium on fast decision-making and the avoidance of prevarication. Make a decision, live with it, and if it’s the wrong one learn from it as quickly as you can and move on.

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- *Real gains come at the boundaries.* The critical performance gains occur at the margins, at the boundaries between the various interfaces whether these are component areas of the car, between partner organisations or between different teams.
- *Be realistic about what can be achieved.* This is perhaps not expected in a pressurised environment of this kind. Often teams get ahead of themselves and lose their grip on performance. Change for the sake of change is not embraced here. It has to be realistic change for the sake of performance.
- *Never believe you can keep winning.* Organisations often end up believing their own rhetoric. The key to maintaining success in Formula 1 is to actually disbelieve in the sustainability of your own performance. To feel continually that you could have done it better, and to strive continually for this unattainable goal.
- *Leaders exist at all levels of the organisation.* Success requires a 'portfolio of leaders' all fulfilling and supporting different roles in the system. In effect these teams succeed because there are individuals throughout the organisation who are willing and capable to accept the responsibilities of leadership regardless of their formal authority.
- *Measure everything.* Whether it is a Formula 1 team seeking to get a fraction of a second more speed through superior engineering, or a team sponsor determining whether its investment in the sport has been worthwhile, or a driver trying to optimise his performance, this business is about measuring results and taking appropriate actions based on them.
- *At the edge ... not over it.* All organisations can use a bit of internal competition between their individuals and teams in their efforts towards achieving improved performance, but management must be sensitive to the fact that at some point internal frictions, particularly between essential players, can become very distracting, even destructive, to the business as a whole.

The chapters that follow provide both an overview of the dynamics of Formula 1 and also an insight into the ongoing struggle as to how these organisations sustain performance in such a highly competitive and dynamic context.

In Chapter 2 we address the question: why Formula 1? We focus on the reasons why this context is valuable in considering the dynamics

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of performance. In Chapter 3 we articulate a framework for creating performance using the elements of individuals, teams, partners and the organisation and combine these with the processes of integrating, innovating and transforming. In Chapters 4, 5, 6 and 7 we consider each of the elements of the framework (individuals, teams, partners and organisations) in more detail. This is followed in Chapters 8, 9 and 10 by a consideration of the core processes of integrating, innovating and transforming. Chapter 11 focuses on the nature of performance and how it is achieved 'at the limit'. Finally, in Chapter 12, we reflect on some of the learnings from our study and develop a series of twelve lessons that can be extended from the Formula 1 context.

The research process

The concept for this project first emerged in 2001 when the authors were specifically selected to help design and deliver a management development programme for a leading global law firm, Freshfields Bruckhaus Derringer. Formula 1 was utilised as it provided a stimulating context to consider issues relating to teamwork, project management, client relationships and business dynamics. Our experience in developing this programme led us to focus increasingly on describing, explaining and taking lessons from the sources of performance advantage in Formula 1 motorsport. The idea that Formula 1 provides not only an exciting context but also exemplifies how organisations are able to create and sustain the basis for optimised performance, has led us to develop a more rigorous approach to these questions. The objective of this book is therefore to explore these issues in a more holistic and systematic way than we have been able to do so far, and then to develop a structured basis for both, representing organisational performance and providing a basis for applying the concepts into other contexts.

Our process has involved three distinct stages. The first was to develop the conceptual framework as outlined in Chapter 3, which consists of four key elements (organisation, individuals, teams and partnerships) and three core processes (integrating, innovating and transforming). This was done through a review of published sources that have evaluated the performance of Formula 1 teams. One of the benefits (and challenges) of researching the Formula 1 context is that there is an abundance of published information on the Formula 1

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organisations and particular individuals such as drivers, founders and CEOs. A painstaking review of this material enabled us to draw out some of the key aspects of the performance system in Formula 1, which is summarised in Chapter 3. A full list of all published sources used is given in the References section.

The second stage of the process was to identify a number of experienced individuals who were to provide the bedrock of our research. In particular we sought out those who could bring a range of different experiences, either through having worked for differing kinds of Formula 1 organisations or through having worked in other industries. Two examples are the Renault F1 team's Managing Director Flavio Briatore, who formerly ran the US operation of the Benetton clothing company, and Tony Purnell, who founded and built Pi Electronics before selling it to the Ford Motor Company. He then ran Jaguar Racing, and since that team's demise has been acting as an advisor to the FIA. The following outlines some of the organisational characteristics that we endeavoured to represent through our selection of individuals to be interviewed for the book:

1. Exhibited both enhanced and declining performance at different stages in their lifetime;
2. Had undergone a change of leadership and/or ownership;
3. Had created discontinuous innovations which have changed the basis of competition;
4. Illustrated different ownership structures;
5. Illustrated different levels of organisational integration.

In these interviews we were seeking insights into the process and some of the principles which underlie performance. In researching the original book this part of the process was perhaps the most challenging as access to these individuals is normally particularly difficult to obtain; however, through our own efforts and the support of a number of intermediaries and, of course, the individuals themselves, we secured a total of forty-seven interviews. For this second edition we found that access to interviewees (twenty-six new interviews were done) was less difficult; although the fast-paced lives of the people in the sport makes it hard to catch up with them. The legitimacy of our first effort seemed to have opened doors this time around, both to people we had interviewed in 2004 and to new respondents. We are particularly pleased that for this edition we have been able

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to augment our base of respondents by gaining access to a number of Formula 1 drivers as well. Full details of all the respondents are provided in Appendix C.

The selection of respondents was based on the above criteria, but we also wanted to develop in-depth case insights into particular organisations. This meant that to some extent we used the ‘snowball’ sampling approach where access to one individual enabled us to identify and contact other relevant individuals.

A further point to our analysis is that, as with Collins and Porras’ ‘Built to Last’⁴, we have also focused on the history and evolution of organisations rather than simply their present-day form. This is because an evolutionary and longitudinal perspective was essential in order to gain a better understanding of the dynamics of performance. We did not therefore simply look at the success stories of those who were at the top of the curve; we considered the way in which such successes were created and formed over time, and also in a number of cases how the success dissolved into failure and the diagnosis of this process.

The final stage of the research involved the detailed analysis of the interview transcripts and the comparison of this data with the range of published materials that we had collated into a full chronological database. We extrapolated some of the key observations and lessons from the data, which are summarised in this chapter and specified in Chapter 12. Our approach to this part of the process was to focus on understanding the details of how these organisations operate, through accounts and anecdotes of specific situations, and also to look for common patterns and themes that emerged. We also sought to pick up on those unexpected, counter-intuitive insights which can add to our understanding of a particular phenomenon or situation. For this second edition we have been able to distil two additional lessons that we have added to the original ten.

It is perhaps worth emphasising that this study does not seek to ‘prove’ that certain factors create success; nor is it our intention to generalise the issues we observe in Formula 1 beyond this specialist context. The purpose of the data collection is therefore not so much to ‘validate’ but to ‘elaborate’ the framework outlined in Chapter 3. In particular we seek to make connections between the processes and elements, for example in terms of the linkage between innovating and performance. A specific focus for us was to understand the

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inter-related nature of our four elements (individual–team–partners–organisation). The framework was therefore concerned with rich description and aimed to provide a fine-grained understanding of the processes involved in creating and sustaining high performance in one of the most competitive and dynamic contexts possible.

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2 | *Why Formula 1 motor racing?*

We have some iconic figures, probably starting with Senna, then Schumacher and now Lewis Hamilton; individuals that transcend Formula 1 and become global stars with the help of the media platform. It has just mushroomed in such a dynamic way. It's because it's got some glitz and glamour, a bit of skulduggery, a bit of everything really.

*Martin Brundle, former Formula 1 driver and
now driver manager and commentator*

Formula 1 motor racing provides many important ingredients to help us explore the nature of organisational performance. The first is a clear, unambiguous performance outcome – consistently winning races and thereby consistently outperforming the competition. The fundamental importance of this measure of performance, and one which is often overlooked by managers striving to improve their organisations, is that it is concerned with **relative advantage**. The notion of competitive advantage is based on the premise that an organisation's performance is superior relative to all available competition. Formula 1 clearly exhibits this criterion, as a team may make significant performance enhancements to its own car, only to find that it has become inferior to the competition that has made greater advances, and therefore it is the relative rather than absolute pace of improvement that is needed to improve and sustain a competitive position.

All too often managers lose sight of the external relativity of performance and focus too heavily on performance enhancements relative to their own internal benchmarks; in Formula 1 performance benchmarking is always relative to the competition and a team's performance is only as good as the last race. These factors create a context where there is no let-up in the search for both short- and long-term performance gains. In April 2008, McLaren Chief Executive Officer Ron Dennis responded to a question from *Autosport.com*'s Jonathan Noble about the early pace of BMW Sauber by underlining