

The Hard Part: Strategy Execution

Bridging the Gap Between Vision and Action

We seem to be easing our way into the third phase of the economic crisis. First came the initial shock to the global financial system, fueling an economic collapse. Then came the realization that this was no blip, but rather the beginning of a long, deep, painful downturn. That launched a cascade of downsizing announcements – factories shuttered, stores closed, jobs wiped out, pay and benefits slashed.

by Mark Nadler

However, that grim outlook has nudged many companies from the purely defensive tactic of downsizing to a more offensive posture, as they have sought new strategies to come to grips with changes that are transforming the marketplace with stunning speed and effect. The third phase has been characterized by the emergence of new competitive strategies. The playbooks vary enormously; some businesses and industries – print media and home construction, for instance – have been more seriously affected, with many seeking strategies for survival. For others, the underlying business has not vanished – health care, for instance – so the strategic challenge has been how best to weather the storm in order to emerge in good shape and, hopefully, an improved competitive position.

Whatever the case, and in any economic scenario, leaders must find ways for their companies to simultaneously shrink and grow. To do that, they must unfreeze any organizational paralysis that might have set in earlier this year by articulating a clear vision of where they want the organization to go, and then successfully executing the strategies to get things moving.



And there's the rub. Even in the best of times, few companies are consistently adept at implementing strategies. Consider a few dismal numbers:

- A 2004 survey of 276 senior operating executives by *The Economist* found that 57% of the companies had been unsuccessful in executing on strategic initiatives over the previous three years.
- In a 2006 survey of more than 1,500 executives by the American Management Association and the Human Resource Institute, only 3% of respondents rated their companies as very successful at executing corporate strategies, while 62% described their organizations as mediocre or worse.

Strategy execution tends to be a hit-or-miss proposition. Based on our experience, there are some common pitfalls that deserve attention. This isn't intended as an exhaustive guide to strategy implementation, but rather a checklist of potential stumbling blocks that senior leaders should consider before launching a strategy initiative. Ignore or mishandle any one of them and they could slow the initiative down, trip it up, or send the entire cart sliding into the ditch. By the same token, making sure all these bases are covered will go a long way toward increasing the odds of success.

1. Good strategy, bad process

The basic principle is simple: The people senior leaders rely on to implement the strategy should have a say in developing it. The most important thing one can do to improve the quality of execution is to ensure that the managers who will have to fire up the troops and personally fight the daily battles required to implement a grand vision have been afforded opportunities for appropriate participation.

There are many credible excuses for not broadening the process. It's messy, time-consuming, and often results in uncomfortable, even volatile, confrontations. It requires discussing some highly sensitive issues involving priorities, resource allocations, major shifts in markets or offerings, or new structural arrangements that would be easier to announce than debate. But there's no surer way to derail a strategy than for senior leaders to lock themselves away—or hand it off to consultants—and then dump it on managers with the instructions, "Go make it work." They won't.

More often than not, resistance sets in and can take a passive-aggressive form. At a nationally respected health organization, the CEO closeted himself with consultants and brought forth a brand new strategy, which made his direct reports feel disrespected and disenfranchised. So, when asked about how the strategy was being implemented, they responded almost universally: "It's a wonderful vision, but I have absolutely no idea how we're supposed to make it happen." Until the CEO retraced his steps, brought his team on board, and let them dissect, rebuild, and own the strategy, almost nothing happened.



Participation, and the buy-in that comes with it, are essential to successful implementation. Even if executives have already started down the path of strategic development, they can still involve the right people before the strategy is set in stone.

2. Strong strategy, weak alignment

Not everyone in management can be personally involved in developing the strategy. But everyone in management should understand it, accept it, and be committed to its success. That's not always the case. We constantly hear people in senior management positions say, "I know what the CEO says the strategy is, but I have no idea what that really means."

Not long ago, we were asked to work with a multibillion-dollar manufacturing company that had recently been formed by the merger of two moderately successful companies. Things got off to a reasonably good start, but as the first year came to a close, financial results unexpectedly plummeted. At a daylong session involving the top 40 or so executives, all the possible operational breakdowns were scrutinized. Picking up on undercurrents in the room, we raised the issue of strategic alignment and were firmly assured by the CEO that everyone was "on board" and strategy was not an issue. Just to be sure, we had everyone write a two-sentence description of the company's strategy; we then read seven of them at random and ended with what the CEO had written. None of the eight statements were the same and some were in direct conflict, with the top priority variously described as profitability, market share, and reputation for quality and innovation. The CEO reluctantly acknowledged there was an enormous alignment problem across management—and immediately made that the first priority coming out of the session.

Understanding the substance of the strategy is just the first step toward alignment. Once managers understand the strategy and its implications, the next goal is acceptance. And for truly effective execution, you need managers to go beyond passive acceptance to active commitment. As a CEO prepares for implementation, he or she should be absolutely certain where key managers are on the scale of understanding, acceptance, and commitment, and should move them up the scale before getting too far down the road.

3. Right strategy, wrong team

New strategies create new requirements for leaders, and the more radical the shift in strategy, the greater the need for senior people with fresh perspectives, skills, experiences, and leadership styles. The unfortunate paradox is that the management team that was responsible for past success could actually constitute the greatest obstacle to future survival.

In his book *Only the Paranoid Survive*, retired Intel CEO Andrew Grove recalls one of the more poignant moments as the company began its transformation from manufacturing semiconductors to producing microprocessors, an enormous shift in technologies and business models. At an executive staff meeting, Grove looked around the room and wondered how many of the people there, all of whom had played key roles in Intel's success, would survive the transition. The eventual answer: about half.

Any genuine shift in strategy implies a change in emphasis; it might involve different customers or markets, new technologies or business processes, unfamiliar leadership styles or management techniques. This requires that leaders learn new skills and master new approaches – a big

challenge in itself. Even more problematic, a new strategy undermines the organization's political profile in very tangible ways. It alters priorities, resource allocations, and reporting relationships. It threatens the power, status, scope of responsibility, and business philosophies of important and influential people. Some will be incapable of learning new skills, whereas others will be unwilling to accept a revised role, much less a different approach to doing business. Whether they are unwilling or unable, some members of the senior team simply need to move on; the longer they stay in place, the more difficult it will be to implement the new strategy.

4. Leaders without followers

Up to this point, we've been focusing primarily on the senior team and other top managers, since that's where strategy implementation has to start. But it can't end there, because execution also fails when a discernible gap opens up between the top echelon and the rest of the organization. There's a tendency to attribute that gap to "poor communication," and sometimes, that's actually the answer.



But often the problem goes beyond communication – it's less about sharing information than about shared interests. A few years ago, we did some work with a global consumer products company that was preparing to launch a strategic initiative they were going to call "Simplification." To the executives who planned the initiative, the ultimate goal was to eliminate layers of management, increase accountability, accelerate decision-making – and, in the process, cut several thousand jobs. The rest of the organization, however, having experienced successive waves of job reductions, demonstrated a remarkable degree of skepticism, if not outright disbelief. From their

perspective, this was all about slashing the payroll, and everything else was window dressing. Resistance was strong, implementation was difficult, and after a while even senior leaders did their best to distance themselves from the effort.

The reverse is also true. At Quest Diagnostics, the nation's largest provider of medical testing, a strategic pillar of the company's turnaround in the mid-1990s was an unprecedented emphasis on providing the industry's "gold standard" of quality services. That was a serious departure from the previous strategic priority, which involved billing hospitals, doctors, and patients for as many tests as possible and resulted in millions of dollars in government fines related to billings for tests that had never been asked for. The "quality" strategy resonated with employees – from highly trained pathologists to lab technicians overseeing routine, automated tests – in ways that far surpassed management's expectations. Why? Because the strategy was a perfect match with the values of the vast majority of employees, who had chosen this kind of work specifically because they wanted to feel part of a noble social endeavor. The focus on quality engendered a sense of pride and a connection to the organization that was clearly reflected in effective recruitment, retention, job performance, and ultimately, in the company's impressive financial success.



5. Conflicting strategy and tactics

There's another disconnect that can easily derail strategy implementation: a perceived conflict between the strategic vision and the supporting tactics. The former tends to be lofty, the latter tends to be brutally pragmatic, and the discrepancy calls into question top management's commitment to its stated values.

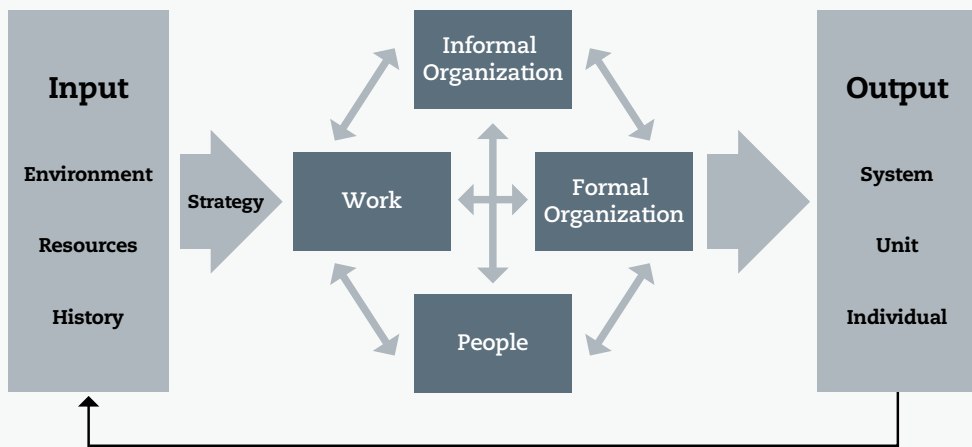
Consider a global telecommunications company that, in the wake of a merger, adopted and communicated a strategy based on product innovation and strategic alliances. Most people in the company felt good about the change; it appealed to their sense of professionalism. But it soon became clear that it would take time for the new strategy to generate substantial revenues; for the time being, most of the revenue would continue to flow from the original business model, which relied largely on locking unsuspecting customers into long-term subscriptions they really didn't want. The difference between the articulated vision and the actual tactics nearly brought the company to its knees; senior leaders lost credibility and were replaced, top performers felt betrayed and went elsewhere, revenue fell far short of plan, and nearly a year of valuable time was lost as the business was patched back together.

6. Changing the pieces, not the puzzle

Until now, we've been talking about specific pieces of the strategy puzzle. But from an organizational perspective, the only sensible way to think about strategy execution is to step back and keep your eye on the entire puzzle.

For years, we've used a fairly simple and practical way of describing that organizational puzzle. Every organization, no matter how simple or complex, consists of four basic components: the activities that constitute the organization's core work; the people who manage and perform that work; the formal structures that determine where work gets done and who reports to whom; and the set of values, beliefs and behavioral norms – culture, if you will – that guide people's performance and interactions.

Exhibit 1 The congruence model of an organization



Source: Oliver Wyman Delta

The tighter the fit, or "congruence", among all four components, the better the performance (Exhibit 1). Make a significant change in any one of the four, and it's like trying to jam the wrong piece into a jigsaw puzzle – the adjoining pieces get shoved out of place. Introduce a new strategy, and odds are you'll have to come up with an entirely new organization.

Think about the telecommunications company mentioned earlier. The new strategy – enticing customers to make rational and informed buying decisions rather than roping them into long-term commitments – set up a visible clash between the newly espoused values and the actual business practices. Beyond that, the company lacked the talent it needed to implement the new strategy – product

development was seriously understaffed in comparison with sales. And even if they'd had the right product development people, they would have been stymied by the existing organizational structure, which housed them in tech support, answerable to geographic business leaders whose top priority was wringing profits from existing products rather than investing in risky new offerings.

The lesson from that unfortunate experience is that one of the basic tools of strategic execution is an integrated plan that takes into account the entire organization and provides a detailed blueprint – including a sequenced timeline, clear accountabilities, and a dashboard of key performance metrics – for replacing or reshaping each of the pieces and then putting them all back together. That kind of carefully orchestrated and thoroughly integrated planning is rare. And it's unreasonable to think of these plans as permanent; even as executives are implementing the strategy, conditions change, key people come and go, tactics have to be modified. That's to be expected. But the fact that the process tends to be so fluid underscores the vital importance of a constancy of purpose at the top of the organization.

The big unfreeze

The most unsettling aspect of the current economic crisis is that no one seems to have any real idea of how bad it will get or how long it will last. That pervasive uncertainty threatens to create the greatest risk of all – widespread organizational paralysis.

Unfreezing the crisis paralysis will require sound strategies and, even more importantly, effective execution. Attention to operational details is critical, but even more important is an overall sensitivity to the political, emotional, and process dynamics that come into play whenever a major new strategic initiative is set in motion.

Senior leaders need to think about who stands to win or lose from the new strategy, and how they're likely to react. Think about how to translate grand strategy into personal terms that provide individuals with a sense of purpose and some degree of confidence. And think about the ripple effect each action will have across the organization. Trying to assemble isolated pieces of a complex strategy in an organizational vacuum is a sure way to fail – and that's the kind of failure none of our companies can afford today.

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