A PALLADIUM GROUP WHITE PAPER

Strategy Execution

A Competency that Creates Competitive Advantage

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Palladium
Executing Strategy

Executing strategy! What could be more important for an organization than to successfully execute its strategy? Because the execution of strategy is how an organization creates value for its shareholders, nothing is more important. We should be alarmed, then, to learn that between 85% and 90% of organizations fail to execute their strategies.[1] Further, our research points very clearly to the cause—lack of alignment. Organizations don't focus on their strategies and, hence, don't execute. This alignment problem is pervasive. Consider the following statistics:

- 60% of organizations don't link their budgets to their business strategies.
- 67% of HR and IT departments don't link their priorities to their business strategy.
- 75% of middle managers don't have incentives linked to their business strategy.
- 95% of the typical workforce doesn't understand what the strategy is.[2]

Figure 1 **The Impact of Strategy Execution**

	Yes	No
Do you have a formal strategy execution process in place?	**54%**	**46%**
Is your organization performing better than its peer group? (High Performers)	**70%**	**27%**

The Benefits of Strategy Execution

While 85-90% of organizations fail to execute their strategies, the ones who succeed achieve dramatic benefits. Consider KeyCorp. This regional bank, based in Cleveland, Ohio, developed a new strategy that hinged on cross-selling its portfolio of financial services to the consumer-based market in its region. Thanks to KeyCorp's mastery of Strategy Execution, the company's share price rose from just $15.69 to $35.00 over five years. And over two years, its net income jumped by $217 million.

We have documented and studied over 130 similar success stories.[3] These case studies show that firms with disciplined Strategy Execution practices enjoy dramatic benefits that typically translate into billions of dollars. These benefits have begun generating intense interest among business leaders. In a survey conducted by Palladium Group, Inc., 143 professional performance managers were asked to describe their performance management programs. Figure 1 shows that 70% of those organizations that had a formal Strategy Execution process in place reported superior performance. These organizations were also eight times more likely to use technology solutions that automate process areas such as budgeting, performance reporting, and operational forecasting. Quick adoption of technology change led to more rapid adoption of process change for these firms. Among organizations that have *not* established a formal Strategy Execution process, only 27% report such superior performance results.

[1] C. Zook, Profit From The Core, (Harvard Business School Press, 2001) and "Delusions of Adequacy," (Barrows, March 2006).

[2] SHRM/BSCol Research Study 67-17052, "Aligning HR With Organization Strategy," 2002.

[3] For more detailed descriptions of the Balanced Scorecard hall of Fame cases, refer to http://www.BSRHOF.org.

The research findings summarized in Figure 2 identified six management practices that were favored by the high performers.

Figure 2 **Best Practices in Strategy Execution**

Do you have a formal process for...	High Performers	Low Performers
1. Clear articulation of the corporate strategy and measures	**77%**	**43%**
2. Manage a limited number of key strategic initiatives	**76%**	**46%**
3. Regular meetings to report on and manage the strategy	**75%**	**33%**
4. Communications about the strategy	**73%**	**28%**
5. Alignment of business units and support units to strategy	**63%**	**28%**
6. Linking strategic initiatives to the budget	**64%**	**36%**

1. Articulate and measure the strategy.

The most fundamental barrier to successful strategy execution is the inability to describe the strategy. You can't manage what you can't describe. While frameworks such as balance sheets and income statements are used to describe financial strategies, no such taxonomy exists for the business strategy. In recent years, the Balanced Scorecard and strategy maps have emerged to meet this need. The High Performing Organizations use such a process. Beginning at the top, the Executive Team meets to develop a shared vision of the organization's strategy. Frequently this is the first time that the team has achieved consensus on this subject. Strategy mapping is frequently used to facilitate the process. Ultimately, the strategic objectives are converted into a Balanced Scorecard with measures that can be clearly communicated and acted upon. The strategy is thereby translated to operational terms.

2. Manage a limited number of strategic initiatives.

An organization must successfully execute hundreds of processes each day in order to continue operating. These processes include meeting payroll, counting inventory, and shipping products. While essential to the operation of the business, most such processes are not strategic—that is, they don't directly enable the enterprise to carry out its strategy. Only a critical few processes are strategic. If an organization can identify these key processes and give them special attention, it greatly enhances its chances for successful strategy execution. These key processes (sometimes referred to as initiatives or themes) include such things as innovation, customer retention, and operations excellence.

Many successful enterprises have begun to organize their strategy execution efforts around their key processes. For example, Mellon Bank of Europe has created "theme teams" for each of its four strategic processes. The theme teams are responsible for managing the initiative on a cross-business basis. For example, product innovation responsibilities might be found in operations, product development, marketing, channel management, and sales. The theme team insures that the silos that are frequently found around such functions such as these are broken down.

3. Conduct regular meetings to report on and manage the strategy.

A strategy is a *hypothesis*—it is the best guess at a point in time as to how the organization will achieve its objective. You may, for example, believe that better quality will increase customer satisfaction which, in turn, will increase revenues. But this is only a theory. The theory must be tested with feedback from the real world. Having a clearly articulated strategy is an important starting point but the strategy must be tested and adapted continually. The experience of two merged banks illustrates this. The rationale for the merger was increased market share and, hence, economies of scale. The stated strategic objective was "100% customer retention." At one of the monthly strategy reviews, it was observed that the new bank had many customers that were unprofitable. "100% customer retention" was not a good idea. Based on the review, the strategy was modified to "100% asset retention." The shift resulted from the learning that was stimulated by the management review. The new direction increased the value of the merger by over $75 million.

4. Communicate the strategy to all levels.

A recent survey[4] reported that "63% of organizations put a premium on the need for employees to understand and live up to the corporate strategy." Why? While strategy may be formulated at the top, it is executed from the bottom. Knowledge workers such as call center operators, relationship managers or delivery truck drivers are closest to the action. They must make decisions on a routine basis that reflect the priorities of the strategy. If they don't understand the strategy, they can't execute it. In the mid-nineties, Mobil Oil's U.S. Marketing and Refining Division was the least profitable of its peer group. The division's employee survey showed that only 20% of the workforce understood the strategy. A new strategy was introduced, accompanied by a comprehensive communication program. Within two years, Mobil's profitability had moved from last to first in its industry. The employee survey showed that 90% of the workforce now understood the new strategy.

Effective communication is not a one-time event; it is an ongoing program that continually immerses the organization in the priorities and progress of the strategy. Newsletters and brochures provide a way to communicate to the masses. Some organizations build strategic awareness into their formal training programs. The most powerful communication, however, is provided directly by the organization's leaders—walking the talk. Such approaches as the quarterly Town Hall meeting, the open door, and the email Q&A allow executives to deal directly with the front-line workforce to insure that strategy is everyone's job.

5. Align business units and support units to the strategy.

Executing strategy requires the coordination and integration of every part of an organization. HR training and incentive programs must be focused on the strategic priorities. IT development must focus on the same priorities as must numerous other initiatives in finance, marketing, sales, engineering, customer service, etc. Unfortunately, most organizations are unable to manage cross-business processes. They are made up of silos that are resistant to integration. The problem here is not one of politics or insubordination. It is a reflection of the fact that support units don't know what the business strategy is—hence, they sub-optimize within the boundaries of their silos.

The development of strategy maps and Balanced Scorecards helps to eliminate this barrier. With a shared vision of the strategy, support units are able to focus their initiatives on the strategic

[4] Toronto Globe & Mail, December 2, 2005.

priorities. IBM Learning, the corporate training and development division of IBM, developed strategy maps for each of its internal customers (business units). The subsequent reorientation of their learning programs saved the company over $200 million annually. Similarly, Marriott Vacation Club achieved savings of $75 million by improving alignment of its real estate development, marketing, and operations divisions. These benefits illustrate the rewards awaiting any organization that can create an organized process to achieve the synergies of better strategic alignment.

6. Link strategic initiatives to the budget.

The final best practice highlighted by our survey would seem to be obvious. Yet 60% of organizations do not achieve this linkage. However, our recent study revealed that 64% of the higher performing companies formalized this linkage.

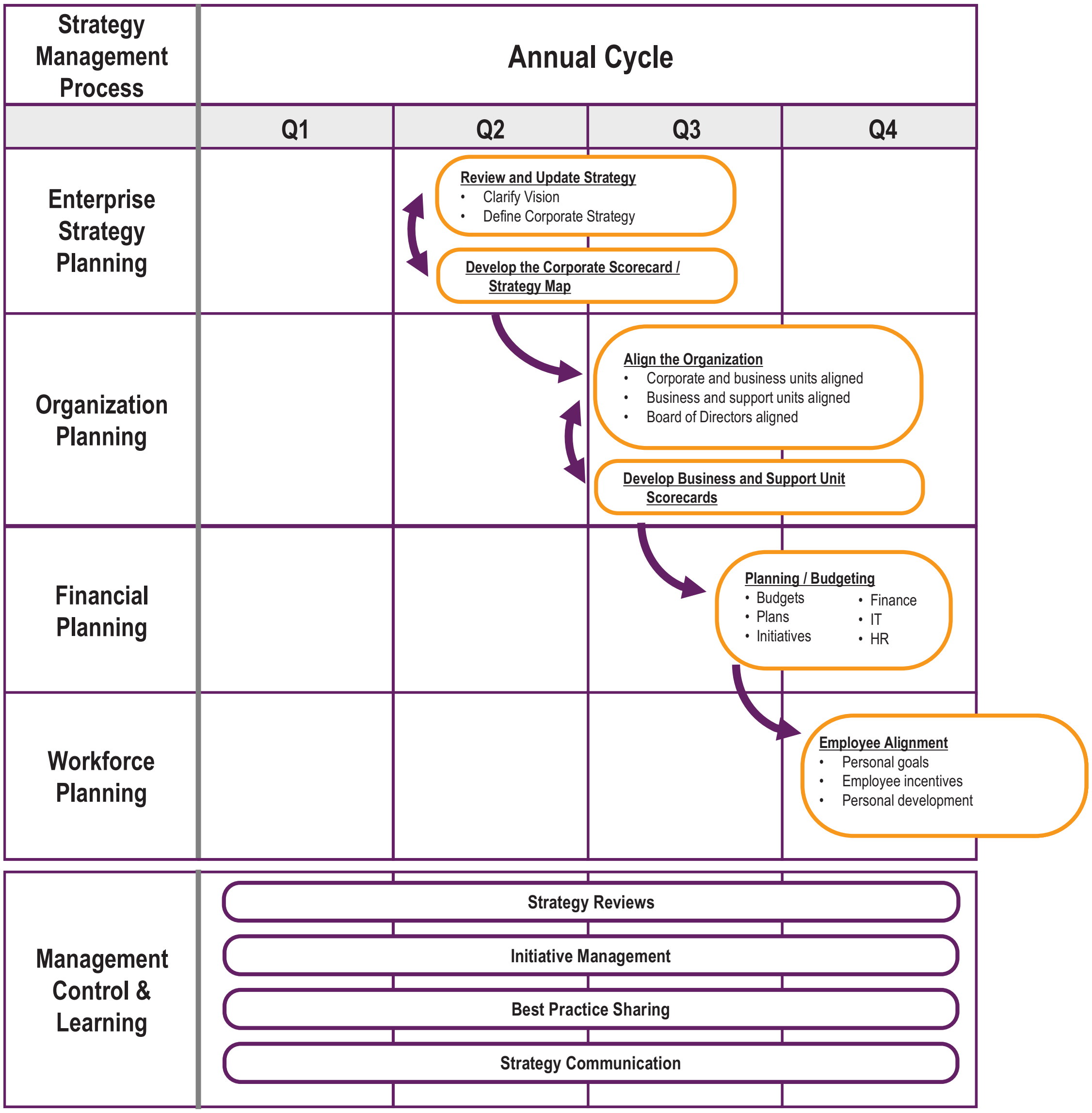
The barrier is created by the structural inconsistency of the planning and of the budgeting process. Strategy deals with long-term aspirations and programs while budgets deal with short-term operational issues. Strategy deals with cross-business portfolios of initiatives while budgets are structured by hierarchical departments. The processes are managed by different organizations (e.g., Strategy Planning vs. Finance/Control). Yet the processes must be synchronized.

We have seen the emergence of creative new approaches to achieving this integration. Elcoteq, a Finnish manufacturing company, has developed a convention called *Stratex* (Strategic Expenditure) to differentiate certain expenses from the conventional *Opex* (Operating Expense) and *Capex* (Capital Expense). The Stratex funds are isolated from the rest of the budget and managed through a separate process. Similarly, Ricoh Corp. creates a special fund (called the *President's Fund*) to isolate and manage separately their strategic investments. We believe that one of the keys to successfully funding strategy execution is to create a separate process that removes strategic investments from the system used to manage routine operations.

Summary

This survey of management best practices provides a snapshot of six techniques that make a difference. However, they do not stand alone—implementing only three or four would not produce the desired result because the six practices are essential steps in an integrated, closed-loop management process. Illustrated in Figure 3, we have observed successful organizations adopting a new approach to managing—an approach that didn't exist in the past. This formal Strategy Management process is the foundation for the organizations that have beaten the 90% probability of failure. We believe that this offers a roadmap for all organizations to make strategy execution a core competency, to create a competitive advantage, and to achieve dramatic benefits for their shareholders.

Figure 3 **Strategy Management—An Integrated Closed-Loop Process**



About the Author

Dr. Norton is a founder and director of Palladium Group, Inc., an organization specializing in systems and processes to improve the execution of business strategy. He has founded and built a series of professional service firms during the course of his career, each focused on leading edge issues of management. Nolan, Norton and Company, founded in 1975, specialized in the emerging science of information technology management. Renaissance Solutions, founded in 1992, focused on the emerging niche of knowledge management. The Balanced Scorecard Collaborative, founded in 1998, helped form the new professional discipline of strategy management. A frequent lecturer and author, Dr. Norton is best known for his work with the Balanced Scorecard, which has been the subject of many conferences and articles. He is the co-author, with Robert S. Kaplan, of eight Harvard Business Review (HBR) articles and five books: The Balanced Scorecard (1996), The Strategy Focused Organization (2000), Strategy Maps (2004), Alignment (2006), and The Execution Premium (2008). His books have sold more than one million copies in 23 different languages. The Balanced Scorecard concept was selected by the editors of the Harvard Business Review as one of the most influential management ideas of the past 75 years. Dr. Norton was voted on as one of the world's 12 most influential management thinkers by Sun Top Media's "Thinkers 50" for 2007. Drs. Norton and Kaplan were recently honored with the "Champion of Workplace Learning and Performance Award (2008)" by ASTD (The American Society for Training and Development). Dr. Norton earned a BS in electrical engineering from Worcester Polytechnic Institute, an MS in operations research from the Florida Institute of Technology, an MBA from Florida State University, and his doctorate in business administration from Harvard Business School.

About Palladium

Palladium Group is the global leader in helping organizations execute their strategies. Our expertise in strategy, performance management, and business intelligence helps our clients achieve an execution premium. Our services include consulting, technology, conferences, communities, and certification. The Palladium Balanced Scorecard Hall of Fame for Executing Strategy® recognizes organizations that have achieved an outstanding execution premium.

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