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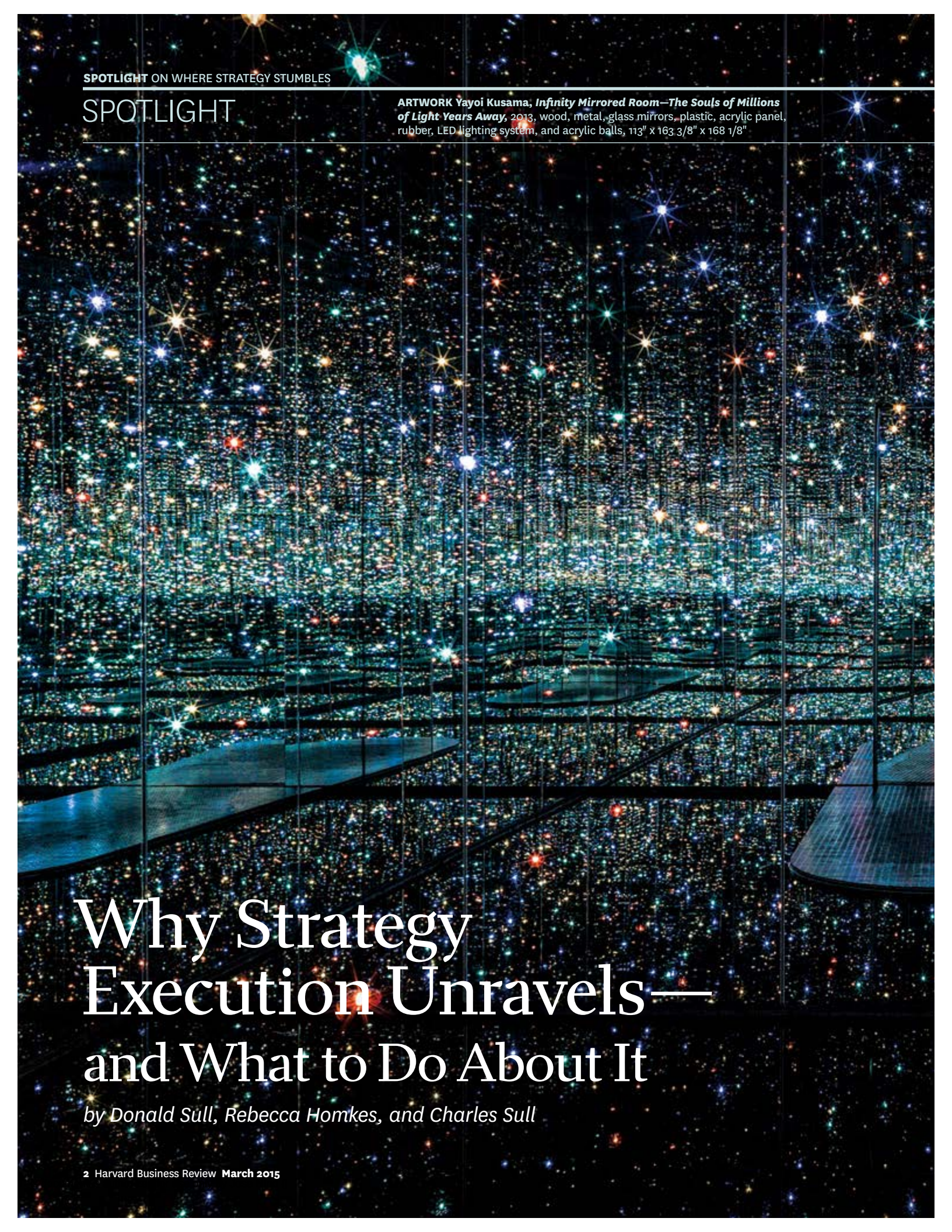


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SPOTLIGHT ON WHERE STRATEGY STUMBLES

Why Strategy Execution Unravels— and What to Do About It

by Donald Sull, Rebecca Homkes, and Charles Sull



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SPOTLIGHT

ARTWORK Yayoi Kusama, *Infinity Mirrored Room—The Souls of Millions of Light Years Away*, 2013, wood, metal, glass mirrors, plastic, acrylic panel, rubber, LED lighting system, and acrylic balls, 113" x 163 3/8" x 168 1/8"

Why Strategy Execution Unravels—and What to Do About It

by Donald Sull, Rebecca Homkes, and Charles Sull



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Since Michael Porter's seminal work in the 1980s we have had a clear and widely accepted definition of what strategy is—but we know a lot less about translating a strategy into results. Books and articles on strategy outnumber those on execution by an order of magnitude. And what little has been written on execution tends to focus on tactics or generalize from a single case. So what do we know about strategy execution?

We know that it matters. A recent survey of more than 400 global CEOs found that executional excellence was the number one challenge facing corporate leaders in Asia, Europe, and the United States, heading a list of some 80 issues, including innovation, geopolitical instability, and top-line growth. We also know that execution is difficult. Studies have found that two-thirds to three-quarters of large organizations struggle to implement their strategies.

Nine years ago one of us (Don) began a large-scale project to understand how complex organizations can execute their strategies more effectively. The research includes more than 40 experiments in which we made changes in companies and measured the impact on execution, along with a survey

administered to nearly 8,000 managers in more than 250 companies (see the sidebar “About the Research”). The study is ongoing but has already produced valuable insights. The most important one is this: Several widely held beliefs about how to implement strategy are just plain wrong. In this article we debunk five of the most pernicious myths and replace them with a more accurate perspective that will help managers effectively execute strategy.

MYTH 1

Execution Equals Alignment

Over the past few years we have asked managers from hundreds of companies, before they take our survey, to describe how strategy is executed in their firms. Their accounts paint a remarkably consistent picture. The steps typically consist of translating strategy into objectives, cascading those objectives down the hierarchy, measuring progress, and rewarding performance. When asked how they would improve execution, the executives cite tools, such as management by objectives and the balanced scorecard, that are designed to increase alignment between activities and strategy up and down the chain of command. In the managers' minds, execution equals alignment, so a failure to execute implies a breakdown in the processes to link strategy to action at every level in the organization.

Despite such perceptions, it turns out that in the vast majority of companies we have studied, those processes are sound. Research on strategic alignment began in the 1950s with Peter Drucker's work on management by objectives, and by now we know a lot about achieving alignment. Our research shows that best practices are well established in today's companies. More than 80% of managers say that their goals are limited in number, specific, and measurable and that they have the funds needed to achieve them. If most companies are doing everything right in terms of alignment, why are they struggling to execute their strategies?

To find out, we ask survey respondents how frequently they can count on others to deliver on promises—a reliable measure of whether things in an organization get done (see “Promise-Based Management: The Essence of Execution,” by Donald N. Sull and Charles Spinosa, HBR, April 2007). Fully 84% of managers say they can rely on their boss and their direct reports all or most of the time—a finding that would make Drucker proud but sheds little light on why

Idea in Brief**THE PROBLEM**

We have thousands of guides about developing a strategy but very few about how to actually execute one. And the difficulty of achieving executional excellence is a major obstacle at most companies.

THE RESEARCH

Executives attribute poor execution to a lack of alignment and a weak performance culture. It turns out, though, that in most businesses activities line up well with strategic goals, and the people who meet their numbers are consistently rewarded.

THE RECOMMENDATIONS

To execute their strategies, companies must foster coordination across units and build the agility to adapt to changing market conditions.

execution fails. When we ask about commitments across functions and business units, the answer becomes clear. Only 9% of managers say they can rely on colleagues in other functions and units all the time, and just half say they can rely on them most of the time. Commitments from these colleagues are typically not much more reliable than promises made by external partners, such as distributors and suppliers.

When managers cannot rely on colleagues in other functions and units, they compensate with a host of dysfunctional behaviors that undermine execution: They duplicate effort, let promises to customers slip, delay their deliverables, or pass up attractive opportunities. The failure to coordinate also leads to conflicts between functions and units, and these are handled badly two times out of three—resolved after a significant delay (38% of the time), resolved quickly but poorly (14%), or simply left to fester (12%).

Even though, as we've seen, managers typically equate execution with alignment, they do recognize the importance of coordination when questioned about it directly. When asked to identify the single greatest challenge to executing their company's strategy, 30% cite failure to coordinate across units, making that a close second to failure to align (40%). Managers also say they are three times more likely to miss performance commitments because of insufficient support from other units than because of their own teams' failure to deliver.

Whereas companies have effective processes for cascading goals downward in the organization, their systems for managing horizontal performance commitments lack teeth. More than 80% of the companies we have studied have at least one formal system for managing commitments across silos, including cross-functional committees, service-level

agreements, and centralized project-management offices—but only 20% of managers believe that these systems work well all or most of the time. More than half want more structure in the processes to coordinate activities across units—twice the number who want more structure in the management-by-objectives system.

MYTH 2**Execution Means Sticking to the Plan**

When crafting strategy, many executives create detailed road maps that specify who should do what, by when, and with what resources. The strategic-planning process has received more than its share of criticism, but, along with the budgeting process, it remains the backbone of execution in many organizations. Bain & Company, which regularly surveys large corporations around the world about their use of management tools, finds that strategic planning consistently heads the list. After investing enormous amounts of time and energy formulating a plan and its associated budget, executives view deviations as a lack of discipline that undercuts execution.

Unfortunately, no Gantt chart survives contact with reality. No plan can anticipate every event that might help or hinder a company trying to achieve its strategic objectives. Managers and employees at every level need to adapt to facts on the ground, surmount unexpected obstacles, and take advantage of fleeting opportunities. Strategy execution, as we define the term, consists of seizing opportunities that support the strategy while coordinating with other parts of the organization on an ongoing basis. When managers come up with creative solutions to unforeseen problems or run with unexpected opportunities, they are not undermining systematic implementation; they are demonstrating execution at its best.

Where Execution Breaks Down

Over the past five years the authors have surveyed nearly 8,000 managers in more than 250 companies about strategy execution. The responses paint a remarkably consistent picture.

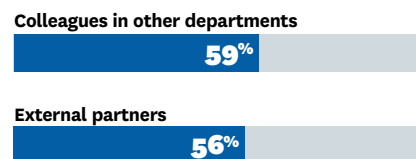
We can rely on people in the chain of command, suggesting that alignment up and down the hierarchy is not a problem.

Share of managers who say they can rely all or most of the time on:



But coordination is a problem: People in other units are not much more reliable than external partners are.

Share who say they can rely all or most of the time on:



Such real-time adjustments require firms to be agile. Yet a lack of agility is a major obstacle to effective execution among the companies we have studied. When asked to name the greatest challenge their companies will face in executing strategy over the next few years, nearly one-third of managers cite difficulties adapting to changing market circumstances. It's not that companies fail to adapt at all: Only one manager in 10 saw that as the problem. But most organizations either react so slowly that they can't seize fleeting opportunities or mitigate emerging threats (29%), or react quickly but lose sight of company strategy (24%). Just as managers want more structure in the processes to support coordination, they crave more structure in the processes used to adapt to changing circumstances.

A seemingly easy solution would be to do a better job of resource allocation. Although resource allocation is unquestionably critical to execution, the term itself is misleading. In volatile markets, the allotment of funds, people, and managerial attention is not a onetime decision; it requires ongoing adjustment. According to a study by McKinsey, firms that actively *reallocated* capital expenditures across business units achieved an average shareholder return 30% higher than the average return of companies that were slow to shift funds.

Instead of focusing on resource allocation, with its connotation of one-off choices, managers should concentrate on the fluid reallocation of funds, people, and attention. We have noticed a pattern

among the companies in our sample: Resources are often trapped in unproductive uses. Fewer than one-third of managers believe that their organizations reallocate funds to the right places quickly enough to be effective. The reallocation of people is even worse. Only 20% of managers say their organizations do a good job of shifting people across units to support strategic priorities. The rest report that their companies rarely shift people across units (47%) or else make shifts in ways that disrupt other units (33%).

Companies also struggle to disinvest. Eight in 10 managers say their companies fail to exit declining businesses or to kill unsuccessful initiatives quickly enough. Failure to exit undermines execution in an obvious way, by wasting resources that could be redeployed. Slow exits impede execution in more insidious ways as well: Top executives devote a disproportionate amount of time and attention to businesses with limited upside and send in talented managers who often burn themselves out trying to save businesses that should have been shut down or sold years earlier. The longer top executives drag their feet, the more likely they are to lose the confidence of their middle managers, whose ongoing support is critical for execution.

A word of warning: Managers should not invoke agility as an excuse to chase every opportunity that crosses their path. Many companies in our sample lack strategic discipline when deciding which new opportunities to pursue. Half the middle managers we have surveyed believe that they could secure

It's pretty dire when half the C-suite cannot connect the dots between strategic priorities.

We don't adapt quickly enough to changing market conditions.

Share who say their organizations effectively:

Shift funds across units to support strategy

30%

Shift people across units to support strategy

20%

Exit declining businesses/unsuccessful initiatives

22%

And we invest in too many nonstrategic projects.

Share who say:

They could secure resources to pursue attractive opportunities outside their strategic objectives

51%

All their company's strategic priorities have the resources they need for success

11%

significant resources to pursue attractive opportunities that fall *outside* their strategic objectives. This may sound like good news for any individual manager, but it spells trouble for a company as a whole, leading to the pursuit of more initiatives than resources can support. Only 11% of the managers we have surveyed believe that all their company's strategic priorities have the financial and human resources needed for success. That's a shocking statistic: It means that nine managers in 10 expect some of their organizations' major initiatives to fail for lack of resources. Unless managers screen opportunities against company strategy, they will waste time and effort on peripheral initiatives and deprive the most promising ones of the resources they need to win big. Agility is critical to execution, but it must fit within strategic boundaries. In other words, agility must be balanced with alignment.

MYTH 3

Communication Equals Understanding

Many executives believe that relentlessly communicating strategy is a key to success. The CEO of one London-based professional services firm met with her management team the first week of every month and began each meeting by reciting the firm's strategy and its key priorities for the year. She was delighted when an employee engagement survey (not ours) revealed that 84% of all staff members agreed with the statement "I am clear on our organization's top priorities." Her efforts seemed to be paying off.

Then her management team took our survey, which asks members to describe the firm's strategy in their own words and to list the top five strategic priorities. Fewer than one-third could name even two. The CEO was dismayed—after all, she discussed those objectives in every management meeting. Unfortunately, she is not alone. Only 55% of the

middle managers we have surveyed can name even one of their company's top five priorities. In other words, when the leaders charged with explaining strategy to the troops are given five chances to list their company's strategic objectives, nearly half fail to get even one right.

Not only are strategic objectives poorly understood, but they often seem unrelated to one another and disconnected from the overall strategy. Just over half of all top team members say they have a clear sense of how major priorities and initiatives fit together. It's pretty dire when half the C-suite cannot connect the dots between strategic priorities, but matters are even worse elsewhere. Fewer than one-third of senior executives' direct reports clearly understand the connections between corporate priorities, and the share plummets to 16% for frontline supervisors and team leaders.

Senior executives are often shocked to see how poorly their company's strategy is understood throughout the organization. In their view, they invest huge amounts of time communicating strategy, in an unending stream of e-mails, management meetings, and town hall discussions. But the amount of communication is not the issue: Nearly 90% of middle managers believe that top leaders communicate the strategy frequently enough. How can so much communication yield so little understanding?

Part of the problem is that executives measure communication in terms of inputs (the number of e-mails sent or town halls hosted) rather than by the only metric that actually counts—how well key leaders understand what's communicated. A related problem occurs when executives dilute their core messages with peripheral considerations. The executives at one tech company, for example, went to great pains to present their company's strategy and objectives at the annual executive off-site. But they

Past performance is two or three times more likely than a track record of collaboration to be rewarded with a promotion.

also introduced 11 corporate priorities (which were different from the strategic objectives), a list of core competencies (including one with nine templates), a set of corporate values, and a dictionary of 21 new strategic terms to be mastered. Not surprisingly, the assembled managers were baffled about what mattered most. When asked about obstacles to understanding the strategy, middle managers are four times more likely to cite a large number of corporate priorities and strategic initiatives than to mention a lack of clarity in communication. Top executives add to the confusion when they change their messages frequently—a problem flagged by nearly one-quarter of middle managers.

MYTH 4

A Performance Culture Drives Execution

When their companies fail to translate strategy into results, many executives point to a weak performance culture as the root cause. The data tells a different story. It's true that in most companies, the official culture—the core values posted on the company website, say—does not support execution. However, a company's true values reveal themselves when managers make hard choices—and here we have found that a focus on performance *does* shape behavior on a day-to-day basis.

Few choices are tougher than personnel decisions. When we ask about factors that influence who gets hired, praised, promoted, and fired, we see that most companies do a good job of recognizing and rewarding performance. Past performance is by far the most frequently named factor in promotion decisions, cited by two-thirds of all managers. Although harder to assess when bringing in new employees, it ranks among the top three influences on who gets hired. One-third of managers believe that performance is also recognized all or most of the time with nonfinancial rewards, such as private praise, public acknowledgment, and access to training

opportunities. To be sure, there is room for improvement, particularly when it comes to dealing with underperformers: A majority of the companies we have studied delay action (33%), address underperformance inconsistently (34%), or tolerate poor performance (11%). Overall, though, the companies in our sample have robust performance cultures—and yet they struggle to execute strategy. Why?

The answer is that a culture that supports execution must recognize and reward other things as well, such as agility, teamwork, and ambition. Many companies fall short in this respect. When making hiring or promotion decisions, for example, they place much less value on a manager's ability to adapt to changing circumstances—an indication of the agility needed to execute strategy—than on whether she has hit her numbers in the past. Agility requires a willingness to experiment, and many managers avoid experimentation because they fear the consequences of failure. Half the managers we have surveyed believe that their careers would suffer if they pursued but failed at novel opportunities or innovations. Trying new things inevitably entails setbacks, and honestly discussing the challenges involved increases the odds of long-term success. But corporate cultures rarely support the candid discussions necessary for agility. Fewer than one-third of managers say they can have open and honest discussions about the most difficult issues, while one-third say that many important issues are considered taboo.

An excessive emphasis on performance can impair execution in another subtle but important way. If managers believe that hitting their numbers trumps all else, they tend to make conservative performance commitments. When asked what advice they would give to a new colleague, two-thirds say they would recommend making commitments that the colleague could be sure to meet; fewer than one-third would recommend stretching for ambitious goals. This tendency to play it safe may lead managers to favor surefire cost reductions over risky

About the Research

Five years ago we developed an in-depth survey that we have administered to 7,600 managers in 262 companies across 30 industries to date. We used the following principles in its design.

Focus on complex organizations in volatile markets. The companies in our sample are typically large (6,000 employees, on average, and median annual sales of \$430 million) and compete in volatile sectors: Financial services, information technology, telecommunications, and oil and gas are among the most highly represented. One-third are based in emerging markets.

Target those in the know. We ask companies to identify the leaders most critical to driving execution, and we send the survey to those named. On average, 30 managers per company respond. They represent multiple organizational layers, including top team members (13%), their direct reports (28%), other middle managers (25%), frontline supervisors and team leaders (20%), and technical and domain experts and others (14%).

Gather objective data. Whenever possible, we structure questions to elicit objective information. For example, to assess how well

executives communicate strategy, we ask respondents to list their companies' strategic priorities for the next few years; we then code the responses and test their convergence with one another and their consistency with management's stated objectives.

Engage the respondents. To prevent respondents from "checking out," we vary question formats and pose questions that managers view as important and have not been asked before. More than 95% of respondents finish the survey, spending an average of 40 minutes on it.

Link to credible research. Although the research on execution as a whole is not very advanced, some components of execution, such as goal setting, team dynamics, and resource allocation, are well understood. Whenever possible, we draw on research findings to design our questions and interpret our results.

growth, for instance, or to milk an existing business rather than experiment with a new business model.

The most pressing problem with many corporate cultures, however, is that they fail to foster the coordination that, as we've discussed, is essential to execution. Companies consistently get this wrong. When it comes to hires, promotions, and nonfinancial recognition, past performance is two or three times more likely than a track record of collaboration to be rewarded. Performance is critical, of course, but if it comes at the expense of coordination, it can undermine execution. We ask respondents what would happen to a manager in their organization who achieved his objectives but failed to collaborate with colleagues in other units. Only 20% believe the behavior would be addressed promptly; 60% believe it would be addressed inconsistently or after a delay, and 20% believe it would be tolerated.

MYTH 5 Execution Should Be Driven from the Top

In his best-selling book *Execution*, Larry Bossidy describes how, as the CEO of AlliedSignal, he personally negotiated performance objectives with managers several levels below him and monitored their progress. Accounts like this reinforce the common image of a heroic CEO perched atop the org chart, driving execution. That approach can work—for a while. AlliedSignal's stock outperformed the market under Bossidy's leadership. However, as Bossidy writes, shortly after he retired "the discipline of execution...unraveled," and the company gave up its gains relative to the S&P 500.

Top-down execution has drawbacks in addition to the risk of unraveling after the departure of a strong CEO. To understand why, it helps to remember that effective execution in large, complex organizations emerges from countless decisions and actions at all levels. Many of those involve hard trade-offs: For example, synching up with colleagues in another unit can slow down a team that's trying to seize a fleeting opportunity, and screening customer requests against strategy often means turning away lucrative business. The leaders who are closest to the situation and can respond most quickly are best positioned to make the tough calls.

Concentrating power at the top may boost performance in the short term, but it degrades an organization's capacity to execute over the long

run. Frequent and direct intervention from on high encourages middle managers to escalate conflicts rather than resolve them, and over time they lose the ability to work things out with colleagues in other units. Moreover, if top executives insist on making the important calls themselves, they diminish middle managers' decision-making skills, initiative, and ownership of results.

In large, complex organizations, execution lives and dies with a group we call "distributed leaders," which includes not only middle managers who run critical businesses and functions but also technical and domain experts who occupy key spots in the informal networks that get things done. The vast majority of these leaders try to do the right thing. Eight out of 10 in our sample say they are committed to doing their best to execute the strategy, even when they would like more clarity on what the strategy is.

Distributed leaders, not senior executives, represent “management” to most employees, partners, and customers. Their day-to-day actions, particularly how they handle difficult decisions and what behaviors they tolerate, go a long way toward supporting or undermining the corporate culture. In this regard, most distributed leaders shine. As assessed by their direct reports, more than 90% of middle managers live up to the organization’s values all or most of the time. They do an especially good

MANY EXECUTIVES TRY to solve the problem of execution by reducing it to a single dimension. They focus on tightening alignment up and down the chain of command—by improving existing processes, such as strategic planning and performance management, or adopting new tools, such as the balanced scorecard. These are useful measures, to be sure, but relying on them as the sole means of driving execution ignores the need for coordination and agility in volatile markets. If managers focus too narrowly

If managers focus too narrowly on improving alignment, they risk developing ever more refined answers to the wrong question.

job of reinforcing performance, with nearly nine in 10 consistently holding team members accountable for results.

But although execution should be driven from the middle, it needs to be guided from the top. And our data suggests that many top executive teams could provide much more support. Distributed leaders are hamstrung in their efforts to translate overall company strategy into terms meaningful for their teams or units when top executives fail to ensure that they clearly understand that strategy. And as we’ve seen, such failure is not the exception but the rule.

Conflicts inevitably arise in any organization where different units pursue their own objectives. Distributed leaders are asked to shoulder much of the burden of working across silos, and many appear to be buckling under the load. A minority of middle managers consistently anticipate and avoid problems (15%) or resolve conflicts quickly and well (26%). Most resolve issues only after a significant delay (37%), try but fail to resolve them (10%), or don’t address them at all (12%). Top executives could help by adding structured processes to facilitate coordination. In many cases they could also do a better job of modeling teamwork. One-third of distributed leaders believe that factions exist within the C-suite and that executives there focus on their own agendas rather than on what is best for the company.

on improving alignment, they risk developing ever more refined answers to the wrong question.

In the worst cases, companies slip into a dynamic we call the alignment trap. When execution stalls, managers respond by tightening the screws on alignment—tracking more performance metrics, for example, or demanding more-frequent meetings to monitor progress and recommend what to do. This kind of top-down scrutiny often deteriorates into micromanagement, which stifles the experimentation required for agility and the peer-to-peer interactions that drive coordination. Seeing execution suffer but not knowing why, managers turn once more to the tool they know best and further tighten alignment. The end result: Companies are trapped in a downward spiral in which more alignment leads to worse results.

If common beliefs about execution are incomplete at best and dangerous at worst, what should take their place? The starting point is a fundamental redefinition of execution as the ability to seize opportunities aligned with strategy while coordinating with other parts of the organization on an ongoing basis. Reframing execution in those terms can help managers pinpoint why it is stalling. Armed with a more comprehensive understanding, they can avoid pitfalls such as the alignment trap and focus on the factors that matter most for translating strategy into results. ♥