Translating strategy into effective implementation: dispelling the myths and highlighting what works

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You have heard this advice a hundred times – "effective implementation of an average strategy, beats mediocre implementation of a great strategy every time". Yet companies nonetheless often fail to operationalize their strategies in ways that improve the likelihood that they will be implemented effectively. A 1999 study (Corboy & O'Corrbui, Management Accounting) found that nearly 70 percent of strategic plans and strategies are never successfully implemented.

Arguably, many of the most commonly cited causes for implementation failure are either myths or excuses that have gained credibility from being repeated often (see Box, "Excuses for strategy failure: dispelling the myths"). By discrediting the myths, we can more clearly look at a number of approaches that greatly enhance the effectiveness of strategy implementation. These suggested practices are supported by research and the experience of a number of effective CEOs interviewed for this article.

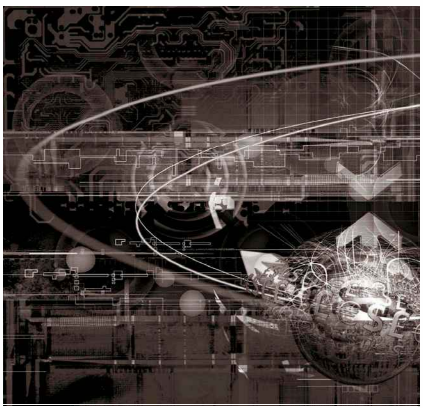
The real reasons strategies fail and how to avoid the pitfalls

The real reasons that strategies fail are varied. Fortunately, the causes can often be anticipated and the pitfalls can be avoided.

Unanticipated market changes

Strategies often fail because the market conditions they were intended to exploit change before the strategy takes hold. Product life cycles are shorter, disruptive technologies emerge with greater frequency, and financial markets can be fickle. And, many markets are experiencing rapid, discontinuous change. Larry Downes (*The Industry Standard*, 2001) makes this point persuasively based on his research into strategy execution mistakes. Specifically, Downes finds that "technology challenges the old rules and assumptions" and creates daunting "external obstacles to execution".

An instructive example of unanticipated market change upsetting a strategy can be found in the death of several telecommunications start-ups. Many of those telecomm start-ups failed because they were pursuing a fundamentally wrong business assumption – namely, that there would be enormous, pent-up demand for fiber optic



Excuses for strategy failure: dispelling the myths

When the conventional wisdom on why strategies fail is compared with the recent experiences of CEOs we interviewed and a review of the academic research over the past ten-plus years we concluded that many of the generally accepted maxims are at best only occasionally true and at worst are myths that are perpetuated without any factual basis.

While the following myths are instructive to some degree, none should be considered a legitimate reason for the failure of an organization to effectively implement strategy. On the contrary, they are generally handy explanations used to paper over more fundamental management failings and/or to avoid acknowledging that a chosen strategy simply failed in the marketplace.

Lack of senior management (CEO) support

The notion that strategy often fails due to a lack of senior management support gains credibility for a number of reasons:

- First, many ideas (some good, some bad) that are recommended to senior management are not integrated into an organization's strategy. But, the good ideas persist and are pursued at tactical levels or as stand-alone projects. When the orphan idea ultimately fails to attract continued funding and/or senior management enthusiasm, the myth is reinforced (i.e. ''senior management did not support the strategy''). In reality, it never was a strategy; it was an idea, buried deep in the organization.
- Second, some strategic initiatives – particularly in information technology – are embraced when initially proposed (sometimes enthusiastically). However, once the true costs of those initiatives are fully understood – in time, capital, and other resources – the support for the initiative evaporates. Larry Downes (*The Industry Standard*, May 2001) finds that ''the number one cause of death for e-business ventures inside traditional companies turns out to be the annual budget process''.
- Finally, senior management often does – and probably should – pull back from strategies for a variety of reasons (e.g. competitor response, changing market conditions, disruptive technologies, etc.). However, while the original strategy may have been announced with great fanfare, the pull back may not be communicated at all. Thus, it appears that the strategy lacks senior management support.

For these and other reasons, middle management often reaches the conclusion ''senior management did not support the strategy'' – this despite the fact that senior management was responsible for the conception, communication, and support of that vision and strategy.

Emperor's new clothes

The myth that strategies often fail because of the ''emperor's new clothes syndrome'' – based on the premise that senior management is ill-informed or self deluded – seems to have little factual basis.

The myth gains credibility because:

- Good strategies, particularly those that are timely and adventurous – ones that cause chagrin among competitors and delighted surprise among customers – are necessarily built on imperfect and incomplete information. When initial steps are taken, surprises can occur, and at times management will get blamed for ''not doing its homework''. But consider the alternative. In most companies there is a greater threat of ''analysis paralysis'' – looking for that last piece of information, leading to no decision being taken – than there is of a know nothing strategy being pursued.
- Further, the value of executive intuition in decision-making should not be de-valued. Weston Agor's landmark research (see *The Logic of Intuitive Decision Making: A Research Based Approach for Top Management*, Greenwood Press, 1986) demonstrated that executives cultivate and use intuitive skills to make major decisions – particularly when high levels of uncertainty exist or facts are limited. As a result of Agor's research, some graduate MBA programs now include a module on the application of intuition in business.

capacity driven by the growth of the Internet. Before much of that fiber could be laid and lit, however, Dense Wave Division Multiplexing (DWDM) technology enabled existing telecommunications companies to dramatically increase capacity on existing fiber optic infrastructure. Virtually overnight, market projections related to the demand for additional fiber optic cable infrastructure collapsed.

Although predictions about evolving markets are notoriously unreliable, CEOs can take a few simple steps to prepare their companies for unanticipated market change:

- Take the time to identify what market conditions have the greatest influence on your strategy. By understanding what factors have greatest impact on your strategy's success, you can respond more quickly if they change. For instance, window and door demand at Pella is strongly influenced by housing starts – by closely monitoring permitting and housing starts, Pella can better position itself for demand surges and slack.
- Recognize what you do not know – in the words of Donald Rumsfeld, identify ''the known unknowns''. You can monitor those factors and even prepare contingencies for different scenarios related to the ''known unknowns''. The origins of scenario based planning were in part driven by Royal Dutch Shell's need to understand alternative futures driven by the ''known unknown'' of the future price of oil.
- Most importantly, be prepared to change your strategy or your supporting implementation tactics as the external environment changes and your company is impacted by ''unknown unknowns''. As an example, it will be interesting to watch what strategic changes ''Big Three'' auto manufacturers make to wide spread introduction of hybrid technology by Toyota and Honda (and by implication, Lexus and Acura) in their SUVs.

While an unanticipated market change can upset a strategy, the failure to recognize and react is what significantly erodes business performance, not the change itself.

Effective competitor responses to strategy

Fundamentally, strategy is about out-performing the competition – but a strategy can be foiled by a highly effective response by a key competitor. For instance, Kmart's cost cutting and price reduction strategy was quickly foiled by competitive responses by Wal-Mart. In fact, Wal-Mart was already the low cost retailer in the discount segment, so Kmart could have anticipated a swift and effective response from at least one competitor and possibly others.

Ultimately, to effectively anticipate competitors' reactions to a strategy, a company needs a solid competitive intelligence capability. This does not require one to conduct corporate espionage to access competitive secrets. Rather, it requires that companies understand competitors' market positions, their relative competitive advantages and disadvantages, their historical behavior *vis-à-vis* competitive strategy, and the general disposition of their respective management teams. The Society of Competitive Intelligence Professionals (SCIP) provides a wide range of training and publications specifically designed to improve companies' capabilities *vis-à-vis* competitive intelligence.

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Application of insufficient resources

Frankly, some strategies fail because not enough resources were allocated to successfully implement them. Lack of resources is generally a bigger threat to capital-intensive strategies. For instance, prior to DWDM dramatically eroding their underlying market assumptions, several telecommunications companies' simply ran out of capital before their networks could be completed and their strategy could be implemented. However, the problem can emerge just as readily in a middle market company or a service company that is simply short of people and time. Ronald Kubinski (The Conference Board, *Executive Action*, 2002) observed this failing in both ''fast-growth, new companies that feel understaffed due to growth demands'' and companies ''under heavy competitive pressure'' who felt they could not spare resources to drive strategic innovation.

It is generally a good idea to include financial evaluation of a (draft) strategic plan in the process – in part to ensure the strategy does not inadvertently destroy shareholder value and in part to ensure that sufficient resources (especially capital dollars) will be available to achieve implement. The process can be relatively simple – crafting a base case financial model and layering the impact of strategies on top of that base case. Alternatively, the process can be highly sophisticated, including an analysis of alternative funding sources, the impact of merger synergies on financial performance, and other considerations. Regardless of the degree of modeling sophistication employed, CEO's can expect to make smarter strategic choices up-front and to deploy limited resources more effectively as a result.

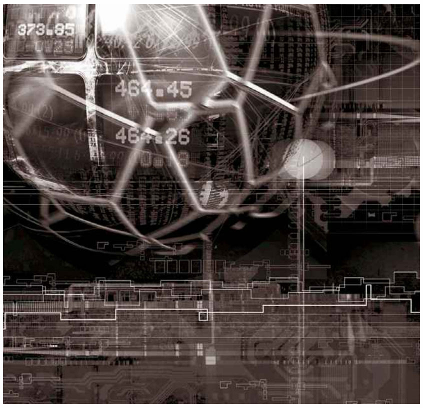
Steve Smith, Chairman and CEO of Journal Communications (JCI) – the oldest employee owned company in the US – has adopted a specific approach to deal with this pitfall. JCI companies (which include newspapers, radio and television, telecommunications and printing) develop and/or update their strategies in the spring, do capital planning (driven by the strategy) in summer, and craft profit plans (i.e. budgets) in the fall. In addition, Mr. Smith points out, ''we have a section in the profit plan called 'links to strategy' where companies' financial plans and measures are linked directly to their strategy''.

Failures of buy-in, understanding, and/or communication

Some strategies fail because there is insufficient buy-in to or understanding of the strategy among those who need to implement it. A great deal of academic research has been devoted to studying the impact of employee buy-in and understanding of strategy. W.D. Giles (*Long Range Planning*, 1991) demonstrated that strategy implementation fails when ''implementers do not own the strategy''. More recently, Guffey and Nienhaus (*SAM Advanced Management Journal*, 2002) found a strong link between organizational commitment (e.g. strong belief in the organization's goals and values, willingness to exert effort on behalf of the organization, and strong desire to maintain membership in the organization) and employees' support of the organization's strategic plan.

Several CEOs interviewed believe that the surest way to ensure someone understands a strategy is to involve him or her in its creation. Jim Ethier, President of Bush Brothers – a private company with over 50 percent market share in the prepared bean market (*Bush's Best Baked Beans* among other products) – notes, ''It is hard to execute that which you don't understand. There is a big difference between reading a plan and being directly involved in developing it''.

Effective communication of the strategy and its underlying rationale are also critically important – particularly when reaching out beyond the group directly involved in the



development of the strategic plan. Emmett Boyle, Chairman and CEO of Ormet Aluminum (the third largest integrated aluminum company in the US, with nearly 3,000 employees) underscored the need to ''have the support of customers, suppliers, employees, unions, and communities to attain our goals. We learned that we need to work hard to communicate our (underlying) rationale if we wish to put in place our vision and new directions''.

Ultimately, buy-in leads to consistent execution. As Jim Collins points out in *Good to Great*, ''if you begin with 'who', rather than 'what', you can more easily adapt to a changing world''. And, good strategic management is a function of people actively considering the strategy as they make day-to-day decisions about the business – i.e. adapting continually to a changing world.

Timeliness and distinctiveness

Some strategies fail because someone beats the company to market with a similar idea or strategy. Similarly, some strategies fail because they leave the company undistinguished in the market (i.e. others are pursuing the same strategy and/or market position). For instance, how many PetStuff.com's did we really need? Likewise, Sears has gotten into real trouble because it is not distinct in any meaningful way – other retailers stock more appliances and sell them cheaper, others offer the same or better fashions, others offer tools and building supplies in a more focused environment – so why should someone shop at Sears? To get all those things under one roof? Does anyone actually experience synergy in that combination?

Fundamentally, good strategy should distinguish the company from others in ways that make a difference to customers. Michael Porter (''What is Strategy'', *Harvard Business Review*, 1996) has written extensively and persuasively on this topic. We would encourage CEOs to take three simple steps in developing a distinctive strategy – understand the company's genuine strengths (particularly those that span multiple functions), examine the marketplace to understand what market positions are (or may be) unoccupied, focus the company's strategies on bringing its verifiable strengths to bear in capturing those unoccupied strategic positions.

Lack of focus

A corollary to the need for timeliness and distinctiveness is the need for strategic focus. Some companies try to be all things to all people. As a result, they lack distinctiveness (see the Sears example above), but importantly, they also lack focus. As a result, resources are dissipated and priorities are never clearly articulated. With little sense of prioritization, employees are a bit like carnival plate spinners – always frantically working to keep things from collapsing, but never really making progress.

Rich Meeusen, CEO of Badger Meter (a world leader in flow measurement and control), was quick to underscore the importance of developing strategic focus. He makes two key points with regard maintaining focus. First, he encourages a degree of simplicity in defining strategy – ''describe the strategy on one page so it is easy to communicate. Once you get people focused, they are better able to execute''. Equally important in developing strategic focus is to prioritize. At Badger Meter, ''seven projects became top priorities out of the 100 or so projects that were in progress. Everyone knows what the top projects are and are able to focus. No one misses a deadline on a top priority project because they were working on something else''.

Doug Ray, Publisher of the *Daily Herald* in Arlington Heights, IL (one of the largest daily newspapers in the US), made a similar point regarding maintaining focus. ''The real challenge in strategy implementation is that from time-to-time people can lose focus as the work-a-day pressures take over. You have to reinforce that the strategy isn't something you do in addition to your work – it is your work''.

Bad strategy – poorly conceived business models

Sometimes strategies fail because they are simply ill conceived. Returning once more to the telecommunications start-ups – some of their business models were flawed because of a misunderstanding of how demand would be met in the market. That is, their strategies did not include some means of connecting customers at the local level (i.e. through the assets of incumbent local exchange carriers).

Other highly visible examples of truly bad strategy include:

- Replacing Coca-Cola with New Coke after testing it on new customers but not on long time loyalists.
- Rolling up long distance networks at premium prices (Worldcom) when the competition was ready to cut prices.
- Putting the technology executives of AOL in charge of Time Warner's media assets.
- E-commerce companies that tried to build mass markets for niche offerings by paying customers to buy.

Checklist for successful implementation

Our experience and the experiences of CEOs interviewed for this column have highlighted a number of approaches that can greatly enhance the effectiveness of strategy implementation – as well as improving the likelihood of success of the underlying strategy. What follows is a simple checklist based on the proven experiences of CEOs and the findings of academic researchers.

Align organizational design and capabilities with the strategy

A critical step – often overlooked – is ensuring that organizational capabilities align with the strategy. A basic assessment of organizational capabilities and the capability gaps created by a change in strategy is a very direct means of improving alignment. Eric Beaudan, Director of Organization Effectiveness at the Bank of Montreal, makes the point well, ''have the presence of mind to recognize which core competencies exist or are lacking in the organization . . . Unrecognized incompetence can lay waste to the best of plans'' (''Failure of Strategy'', *Ivey Business Journal*, 2001).

Consider potential competitor reactions to the strategy

Your strategy development process should directly consider potential competitor reactions to a strategy and how your company will respond in turn. Likewise, your company should maintain a basic competitive intelligence capability as a matter of day-to-day strategic management.

Involve managers in the strategy development process

Involving people directly in the strategy development process has paid off for a number of the CEOs we interviewed. Keith Spore, Publisher of the *Milwaukee Journal Sentinel*, was among the strongest advocates of involving a cross-section of

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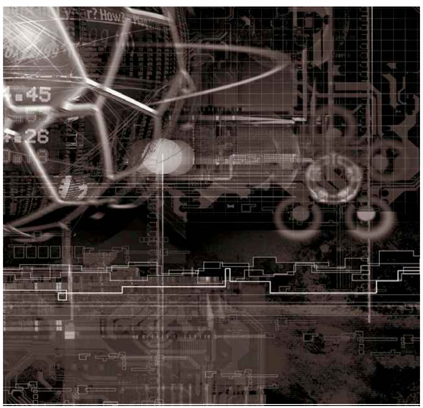
management in the process. ''Getting people involved in the creation of the plan is the best thing we have done – they buy-in and feel responsible for it. Not everything you decide to do is popular, but by involving (a large group) people have a chance to air their differences about strategy and the whole team can discover what has merit and what does not''.

Consistent and persistent communication

Because so many strategies fail for a lack of buy-in, understanding, or poor communication, ensure that resources are dedicated to continuing, persistent communication. Talk about how recent events relate to the strategy. Relate business results (good and bad) back to the strategy. Be candid about what is working and what is not – and tell people what you are doing to fix it. Jim Ditter, President of Norlight Telecommunications, invites one or two implementation teams each week to leadership team meetings to provide an update on progress. One key benefit is that ''people always have a sense of what is going on. They can get the word back to rest of the organization through the functional groups. As a result, no one thinks he or she is the only one working on strategy implementation''.

Action planning and budgeting

Action planning and budgeting are among the oldest management tools and yet they remain effective for ensuring that implementation occurs and that tactics align with strategy. Plan the initiatives you will undertake and budget for implementation and capability development. As Steve Smith of Journal Communications noted, ''every operating company's profit plan (i.e. budget) includes discussion of how the budget and related action plans tie back to the strategy''.



Monitoring and accountability

Effective implementation requires continual monitoring – of progress in implementing the plan, of the competitive environment, of customers' satisfaction, and of the financial returns generated by the strategy. And, monitoring is meaningless if it is not accompanied by accountability – and change when change is warranted.

The Institute of Management Accounting recently surveyed its members to determine how well performance measures advance strategy and execution (www.imanet.org). Over half of the respondents believe their performance measures are ''poor or less than adequate in communicating strategy to employees''. Only companies using a Balanced Scorecard approach rated their systems effective in supporting and communicating strategy.

Jim Ditter of Norlight Telecommunications also underscored the importance of holding individuals and teams accountable for implementation. ''We do ratings on implementation progress (1-9 system) and also explore what is working and what is not working on a continuing basis. It helps to keep implementation on track and enables us to adjust quickly to challenges and obstacles''. Jim Ethier of Bush Brothers adds, ''If enough people are engaged in implementation and you are monitoring and discussing it all the time, people are embarrassed not to be engaged in implementation''.

Symbolic actions

Often, symbolic actions are the most powerful means of spurring and reinforcing strategy implementation. Symbolic actions can take many forms including ceremonies, physical settings, effective use of language, the stories that are told and retold, and leadership from the top. We have seen a wide range of creative symbolic actions that underscored how serious management was about the strategy. For instance, when the then Big Five consulting firms adopted ''hotelling'' for their staff consultants (assigning only temporary space to individuals when they were in the office), they not only saved overhead dollars – they sent a clear message that staff consultants were suppose to be at client's sites, not in the office.

Alignment of information resources with the strategy

Finally, aligning information technology with strategy is a critical process. This includes applications of information technology as varied as enterprise systems, customer relationship management, Web-based technologies, and manufacturing technologies. Aligning information technology is a double-edged sword – companies often cannot execute strategies in the new millennium without technology and they should not implement new technology without a strategy behind it. Tim Felt, CEO of Explorer Pipeline Company (a large refined products pipeline running from the Gulf Coast to Chicago) noted, ''Our number one priority is system integrity (keeping the product in the pipe and operating at the highest safety levels). As we expand, effective information systems are an important element enabling us to maintain high levels of control and safety''.