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INSIGHT CENTER COLLECTION

The Gap Between Strategy and Execution

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Aligning the big picture with day-to-day

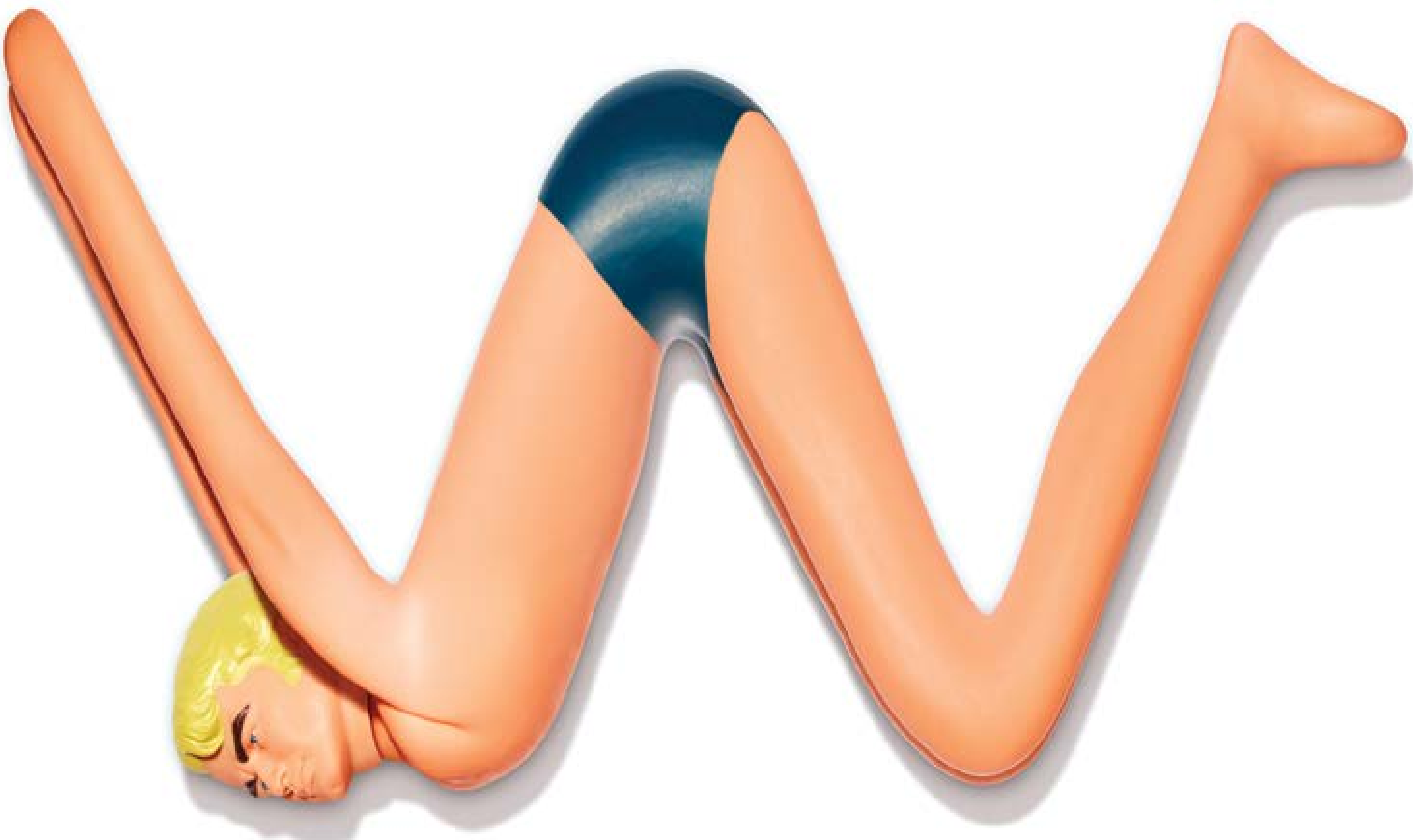
Coming up with a winning strategy is hard enough; but implementing it may be even tougher. And the advice out there is often vague or conflicting. Should you empower front-line employees? Reorganize? Delayer? Focus on culture? This Insight Center cuts through the jargon and hand-waving and gives executives clear, actionable advice on how to close the gap between strategy and execution. We explain how to tie every phase of the strategy-making process more closely to implementation, how to identify the competencies your organization really needs to win in the marketplace, and how to get your employees to spend time on the right priorities.

AUDACIOUS TARGETS ARE WIDELY MISUNDERSTOOD—AND WIDELY MISUSED.

The Stretch Goal Paradox

BY SIM B. SITKIN, C. CHET MILLER, AND KELLY E. SEE

PHOTOGRAPHY BY DAN SAELINGER



WHEN MARISSA MAYER WAS NAMED CEO OF YAHOO, IN JULY 2012, THE MEDIA COULDN'T GET ENOUGH OF HER CANDID ASSESSMENTS OF THE AILING COMPANY'S STRENGTHS AND WEAKNESSES—AND HER AMBITIOUS GOALS TO PUT THE INTERNET GIANT BACK ON TRACK. Can Marissa Mayer save Yahoo? wondered the *New Yorker,* the *Guardian*, and *Fortune*. Yahoo's annual revenues had dropped from $7.2 billion to $4.9 billion in the previous four years, employees were demoralized, and the culture was far from vibrant. In short, Yahoo had been on an extended losing streak. Mayer's answer to this checkered performance was to bullishly proclaim that her goal was to return Yahoo to the level of the Big Four—"to bring an iconic company back to greatness." She articulated the exceptionally difficult aim of achieving double-digit annual growth in five years and eight additional highly challenging targets.

By the summer of 2016, Mayer had fallen far short on six of the eight targets—and on the goal of double-digit growth. Not only had Yahoo's revenues remained flat, at around $4.9 billion, but the firm had reported a 2015 loss of $4.4 billion. In July, Verizon agreed to take over the struggling company (though the deal hadn't closed at the time of this writing). That brought an unceremonious end to Mayer's bold plans.

What executive hasn't dreamed of transforming an organization by achieving seemingly impossible goals through the sheer force of will? We're not talking about merely challenging goals. We're talking about management moon shots—goals that appear unattainable given current practices, skills, and knowledge. In the parlance of the business world, these are often referred to as stretch goals, and that's exactly what Mayer outlined when she first joined Yahoo.

Mayer is hardly alone. Stretch goals are often viewed as truly important sources of individual and organizational motivation and achievement. Google has perhaps become the modern face of stretch goals with its X unit and its clear philosophy: "More often than not, [daring] goals can tend to attract the best people and create the most exciting work environments...stretch goals are the building blocks for remarkable achievements in the long term." Numerous organizations—including 3M, Apple, Boeing, CSX, Fujifilm, Mead, and Oticon—have eagerly reported success with wildly ambitious objectives. Jim Collins and Jerry Porras's 1990s business best seller *Built to Last,* which famously preached the virtue of setting "big, hairy, audacious goals," was filled with such stories. No wonder many executives conclude that stretch goals are a great way to magically resuscitate or transform an ailing innovation strategy.

But that's not the case. Our research, which we first outlined in a 2011 award-winning *Academy of Management Review* article with Michael Lawless and Andrew Carton, has shown that stretch goals are not only widely misunderstood but widely misused. Organizations that would most benefit from them seldom employ them, and organizations for which stretch goals are probably not a good strategy often turn to them in a desperate attempt to generate breakthroughs. Neither approach is likely to be successful. This is what we call "the stretch goal paradox."

IN BRIEF

THE RESEARCH
Only a small percentage of companies that adopt ambitious stretch goals succeed in meeting them.

THE CONUNDRUM
The companies that try—and fail—are usually in trouble already. Whereas the companies that could benefit from pushing themselves—those with strong recent performance records and resources to spare—avoid stretch goals, because success has made them risk-averse.

SO WHAT IS A STRETCH GOAL, ANYWAY?

True stretch goals differ from ordinary challenging goals in two important respects:

Extreme difficulty. Stretch goals involve radical expectations that go beyond current capabilities and performance. Consider Southwest Airlines' early stretch goal of achieving a 10-minute turnaround at airport gates. A familiar task was involved, but the target was a drastic departure from the industry standard at the time, which was close to one hour.

Extreme novelty. Brand-new paths and approaches must be found to bring a stretch goal within reach. In other words, working differently, not simply working harder, is required. To get gate turnarounds down to 10 minutes, Southwest had to completely overhaul its staff's work practices and reimagine the behavior of customers. The airline did, however, famously figure out how to reach this goal.

Our research suggests that though the use of stretch goals is quite common, successful use is not. And many executives set far too many stretch goals. In the past five years, for example, Tesla failed to meet more than 20 of founder Elon Musk's ambitious projections and missed half of them by nearly a year, according to the *Wall Street Journal.* So it's perhaps not a surprise that the market reacted with skepticism when Musk declared in early 2016 that Tesla would produce half a million cars in 2018—two years ahead of the previously announced lightning-fast schedule—and would double that volume by 2020.

Many organizations have experienced noteworthy failures with stretch goals. Examples include Walmart's 2005 aim of getting 100% of its energy from renewable sources, Blue Whale Moving Company's 1991 plan to expand from one city to 100 in nine years, and Ontario Hydro's 1993 objective of increasing revenue derived through internally developed technology from $22,000 to $22 million in five years. Some organizations, like General Motors' Opel division, have even failed numerous times with stretch initiatives. The consequences of setting and then missing stretch goals can be profound. Failures can foster employee fear and helplessness, kill motivation, and ultimately damage performance.

So, before launching stretch goals in sales, production, quality, or any other realm, how can you be confident that your grand aspirations will trigger positive attitudes and actions rather than negative ones? When facing radically out-of-the-box opportunities or threats, you can't just rely on intuition. You need clear guidelines for assessing and addressing risk. You have to know when stretch goals do and do not make sense, and when to employ them rather than set more achievable objectives.

PREDICTING THE OUTCOME OF STRETCH GOAL USE

Two critical factors consistently seem to determine success at meeting stretch goals. Though they appear straightforward, often managers ignore them or don't appreciate how they'll affect a firm's abilities.

Recent performance. Is your organization coming off a win or rebounding from a loss? If a company has just surpassed an important benchmark in the industry or in its own recent history, it's *well positioned to tackle a stretch goal.* Why? Winning affects attitudes and behaviors positively. When confronting an extremely challenging task, the employees of recent winners are more likely to see an opportunity, systematically search for and process information, exhibit optimism, and demonstrate strategic flexibility. Companies experiencing weak results, however, are not well positioned. Their employees are more likely to see a stretch goal as a threat, grasp for externally sourced quick fixes, exhibit fear or defensiveness, and launch new initiatives in a chaotic and ultimately self-defeating fashion.

The effects of recent performance are often seen in sports, where exceptionally difficult contests are viewed in an entirely different light when athletes and teams have been doing well rather than poorly. In a baseball game, for instance, players who are at bat are more likely to see opportunity if their recent turns at the plate have produced hits rather than strikeouts.

The same thing happens in the corporate world. For instance, when Nypro, a world-class plastic-injection molding company, was developing the molds to manufacture the world's first disposable contact lenses in 1985, it had an upbeat outlook. Though its customer was demanding unheard-of cost points and precision levels, Nypro had just pulled off a couple of challenging projects, such as developing a revolutionary process for producing Swiftach, a price-tag attachment system now used by almost all major retailers. So the staffers felt a sense of opportunity and determination rather than worry over possible failure. They tackled the needed experiments and overall discovery process with unprecedented intensity, interacting with the customer on a level that was remarkable for the 1980s, and succeeded in meeting the customer's extraordinary requirements.

A great deal of other anecdotal evidence from sports, business, and government, as well as systematic evidence from the fields of psychology and organizational science, suggests that organizations should take bold, risky actions when they are strong rather than weak. That may sound intuitive, but our research indicates that it is not obvious to most organizations.

Slack resources. The second and even more critical factor is the availability of resources in an organization. If the supply of money, knowledge and experience, people, equipment, and so on exceeds a firm's needs, the surplus can be used in a discretionary way. It can help organizations search broadly for ideas, experiment with them, and remain committed in the face of setbacks. Well-resourced organizations are better positioned to absorb failures that come with trying a variety of new ideas—not just because they have funds to move forward but also because they have emotional reservoirs that increase their resilience. On the other hand, in organizations that are strapped, managers have a harder time conducting and sustaining experiments and may jump at Band-Aid approaches that rarely succeed and are hard to learn from.

Extra resources give organizations the freedom to try various tacks, including parallel initiatives in different groups and units. At Toyota, for example, slack resources allowed the Prius development team to rapidly execute scores of experiments after the company's executives raised the team's target for increasing fuel efficiency from 50% to 100%—and gave it just a year to develop a concept car. The team tried out 80 hybrid technologies before narrowing the list to four and then settling on a final choice.

By examining recent performance and resources, executives can assess how feasible stretch goals are for their organizations. We have developed an analytical framework to help them do this. It breaks all organizations down into four distinct categories on the basis of where they stand on these two factors. (See the exhibit "Are Stretch Goals Right for You?") Understanding which category their company falls into will give managers insight into whether they ought to try for a long shot.

WHEN STRETCH GOALS SHOULD BE AVOIDED: FAILING BUT GRASPING ORGANIZATIONS

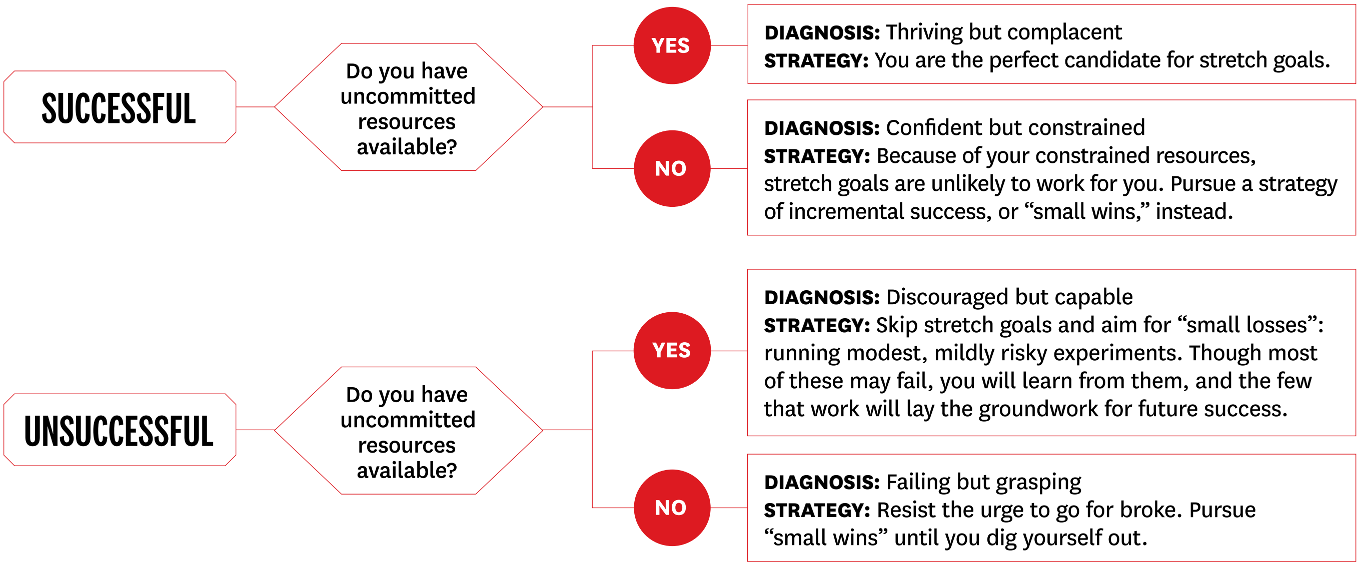
Unfortunately, the organizations most poorly positioned to succeed with the use of stretch goals—those without recent success and slack resources—are, paradoxically, the ones that are most likely to pursue them.

As Daniel Kahneman and Amos Tversky's Nobel Prize–winning research has shown, failure puts decision makers in a risk-seeking frame of mind. When choosing between bold action and playing it safe, firms that are struggling usually favor the aggressive path, as studies of railroads, radio broadcasters, and many other industries have shown. We call these organizations *failing but grasping.* With disappointing track records and resource constraints, they lack the capability, momentum, and resilience needed to pursue stretch goals.

Opel, the European carmaker, is a vivid example. Its poor financial performance since the turn of the millennium prompted one commentator to say: "The darkest cloud on GM's horizon is Opel, the biggest contributor to GM's $14.7 billion in European operating losses since 1999." In 2001 alone, Opel lost more than half a billion dollars. As it struggled with uninspiring car designs, product reliability problems, and a very competitive market, Opel's losses mounted, sowing doubt and hesitation among the staff. Meanwhile its limited resources allowed little margin for error. Even so, that year the company predictably adopted a stretch goal—a return to the black in only two years. Despite some advances, Opel did not even come close to meeting that target, and its failure just served to deepen its morale problems. For those rooted in the proud Opel tradition dating back to the 1800s, it was a very difficult period. Opel's performance continued to flounder for so long that GM briefly considered selling the division, which did not post a profit for 14 years.

ARE STRETCH GOALS RIGHT FOR YOU?

How would you describe your organization's recent performance?



When organizations pursue stretch goals as a way of overcoming recent failure ("going for broke") while ignoring their tight resource constraints, they're asking for trouble. They should resist the temptation to "fly to the sun," because their patched-together efforts are most likely doomed.

WHEN STRETCH GOALS SHOULD BE PURSUED: THRIVING BUT COMPLACENT ORGANIZATIONS

Our framework clearly suggests that organizations with strong recent performance and slack resources are in the best position to benefit from stretch goals. Yet such organizations are unlikely to reach for the seemingly impossible, because success tends to create risk aversion. If things are going really well, why undertake bold action or change? Why not stick with what has been working? Similarly, organizations with ample resources tend to become conservative because they want to preserve their gains. By promoting complacency and inertia, excess money and time can undermine an organization's ability to respond to risky but high-potential opportunities. As Alabama coach Nick Saban, one of the most successful college football coaches of all time, pointed out in an Associated Press interview: "It's basically the human condition to get satisfied with success. There's a lot of books written on how to be successful. There's not a lot of books written on how to stay successful."

Complacency has caused many firms to stumble and even die, particularly in the face of disruptive technologies and business models. Blockbuster, Digital Equipment, Kodak, Smith Corona, Wang, and Woolworth are among the many companies that were once well positioned to make leaps but instead rested on their laurels, even in the face of strong challenges from new entrants.

On rare occasions, however, successful and well-resourced organizations have recognized the need to explore dramatic changes by setting stretch goals. DaVita, which provides kidney care and manages and operates independent medical groups, exemplifies this ideal. In 2011 it was in a very strong position, with growing revenues, profits, and working capital. Among its many accolades, it had been named one of the world's most-admired companies by *Fortune* for several years running. But because 90% of its patients were in government programs that do not fully cover the cost of care, DaVita decided to radically improve the efficiency and effectiveness of an array of processes. It created a new unit, the Pioneer Team, and charged it with producing an unimaginable $60 million to $80 million in savings within four years, while improving both patient outcomes and employee satisfaction. According to team leader Rebecca Griggs, "We had no idea how to achieve such large savings in such a short time frame. In fact, we had no idea if it was even possible." But by 2015 the team's savings had reached $60 million and were projected to hit $75 million the following year. More important, patient hospitalization rates and employee satisfaction had both improved significantly.

DaVita's achievement was predicated on several key factors: With a track record of recent success, sufficient resources, and a confident, proud workforce, the organization had the cultural and financial wherewithal to handle occasional setbacks. The Pioneer Team could get unfettered access to several dozen operating units (such as clinics) for testing new ideas because those units had the capacity to absorb the disruption of experiments. As a result, the team could put frontline employees side-by-side with engineers, Six Sigma experts, and project managers and "community design" each solution. The risk of stretch goal adoption was mitigated by DaVita's capabilities and momentum.

Pursuing stretch goals at your peak actually may be the best way to stay on top—but only if the complacency of success can be overcome. One tactic for doing that is to frame the situation in terms of potential losses, emphasizing what could happen if the organization stands still while others are on the move. That works because people feel losses much more intensely than gains. Talking about potential hits to market share, jobs, and bonuses will have a much greater impact than talking about possible advances in product quality, sales, and competitive advantage, as Kahneman and Tversky's research suggests.

CEO Kenneth Frazier demonstrated an understanding of this when urging the executives at Merck to come up with radical competitor-trouncing innovations. He asked them to imagine they were Merck's rivals and brainstorm what they would do to beat Merck. This focused them on what they had to lose. Then he asked them to put their Merck hats back on and address those challenges. It worked: Complacency melted away, and the managers eagerly embraced their new stretch targets.

ALTERNATIVES TO STRETCH GOALS

What if your organization is neither flush and successful nor floundering and strapped? That means it falls into one of the two other categories in our framework: *confident but constrained* (recently successful but tight on resources) or *discouraged but capable* (recently unsuccessful but resource-rich). Are stretch goals completely off the table for such organizations? Not necessarily.

Our guidance for them—as well as for organizations in the failing but grasping category—is to take small steps rather than big, audacious leaps. Our research suggests three approaches, which can help companies lay the groundwork for effective use of stretch goals down the line.

Pursue small wins. When Charlotte Beers took over as CEO at Ogilvy & Mather, in 1992, the storied firm had fallen from its leadership perch in the advertising world. With confidence inside the firm at a low ebb and disagreements over how to proceed at a high, she decided to initially concentrate on simple goals in the areas of client security, better everyday work practices, and financial discipline. "We must activate the assets we already have," she declared as she focused on numerous incremental improvements. Beers then leveraged success with those modest goals to return the firm to its former glory. In her five years as chief executive, she helped Ogilvy regain accounts and increase billings by $2 billion.

Bear in mind that although they're very useful, small wins are not an automatic gateway to a predetermined stretch goal. By its very nature, a stretch goal requires novel approaches. Because the path to it is uncertain, organizations cannot map out a series of simple, intermediate milestones. Karl Weick, a psychologist noted for his insights into organizational behavior, put it this way: "Small wins do not combine in a neat, linear, serial form with each step being a demonstrable step closer to some predetermined goal." Bottom line: Don't overestimate your planning ability or expect an incremental success strategy to have an immediate, dramatic impact. Small wins work by building momentum, energy, and resources, and fostering learning that will allow a firm to take on bigger, more ambitious goals later.

Consciously build slack resources. Strategies for this include spinning off inefficient, resource-consuming units and pursuing a potential merger or alliance with a better-endowed partner. Floating equity or debt could be expensive, but its feasibility also should be examined.

COMPANIES LUCKY ENOUGH TO BE SURFING A WAVE OF SUCCESS WITH STOCKPILES OF CASH SHOULD TAKE A SHOT AT RISKY TARGETS, BUT THE VAST MAJORITY OF FIRMS SHOULD NOT AIM FOR THE MOON.

Another way to build slack is to focus on learning that will enhance existing resources. Because learning goals target knowledge and capability generation rather than near-term upgrades to performance, they can feel less threatening. These goals, however, can helpfully leverage untapped expertise and skills that might, in turn, result in better performance downstream.

Coca-Cola provides a good example of how small steps can eventually lead to the successful use of stretch goals. Dan Vermeer, Coca-Cola's former director of the Global Water Initiative, points to the company's 2007 goal of offsetting 100% of manufacturing water use through wastewater treatment and community partnerships within 13 years. "It had never been done before, and we had no idea if it was possible," Vermeer recalls. Thus it was a pleasant surprise when Coke achieved 115% of its target in 2015, five years early. How did it hit—and actually exceed—its goal so quickly? The effort was initially propelled by a water-related crisis in the Kerala region of India, where the company's bottling plant had come under fire. But rather than immediately announcing a PR-driven strategy to try to overcome its stumble, Coke spent three years building resources and infrastructure and testing options and learning from trial and error. Only when it had a string of incremental successes under its belt did it launch the stretch goal effort, which led to an early and dramatic success.

Pursue small losses. If you have ample resources but have not been successful of late—and fall into the discouraged but capable category—you can hunker down, hoard your money, and hope the bad times will pass. Or you might feel driven to take undue risks to prove yourself. Neither is the right path.

Instead, use your resources to experiment with new ways of doing things that turn those recent losses into steps forward. This approach has been referred to (in previous works by coauthor Sim Sitkin) as the "strategy of small losses." It entails running rapid, modest, mildly risky but informative experiments, knowing full well that many will not succeed. But the idea is that the one or two that do work will sow the seeds for longer-term gains. As Soichiro Honda, founder of Honda Motor, once explained, "Success can only be achieved through repeated failure and introspection. In fact, success represents the 1% of your work that results from the 99% that is called failure."

A strategy of small losses is not merely a culture of experimentation. It involves actively pursuing risky projects for which there is a strong possibility of failure. The value of this approach is twofold: First, what is being tried will be distinct from what is already well known, but close enough that you can easily learn from what did not work, fix it, and try again. Second, it builds resilience and confidence; organizations see that they can survive small failures and can achieve success even after encountering a few stumbles. Pursuing small losses also naturally lessens the temptation to go for the big risk.

AS WE HAVE suggested in this article, no solution is ideal for all organizations. To identify the best strategy for yours, a deeper and more nuanced understanding of when stretch goals are viable is required. They are effective only in certain circumstances. Companies lucky enough to be surfing a wave of success with stockpiles of cash should get up the courage to take a shot at risky, ambitious targets that might benefit their business and the world, rather than default to stock buybacks or plush bonuses for executives. The vast majority of companies, however, should not aim for the moon.

So why do so many companies still try to throw heroic Hail Marys? It could be that the widely circulated business success narratives have overlooked important details about the organizations involved. Take a look at IBM in the 1960s, GE in the 1980s, Toyota in the 1990s, and Apple in the 2000s, and you'll see that those companies had the qualities required to pursue stretch goals effectively: rich resources and strong performance. Their strategies cannot necessarily be applied to companies in weaker positions.

Even in the best-case scenarios, you need to keep sight of how challenging true stretch goals really are. Consider the British alcoholic beverages company Diageo, which in 2008 articulated ambitious environmental targets, including a 50% reduction in global carbon by 2015, because its executives "wanted to do something big." They were criticized when they fell short on seven of their eight main goals. Yet their 33% reduction in carbon emissions and 45% reduction in wastewater were actually significant milestones to be celebrated and, according to Diageo's global sustainability director, David Croft, would have been unlikely if the company had "set targets that are readily achieved." It is easy to forget that stretch goals are, by their very definition, extremely difficult.

Let us be clear. We support the pursuit of stretch goals, but only when they are appropriate. We are not advocating stagnation or risk aversion; to the contrary, we understand that the next Panama Canal, moon landing, and iPhone cannot be produced without bold ambitions. But attempts at such outcomes should not be ill-advised lottery bets. Savvy strategic choices are better by far.

Shoot for greatness. But greatness doesn't always come from dramatic leaps. Sometimes it comes from small, persistent steps.

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Harvard Business Review

STRATEGY EXECUTION

Execution Is a People Problem, Not a Strategy Problem

by Peter Bregman

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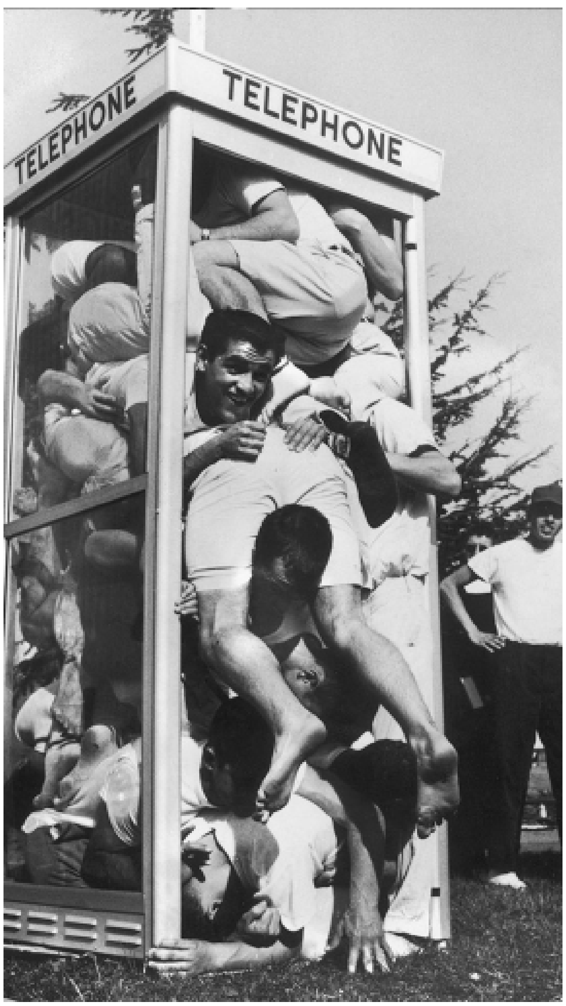


PHOTOGRAPHY BY JOE MUNROE

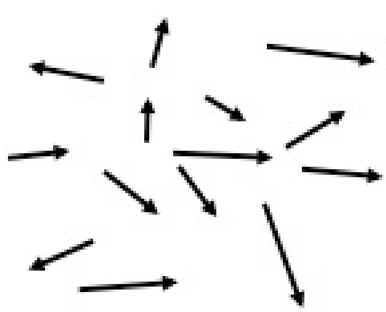
Paul,* the CEO of Maxreed, a global publishing company, was having trouble sleeping. Publishing is an industry that's changing even faster than most other fast-changing industries, but Paul wasn't awake worrying about his strategy. He had a solid plan that took advantage of new technologies, and the board and his leadership team were aligned around it. Paul and his team had already reorganized the structure — new divisions, revised roles, redesigned processes — to support their strategy.

So what was Paul worrying about? People.

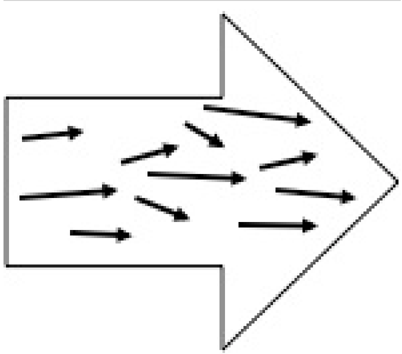
Which is precisely what he *should* be worrying about. However hard it is to devise a smart strategy, it's ten times harder to get people to execute on that strategy. And a poorly executed strategy, no matter how clever, is worthless.

In other words, your organization's biggest strategic challenge isn't strategic thinking — it's strategic acting.

If I were to depict the challenge graphically, it would be going from this:



To this:



The conundrum is how to get from the first graphic to the second one. Most organizations rely on communication plans to make that shift. Unfortunately, strategy *communication*, even if you do it daily, is not the same as — and is not enough to drive — strategy *execution*.

Because while strategy development and communication are about *knowing* something, strategy execution is about *doing* something. And the gap between what you know and what you do is often huge. Add in the necessity of having everyone acting in alignment with each other, and it gets even huger.

The reason strategy execution is often glossed over by even the most astute strategy consultants is because primarily it's not a strategy challenge. It's a human behavior one.

To deliver stellar results, people need to be hyperaligned and laser-focused on the highest-impact actions that will drive the organization's most important outcomes.

But even in well-run, stable organizations, people are misaligned, too broadly focused, and working at cross-purposes.

This isn't critical only for a changing company in a changing industry like Paul's. It's also true for fast-growing startups. And companies in turn-around situations. And those with new leadership. Any time it's critical to focus on strategy — and when isn't it? — the most important strategy question you need to answer is: How can we align everyone's efforts and help them accomplish the organization's most important work?

That's the question Paul reached out to ask me. Below is the solution we implemented with him at Maxreed. We call it The Big Arrow Process, and it represents my best thinking after 25 years of experimenting with this very challenge.

Define the Big Arrow

We worked with Paul and a small group of his leaders to identify the most important outcome for Maxreed to achieve over the following 12 months. Their Big Arrow had to do with creating a strategy and product roadmap that was supported by the entire leadership team. The hardest part of this is getting to that *one* most important thing, the thing that would be a catalyst for driving the rest of the strategy forward.

Once we defined the Big Arrow, we tested it with a series of questions. If you answer "yes" to each of these questions, it's likely that your Big Arrow is on target:

- Will success in the Big Arrow drive the mission of the larger organization?
- Is the Big Arrow supporting, and supported by, your primary business goals?
- Will achieving it make a statement to the organization about what's most important?
- Will it lead to the execution of your strategy?

- Is it the appropriate stretch?
- Are you excited about it? Do you have an emotional connection to it?

Along with that outcome clarity, we also created behavioral clarity by identifying the most important behavior that would lead to achieving the outcome. For Maxreed, the behavior was about collaborating with trust and transparency. We determined this by asking a few questions: What current behavior do we see in the organization that will make driving the Big Arrow harder and make success less likely? We then articulated the opposite, which became our Big Arrow behavior.

Identify the Highest-Impact People

Once the Big Arrow was clear, we worked with Paul and his HR partner to identify the people who were most essential to achieving the goal. Doing this is critical because you want to focus your efforts and resources on the people who will have the most impact on the Big Arrow. In the case of Maxreed, we identified 10 people whose roles were core to the project, who already had organizational authority, and who were highly networked. With other clients, we've identified many more people at all levels of the hierarchy. As you think about who might be the appropriate people, ask the questions: Who has the greatest capacity to affect the forward momentum of the arrow? Who is an influencer in the organization? Who has an outsize impact on our Big Arrow outcome or behavior? Those are the people you should choose.

Determine What They Should Focus On

Once we established the key people, we worked with each of them and their managers to determine their:

- Key contribution to moving the Big Arrow forward
- Pivotal strength that will allow them to make their key contribution
- Game changer, the thing that, if the person improves, will most improve their ability to make their key contribution

One of the things that makes this process successful is its simplicity. It's why we settled on *one* pivotal strength and *one* most critical game changer. Strategy execution needs to be laser-focused, and one of the biggest impediments to forward momentum on our most important work is trying to get forward momentum on *all* our work. Simplicity requires that we make choices. What will have the biggest impact? Then we make that one thing happen.

Hold Laser-Focused Coaching Sessions

Once we made sure the right people had the right focus, we coached in laser-focused, 30-minute one-on-one coaching sessions. Coaching is often used in organizations to fix a leader's flaws, but that is not the focus of this kind of coaching. Here, the leaders were coached to focus on making clear headway on their key contribution to the Big Arrow. These conversations only focus on larger behavioral patterns to the extent that they are getting in the way of the task at hand.

Collect and Share Data

Because we were coaching multiple people, we were able to maintain strict confidentiality with the individuals being coached while collecting data about trends and organizational obstacles they were facing, which we reported to Paul and his leadership team. This wasn't just opinion survey data; it represented the real obstacles preventing Maxreed's most valuable people from driving the company's most important priorities forward.

One of the main challenges we uncovered was a lack of cross-functional collaboration. Armed with that insight, Paul was able to address this issue directly, getting the key people in a room together and speaking openly about the issue. Eventually, he initiated a new cross-functional Big Arrow process that included leaders from the groups that weren't collaborating. Identifying what they needed to achieve together broke down the walls between the groups.

Amplify Performance

While Paul removed organizational obstacles, coaches continued to help Maxreed's most critical people address the particular obstacles and challenges they faced as they delivered their key contribution. Coaches addressed the typical challenges people struggle with when executing strategy: how to communicate priorities, how to deal with someone who is resistant, how to influence someone who doesn't report to you, how to say no to distractions, and so on. The coaching prioritized helping people build relationships on their own teams and across silos, which was supported by the data and the Big Arrow key behavior of collaborating with trust and transparency. Individuals aligned with the goals of the organization to drive continued growth and success.

While the Big Arrow process is ongoing, we sent out a survey to people being coached as well as others outside the program to assess progress being made by the key contributors. Compared to before the coaching, are they more effective or less effective at making their key contribution, achieving the outcomes of the Big Arrow, and addressing their game changer? There were 98 responses to the survey:

Key contribution: 90% said either more effective or much more effective.

Big Arrow: 88% said either more effective or much more effective.

Game Changer: 84% said either more effective or much more effective.

In other words, the key contributors were getting massive traction in moving the organization's most important work — its key strategy — forward. This data was confirmed by Paul's own observations of the progress they've made on their Big Arrow outcome, a strategy and product roadmap that is supported by the entire leadership team.

Maybe most important, the broader organization was noticing. Which, of course, is how you start a movement.

Paul is still working hard to continue the momentum of the strategic shift. That's the point, really: Strategy execution is not a moment in time. It's thousands of moments across time.

But now, at least, it's happening.

**Names and some details have been changed to protect privacy.*

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Harvard Business Review

SUSTAINABILITY

How Our Company Connected Our Strategy to Sustainability Goals

by Michael W. Lamach

OCTOBER 27, 2017

SIMONE GOLOB/GETTY IMAGES

In a recent survey, Bain & Company found that just 2% of companies are successful in achieving their sustainability goals. While this can be disheartening, it doesn't have to be this way.

The company I lead, Ingersoll Rand, is a 146-year-old organization that over the past few years integrated sustainability and business strategy to anticipate and address major global trends, most prominently climate change. Our Climate Commitment is one way we help solve the unsustainable demand for energy resources and its impact on the environment.

As a company, we understood that our legacy extends beyond just the next few years—as we lead long-term value creation and positive societal impact within our industries, we build a legacy for the next century and beyond.

However, like many of the companies surveyed by Bain, we were unsure how to connect our strategic vision around sustainability with meaningful operational changes. But I think it's fair to say that we are part of the 2% that have succeeded. What lessons can we share? We learned how to embed sustainability into our organization by empowering our people, making sustainability personal, and aggregating and recognizing results.

Rely on your people

The best opportunities for improving the environmental impact of an organization come from the people who are closest to the day-to-day mechanics, and shortcomings, of existing procedures. They are often the first to recognize and raise up areas of improvement, and it's important that leadership is ready to listen.

Too often, however, the employees who are best positioned to influence change do not understand how they can contribute or may not view sustainability as a business imperative. Leadership must ensure these team members feel empowered and understand their role in helping the company achieve its long-term sustainability goals.

Our Thermo King manufacturing facility in Galway, Ireland, for example, is one of our first zero waste to landfill facilities. The on-the-ground team played a critical role in identifying waste streams and alternative approaches to either recycle or reuse these materials. Our volunteer Galway Green Team took the site's mission a step further when they uncovered an opportunity to save water. Capitalizing on the area's abundant rainfall, the team installed a rainwater harvesting system. The captured water is reused and has resulted in upwards of 50,000 liters of water saved each month. Now, our Galway team leads the way in sharing their story, and their roadmap to zero waste, with our other facilities.

Make it personal

According to a recent Gallup survey, only 32% of U.S. employees say they are enthusiastic about, and committed to, their work, and worldwide only 13% of employees say they are engaged. Compare this to Ingersoll Rand, where our employee engagement scores rank top decile among all companies. I feel certain our public commitment to sustainability is a big driver of this engagement—92% of our people believe energy efficiency and sustainability are critical to our future business success, and we are giving them the encouragement and capabilities to help us achieve this long-term vision.

Companies with a strong sustainability program and culture attract and retain better talent who desire a sense of purpose and contribution to a greater good. To connect your team's work to the global good, consider aligning your company goals to something bigger.

In 2016, the United Nations adopted 17 goals—commonly known as the Sustainable Development Goals (SDGs)—as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Recognizing the global impact of the SDGs and the personal commitment of our employees, we moved quickly to align our already established 2020 Sustainability Goals to the SDGs to illustrate how our efforts fit within a larger context for positive change. Today we align with 11 out of the 17 SDGs, including zero hunger, gender equality, clean water, affordable and clean energy, sustainable cities and communities, and climate action. Our network of global Green Teams took this to heart and made considerable strides in 2016 by diverting 2.4 million pounds of waste from landfills and saving more than 2.2 million gallons of water.

Track, measure and recognize

Team members want to understand that meeting sustainability goals doesn't just help the company —it helps customers, communities and the world. One option is a third-party validated system that tracks all of the actions taken against sustainability goals, allowing a company to see progress at the local and global levels.

In partnership with thinkstep, we created a series of proprietary product greenhouse gas calculators to track our product-related emissions, including emissions generated from electricity. Through the web-based calculators, we are able to distribute the responsibility of data collection across our internal teams, analyze data and report results in a consistent, transparent and credible manner. Moreover, by sharing these results with external partners and customers, we're able to provide further insight into the efficiency of our products which can help inform them as they set goals of their own.

While tracking metrics to show local and global improvement is an important element, don't forget to recognize the employees who make success possible. Whether through enterprise-wide recognition or team-based awards programs, taking time to appreciate the dedication of your teammates will go a long way in continued engagement and commitment to the company and its purpose.

Move to action

While relying on your people, making your goals personal, and measuring and recognizing progress are crucial to success, you should first do one thing: be bold. Jumpstarting a sustainability journey with a series of aggressive targets will give employees a point of pride to rally behind. Some goals can look far into the future and may not have a definitive roadmap, but your people's excitement, creativity and innovation will shape your path to success. It was by thinking bigger and acting bolder that we developed and launched our Global Climate Commitment in 2014. Since the launch, our employees have united around the commitment and stretched themselves to help us meet and exceed our goals.

There is hope in succeeding on our sustainability journey—and it's more important than ever. With bold strategy in place, you can move quickly to engage employees, make it real and begin to track, measure and recognize success. And together, we can grow the number of companies who succeed on this journey, and contribute to a better world.

Michael W. Lamach is chairman and chief executive officer of Ingersoll Rand.

Harvard Business Review

STRATEGY

How AI Will Change Strategy: A Thought Experiment

by Ajay Agrawal, Joshua Gans and Avi Goldfarb

OCTOBER 03, 2017

How will AI change strategy? That's the single most common question the three of us are asked from corporate executives, and it's not trivial to answer. AI is fundamentally a prediction technology. As advances in AI make prediction cheaper, economic theory dictates that we'll use prediction more frequently and widely, and the value of complements to prediction – like human judgment – will rise. But what does all this mean for strategy?

Here's a thought experiment we've been using to answer that question. Most people are familiar with shopping at Amazon. Like with most online retailers, you visit their website, shop for items, place them in your "basket," pay for them, and then Amazon ships them to you. Right now, Amazon's business model is shopping-then-shipping.

Most shoppers have noticed Amazon's recommendation engine while they shop — it offers suggestions of items that their AI predicts you will want to buy. At present, Amazon's AI does a reasonable job, considering the millions of items on offer. However, they are far from perfect. In our case, the AI accurately predicts what we want to buy about 5% of the time. In other words, we actually purchase about one out of every 20 items it recommends. Not bad!

Now for the thought experiment. Imagine the Amazon AI collects more information about us: in addition to our searching and purchasing behavior on their website, it also collects other data it finds online, including social media, as well as offline, such as our shopping behavior at Whole Foods. It knows not only what we buy, but also what time we go to the store, which location we shop at, how we pay, and more.

Now, imagine the AI uses that data to improve its predictions. We think of this sort of improvement as akin to turning up the volume knob on a speaker dial. But rather than volume, you're turning up the AI's prediction accuracy. What happens to Amazon's strategy as their data scientists, engineers, and machine learning experts work tirelessly to dial up the accuracy on the prediction machine?

At some point, as they turn the knob, the AI's prediction accuracy crosses a threshold, such that it becomes in Amazon's interest to change its business model. The prediction becomes sufficiently accurate that it becomes more profitable for Amazon to ship you the goods that it predicts you will want rather than wait for you to order them. Every week, Amazon ships you boxes of items it predicts you will want, and then you shop in the comfort and convenience of your own home by choosing the items you wish to keep from the boxes they delivered.

This approach offers two benefits to Amazon. First, the convenience of predictive shipping makes it much less likely that you purchase the items from a competing retailer as the products are conveniently delivered to your home before you buy them elsewhere. Second, predictive shipping nudges you to buy items that you were considering purchasing but might not have gotten around to. In both cases, Amazon gains a higher share-of-wallet. Turning the prediction dial up far enough changes Amazon's business model from shopping-then-shipping to shipping-then-shopping.

Of course, shoppers would not want to deal with the hassle of returning all the items they don't want. So, Amazon would invest in infrastructure for the product returns — perhaps a fleet of delivery-style trucks that do pick-ups once a week, conveniently collecting items that customers don't want.

If this is a better business model, then why hasn't Amazon done it already? Well, they may be working on it. But if it were implemented today, the cost of collecting and handling returned items would outweigh the increase in revenue from a greater share-of-wallet. For example, today we would return 95% of the items it ships to us. That is annoying for us and costly for Amazon. The prediction isn't good enough for Amazon to adopt the new model.

That said, one can imagine a scenario where Amazon adopts the new strategy even *before* the prediction accuracy is good enough to make it profitable because the company *anticipates* that at some point it will be profitable. By launching sooner, Amazon's AI will get more data sooner, and improve faster. Amazon realizes that the sooner it gets started, the harder it will be for competitors to catch up. Better predictions will attract more shoppers, more shoppers will generate more data to train the AI, more data will lead to better predictions, and so on, creating a virtuous circle. In other words, there are increasing returns to AI, and thus the timing of adopting this kind of strategy matters. Adopting too early could be costly, but adopting too late could be fatal.

The key insight here is that turning the dial on the prediction machine has a significant impact on strategy. In this example, it shifts Amazon's business model from shopping-then-shipping to shipping-then-shopping, generates the incentive to vertically integrate into operating a product-returns service (including a fleet of trucks), and accelerates the timing of investment due to first-mover advantage from increasing returns. All this is due to the single act of turning the dial on the prediction machine.

Most readers will be familiar with the outcome of companies like Blockbuster and Borders that underestimated how quickly the online consumer behavior dial would turn in the context of online shopping and the digital distribution of goods and services. Perhaps they were lulled into complacency by the initially slow adoption rate of this technology in the early days of the commercial internet (1995-1998).

Today, in the case of AI, some companies are making early bets anticipating that the dial on the prediction machine will start turning faster once it gains momentum. Most people are familiar with Google's 2014 acquisition of DeepMind – over $500M for a company that had generated negligible revenue, but had developed an AI that learned to play certain Atari games at a super human performance level. Perhaps fewer readers are aware that more traditional companies are also making bets on the pace the dial will turn. In 2016, GM paid over $1B to acquire AI startup Cruise Automation, and in 2017, Ford invested $1B in AI startup Argo AI, and John Deere paid over $300M to acquire AI startup Blue River Technology – all three startups had generated negligible revenue relative to the price at the time of purchase. GM, Ford, and John Deere are each betting on an exponential speed up of AI performance and, at those prices, anticipating a significant impact on their business strategies.

Strategists face two questions in light of all of this. First, they must invest in developing a better understanding of how fast and how far the dial on their prediction machines will turn for their sector and applications. Second, they must invest in developing a thesis about the strategy options created by the shifting economics of their business that result from turning the dial, similar to the thought experiment we considered for Amazon.

So, the overarching theme for initiating an AI strategy? Close your eyes, imagine putting your fingers on the dial of your prediction machine, and, in the immortal words of Spinal Tap, turn it to eleven.

The ideas here are adapted from our forthcoming book "Prediction Machines: The Simple Economics of Artificial Intelligence." (Harvard Business School Press, April 2018)

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Harvard Business Review

STRATEGY

Closing the Strategy-Execution Gap Means Focusing on What Employees Think, Not What They Do

by Alison Reynolds and David Lewis

OCTOBER 30, 2017

CRAIG WHITE/UNSPLASH

When you embark on a new strategic journey to sustain and grow your organization in an uncertain world, what do you prioritize? If you're like most of the leaders we know, you start with organizational structure and processes.

This would be a mistake.

In 2016 we asked 80 senior executives from 20 countries and 25 industries where they focus their attention throughout strategic execution. Their responses overwhelmingly prioritized redefining organizational structures, realigning decision authorities (governance), and reinventing processes.

We then asked what, in their experience, were the biggest barriers to long-term execution — and 76% cited employee interaction. In other words, people failing to work together to make change happen.

This research confirms that when it comes to strategy execution, there is a knowing-doing gap. Executives know the barriers to long-term success are a lack of interaction and collaboration, yet they focus on structure, authority, and process. We set out to explore why.

The Tyranny of the Tangible

Over the last year, we have explored this paradox with groups of senior executives. Without hesitation, their explanation of the knowing-doing gap is: Structure, process, and governance are "tangible" — action there is easier to demonstrate and measure. Not incidentally, that is often what executives' performance is measured on.

We call this the *tyranny of the tangible.* And it comes at a cost that is all too familiar: Most initiatives set up to execute strategy fail to deliver the intended benefits. Seventeen percent of large IT projects go so badly that they threaten the very existence of the company; a study of government projects in the UK revealed $4 billion in wasted efforts as a result of failed initiatives.

There is also a human cost. Most people have experienced what happens when strategy execution starts with changes to structure, governance, and process. People resist and become anxious. *Will I have a job? Will I lose valued colleagues?* Fatigue sets in, morale hits the floor, engagement scores dwindle, and negative narratives circulate about the organization's ability to manage change.

The fear of creating this very situation, executives explained to us, is why so many of them focus on the tangible instead of the human. Having an open dialogue around important strategic issues simply feels too risky. "We feel like we would lose control," they told us. "Resistance to our plans would surface." In fact, psychology and experience tells us, the reverse is true: A lack of genuine, reciprocal interaction and the feeling of imposed change increases employees' anxiety and resistance.

The theme of control is particularly interesting given the stated aspiration of most organizations to empower their people. The most common chief executive exaltation we hear is "We must be more innovative, agile, and adaptable." Yet when we engage with executives we find one of the biggest drivers toward the tangible is the fear that without a firm grip *anything could happen.* We were struck by the dissonance with the ambition — if you want to be more innovative and agile and *anything* could happen, isn't that a truly brilliant notion?

The tyranny of the tangible has its roots in a world that offers high degrees of certainty and agreement. Periods of stability, steady growth, consistent margins, and happy customers enable us to manage by predetermined objectives, communicate downward through the hierarchy, and set individual annual performance metrics. Minor variances are controlled through small changes to structure, governance, and process.

It is not surprising, in this deeply established operational mode, that when things need to change drastically, we instinctively reach for and pull harder on the very same levers we have been using to maintain control in more stable times; it's much like how we would exert more force on the steering wheel in our car should the road become more winding. The problem, of course, is that strategic change begs a very different question — not how do you stay on the same road, but how do you take a new path?

Participative Execution

You do not change attitudes and mindsets by changing structures, governance, and process; you change attitudes and mindsets through genuine engagement and two-way interaction.

To escape the tyranny of the tangible, we encourage leaders to contemplate what would happen if they started with interaction. Instead of seeing formulation and execution as distinct phases, with engagement somewhere in between, what if we took a truly participative approach? What if there was genuine, inclusive dialogue? It might start with why the organization needs a new strategy, continue with what strategic options could be created, and conclude with how to set about making it happen — together. In today's uncertain, fast-changing world, the idea that a few brilliant brains at the top of the organization, or from a niche consultancy, can define the perfect strategy is ridiculous. The participative approach to strategy execution recognizes that, to remain relevant, the strategy at least in part has to be shaped by the people who need to execute.

And yet executives rarely invite participation. Instead, they embark on a series of broad, one-way communications (for example, town halls or webinars) to share their thinking. Events like those only serve to invite employees to give their views on what has already been proposed. Leaders have done the thinking and come up with the answer — changes to structure, process, and governance. They have made sense of and interpreted the context as they see it and come to a conclusion about what action is needed. Now, they say, it is time to get on with it! The webinar or town hall is just a step toward getting on with it.

The impact of this one-way, directive communication, the focus on the tangible and the fear of losing control, is twofold:

- **It undermines engagement.** Leaders fail to appreciate that they have had far more time to make sense of the context. We all tend to underestimate the time our own journey has taken and overestimate the clarity we now have as a result. When employees raise challenges or questions they risk being labeled as resistors, creating an unhelpful dynamic.
- **It reduces diverse contribution.** When people know or sense that all the important decisions have already been made, they are less likely to share their perspectives, ideas, and worries or take responsibility for outcomes.

People do not change their minds through being told, however open and inclusive the communication may be. When we have skin in the game, reason counts for far less than we might think. It is an oft-forgotten feature of human nature that if you want to influence someone, a good start is to show they have influenced you. If you are open to others, others tend to be open to you. Influence comes through interaction.

Participative execution is the antidote to the tyranny of the tangible. It engages all stakeholders in an interactive and dynamic process in which: The realities of the strategic context are confronted and explored; the options for responding to and shaping the context are created; and the priorities and milestones are agreed upon and revised as required. It makes the intangible tangible and incorporates worries, hopes, fears, and intentions in the process.

Leaders cannot have all the answers. You need to create space for people to make sense and have influence through iterative dialogue. In defining the priorities and milestones through interaction, if it is clear that current structures, governance, or process need to change in support, then you can implement considered changes with agreement and avoid the cost and disruption of knee-jerk changes imposed to eradicate uncertainty.

The lesson: You need to go slow to go fast. You need to create the space for genuine interaction characterized by curiosity, expression of ideas, inquiry, and experimentation. There is more value to be found in exploring an open question than in imposing an answer that cannot be seriously challenged.

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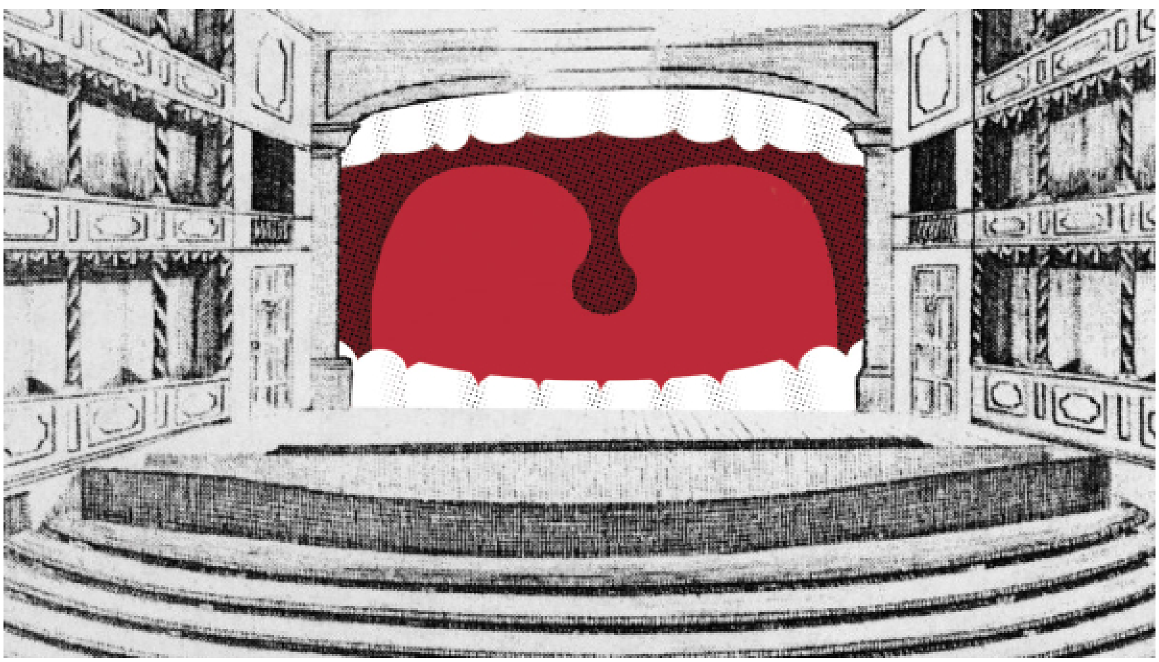
Harvard Business Review

LEADERSHIP DEVELOPMENT

To Sound Like a Leader, Think About What You Say, and How and When You Say It

by Rebecca Shambaugh

OCTOBER 31, 2017



STEVEN MOORE FOR HBR

Nancy started her day feeling prepared to brief her executive team on a high-stakes project she had been working on for the past two months. She had rehearsed her slide deck repeatedly, to the point where she had every level of content practically memorized. She arrived at the meeting early and waited patiently, yet anxiously, for her part of the agenda. The meeting began, and within a few minutes Jack, one of the cochairs, asked her to brief the executives on her project and recommendations.

Nancy enthusiastically launched into her presentation, hitting every talking point that she had meticulously rehearsed. With a solid command of the material, she felt at the top of her game and was relieved that she'd spent so much time practicing and preparing for this meeting. But just as she was about to move into her recommendations, Jack interrupted and said, "Nancy, I appreciate your hard work on this project, but it is not relevant to our agenda, and it doesn't have merit for the business objectives we're covering today." Mortified, Nancy retreated to her chair and sat in silence for the rest of the meeting. She couldn't wait to bolt from the room the moment the meeting ended to reflect on how this moment — which she expected would be a positive turning point in her career — had turned into a disaster.

What just happened here? While Nancy was prepared to participate in the meeting, she failed to think strategically. This is a common problem that trips up many capable managers, executives, and leaders when it comes to determining their role in communications, meetings, and other forums. Learning how to develop and convey a more strategic executive voice — in part by understanding context — can help leaders avoid finding themselves, as Nancy did, in a potentially career-damaging situation.

Why You Need an Executive Voice

Whether you are an associate manager or a senior executive, what you say, how you say it, when you say it, to whom you say it, and whether you say it in the proper context are critical components for tapping into your full strategic leadership potential. If you want to establish credibility and influence people, particularly when interacting with other executives or senior leadership, it's important to be concise and let individuals know clearly what role you want them to play in the conversation. It's also important to demystify the content of any message you deliver by avoiding jargon and being a person of few — but effective — words.

All of these factors relate to developing a strategic executive voice. Your executive voice is less about your performance; it relates more to your strategic instincts, understanding of context, and awareness of the signals you send in your daily interactions and communications. Like its sister attribute, executive presence, executive voice can seem somewhat intangible and thus difficult to define. But the fact is, we all have a preferred way to communicate with others, and doing this with strategic intent and a solid grasp of context can mean the difference between success and failure in your communication and leadership style.

One of the most important aspects of having an executive voice relates to being a strategic leader. I frequently hear from top executives that they would like to promote one of their high-potential leaders but feel the person is not strategic enough to advance. When I hear managers say this, I try to gently push back and suggest that maybe the problem isn't the candidate's lack of strategic leadership potential; perhaps they are failing to tap into their abilities as a strategic leader.

Whether you have someone on your team who you think lacks strategic readiness or you're worried that *you* might be a leader with untapped strategic potential due to an undeveloped executive voice, read on. Below are some coaching strategies that I use frequently with both male and female executives to help them add a more strategic executive voice to their leadership tool kit.

Understand the context. How often do you find yourself throwing out an unformed idea in a meeting, not speaking up when people are looking for your ideas, or saying something that doesn't quite fit the agenda and suddenly getting that "deer in the headlights" feeling? If these situations sound familiar, what is it that went wrong? In short, these types of tactical errors come down to failing to understand the context of the call, meeting, or discussion that you are in.

For example, if you are the primary authority on a topic, then it's likely that the context would require you to lead the meeting and make any final decisions. But if you are one of several executives who might have input, then sharing your view and connecting the dots with others (rather than stealing the spotlight with your great ideas) would be your role. If you are in learning mode and are not asked to present at a meeting, then your role when it comes to communication would be to observe and listen. Knowing or finding out in advance what your expected role is in a group forum or event can guide you in determining the kind of voice you need for that particular venue and can help ensure that you understand the context before you speak up.

Be a visionary. Sometimes we fail to tap into an executive voice because we focus too much on our own function or role. Strategic leaders are more visionary than that, taking an enterprise view that focuses less on themselves and more on the wider organization. Another part of being visionary is developing the ability to articulate aspirations for the future and a rationale for transformation.

This type of executive vision helps guide decisions around individual and corporate action. You should work toward connecting the dots with your recommendations to show how your decisions affect others around the table, including your staff and the organization as a whole.

Cultivate strategic relationships. One of the best ways to build your strategic thinking is by leveraging relationships more intentionally, with specific business goals in mind. This calls for having senior leaders and executives who bring a strategic perspective of the organization's goals, changes, and top priorities that we may normally not have access to. When you cultivate and invest in broad strategic relationships, it helps you avoid getting caught up in day-to-day minutiae.

It's easy to lose sight of the significance of cultivating new and diverse relationships when you already have a full plate — but part of being able to access a strong executive voice is expanding your knowledge beyond your specific position, department, or area of expertise.

To develop your executive voice, take time to reach out to at least one person each week outside of your immediate team or functional area. Try to learn:

- how they fit into the business as a whole
- their goals and challenges
- ways you might support them as a strategic business partner

Bring solutions, not just problems. While coaching a wide range of executives, I've seen firsthand that most feel frustrated when people point out challenges but don't offer any resolutions. Leading strategically with a strong executive voice involves problem solving, not just finger-pointing at difficult issues.

You can show up more strategically by doing your homework and taking the lead in analyzing situations. Brainstorm fresh ideas that go beyond the obvious. Even if you don't have the perfect answer, you can demonstrate your ability to come up with clever solutions.

Stay calm in the pressure cooker. People with an effective executive voice aren't easily rattled. Can you provide levelheaded leadership even when — in fact, particularly when — everyone around you is losing their composure? When you can stick with facts instead of getting swept into an emotional tailspin no matter how stressed you feel, you'll be able to lead with a more powerful executive voice.

It can be uncomfortable to recognize and admit personal challenges regarding your executive voice, and at first you may get pushback when making suggestions to improve the executive voice of those on your team. But once you overcome this initial resistance, whether in yourself or others, you'll find it's worth the up-front effort to investigate how to contribute most effectively to important meetings and other communications. By making the necessary adjustments to your approach to participation, you can avoid flying blind and start showing up more strategically in every setting.

Rebecca Shambaugh is an internationally recognized leadership expert, author, and keynote speaker. She's president of SHAMBAUGH, a global leadership development organization and Founder of Women In Leadership and Learning (WILL).

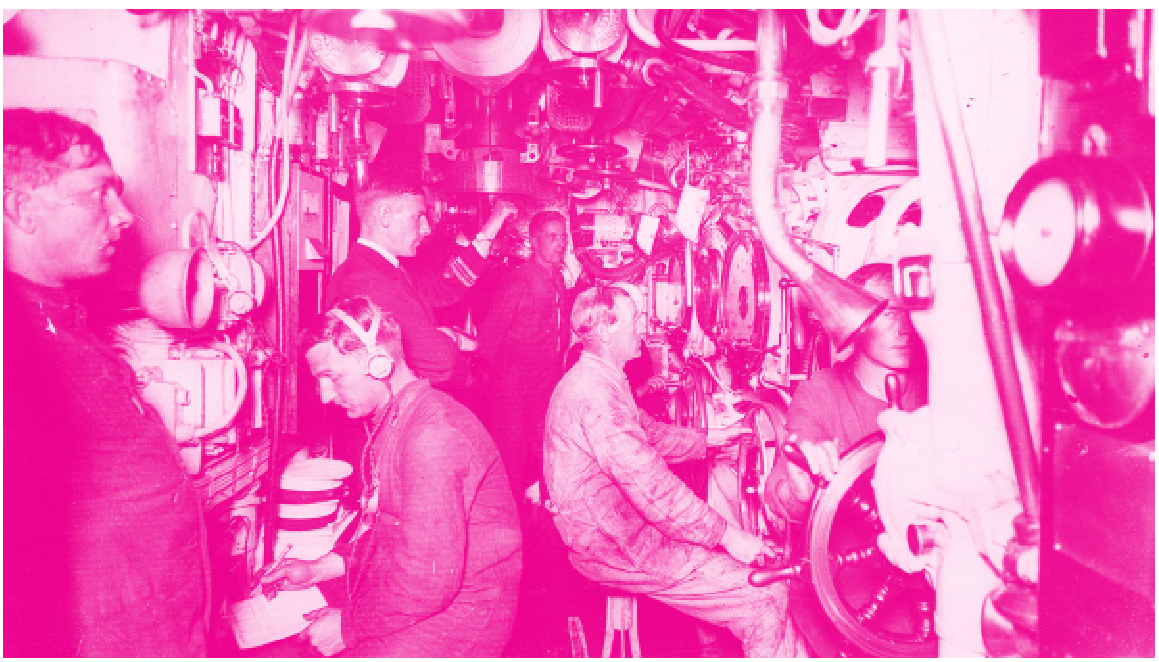
Harvard Business Review

STRATEGIC PLANNING

Your Strategy Won't Work If You Don't Identify the New Capabilities You Need

by Ron Ashkenas and Logan Chandler

NOVEMBER 01, 2017



Hulton Archive/Getty Images

While strategic plans identify what your organization should do differently, very few provide a roadmap for how to build the skills, knowledge, and processes needed to carry out and sustain the critical changes. But without building these capabilities, it's very difficult to achieve the results you want.

For example, a multi-product technology firm we advised laid out a strategy to significantly increase business with its large enterprise customers by creating single points of contact and focusing on providing solutions as opposed to delivering products. The strategy was sound, but making it happen required many new capabilities: dozens of sales people had to learn new approaches to selling and relationship building, different sales divisions needed to share information and collaborate, new roles for coordinating enterprise accounts had to be created, financial information had to be presented and analyzed differently, and so on. These changes meant that hundreds of people in the company had to work differently in some way – but the plan said nothing about developing capabilities. So despite general agreement that the strategy made sense, the missing capabilities made it impossible to carry out.

Capabilities lie at the heart an organization's ability to achieve results, so it's hardly a surprise that different results require different capabilities. But strategic plans often get this simple equation wrong, for one of two reasons.

First, many strategic planners and senior executives assume that if the strategy is logical, then people will figure out what to do, and don't build capabilities development into their plans at all. And yes, every organization has people who are highly adaptable, learn quickly, and can operate in this mode. Unfortunately, they often comprise a small group, and leaders end up over-relying on these "usual suspects" to tackle challenging execution assignments; and since these few people can't do it all, the efforts founder.

At the other extreme, some planners like to be prescriptive and can spend significant resources mapping out in great detail what everyone should do differently. But a "paint by the numbers" approach to strengthening organizational capabilities rarely works. Developing capabilities requires experimentation, trial and error, and iterative learning to figure out what will work in each organization's unique culture, functional structure, and environment. Faced with lengthy lists of best practices and new processes that don't match reality, teams simply give up and revert to old patterns of behavior.

Overcoming these pitfalls requires thinking of capability development in a different way: as an integral part of strategic execution. The key is to link each strategic priority to the capabilities needed to drive that opportunity, and to frame accountability for each strategic priority around both results and capability development. Let's look at one company that we helped take this approach.

When leaders of Rich Products, a global food manufacturer, launched a strategic initiative focused on accelerating innovation, they recognized that helping the organization simultaneously strengthen its innovation "muscles" was critical to addressing the challenge. So, while some work focused on innovation strategy – the customary task of identifying where the company should place innovation bets – equal attention was paid to understanding the capabilities needed to execute the strategy. Formal diagnostics and substantive discussions across the organization generated a clear picture of the specific innovation capabilities that would need to be strengthened if the organization was to achieve its innovation targets in the necessary time frame.

As teams were chartered to pursue promising opportunities, they were also tasked with developing specific capabilities that were critical to the innovation strategy. For instance, a team trying to introduce a promising cooking technology was also tasked with learning how to do effective customer immersions, a key capability gap for the organization. Another team trying to launch a new platform of food products was also made responsible for finding ways to strengthen new product introductions. In each case, leadership regularly reviewed progress with teams, not just on the business outcomes but also on what each team was learning about their assigned capability. As successive phases of this work took place, teams brought learnings to new iterations and new teams, helping to scale and sustain the development of these capabilities. Now Rich is embedding this approach in its ongoing multi-year innovation efforts.

The technology company mentioned in the beginning also eventually used this approach, but in a slightly different way. They created three small teams of sales, HR, and finance people and challenged them to increase revenues from three enterprise accounts while also figuring out what capabilities they needed to be successful. The three teams then began to test new ways of working with their actual clients, configured different financial reports, carved out new roles for team members, and more. As they proceeded, they met together regularly to share what they were learning. Eventually, the three teams developed a successful model for how to work with their accounts and increase sales results. Each team then mentored two other new teams and helped them learn what worked for their clients – while all the teams continued to share best practices and refine the model. Over the next two years this iterative cascade approach continued until 150 of the largest accounts were being handled in this new way.

As these examples illustrate, combining capability development with strategy execution does not need to be a complex undertaking. The key is to make capability learning as overt and intentional as possible. This will allow you to build organization muscle at the same time that you are getting business results.

To get started with this approach, think about your company's own strategy, and what capabilities are critical to achieving results. Then identify opportunities for teams to create or strengthen those capabilities while actually executing some aspect of the strategy. Doing this will ensure that capability development is a real and tangible part of your organization's growth, instead of a hope or an afterthought.

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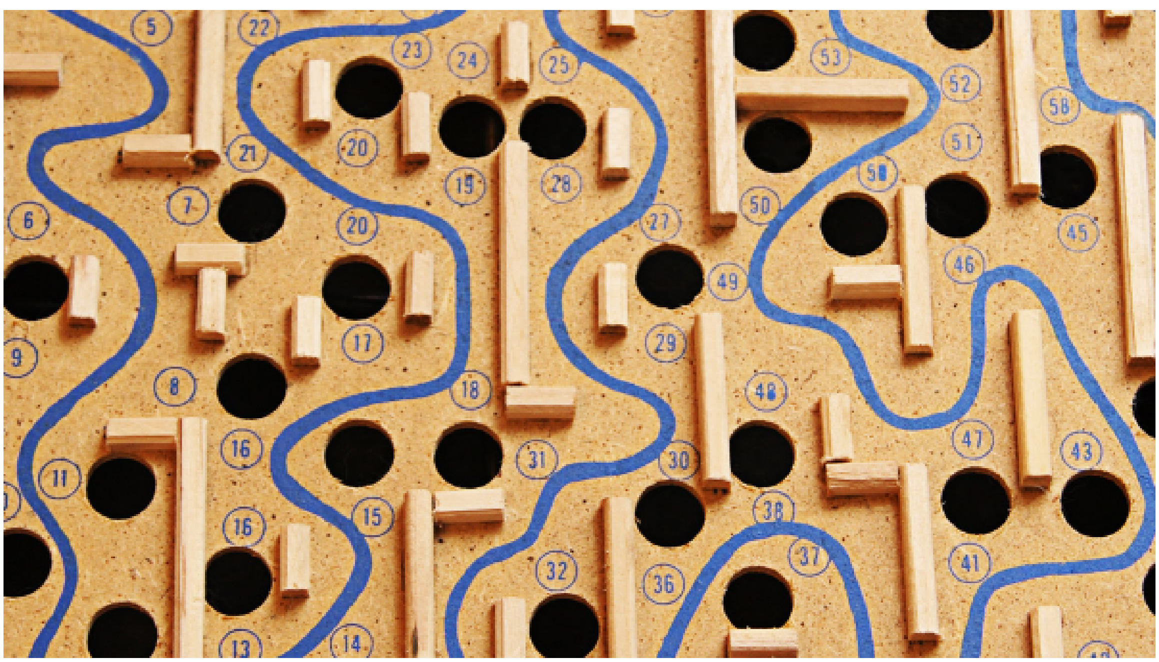
Harvard Business Review

ORGANIZATIONAL CULTURE

The Best Companies Know How to Balance Strategy and Purpose

by Laurent Chevreux, Jose Lopez and Xavier Mesnard

NOVEMBER 02, 2017



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Most companies have articulated their purpose — the reason they exist. But very few have made that purpose a reality for their organizations.

Consider Nokia. Before the iPhone was introduced, in 2007, Nokia was the dominant mobile phone maker with a clearly stated purpose — "Connecting people" — and an aggressive strategy for sustaining market dominance. Seeking to extend its technological edge (particularly in miniaturization), it acquired more than 100 startup companies while pursuing a vast portfolio of research and product development projects. In 2006 alone, Nokia introduced 39 new mobile-device models. Few imagined that this juggernaut, brandishing vast resources with such steely determination, could be quickly brought down.

In retrospect, it seems inevitable. Nokia was so immersed in executing its *strategy* that it lost sight of its *purpose*. When Steve Jobs introduced the first iPhone as "a leapfrog product that is way smarter than any mobile device has ever been, and super-easy to use," Apple started "connecting people" at astounding new levels. Nokia's purpose had been co-opted, making its myriad strengths irrelevant. The once-dominant Nokia soon lost much of its market cap and was eventually acquired by Microsoft.

Nokia is far from alone. In fact, history is filled with similar stories. The pepper trade, for example, was disrupted not by a better spice but by refrigeration. It hardly mattered anymore if your pepper supply chain was the best designed and most efficiently run, if your customer base was elite, or if the quality of your pepper was second to none. Your purpose — preserving food — had been co-opted. All the strengths you had worked so hard to build no longer mattered. Today, broadcast and cable television, print journalism, taxi cabs, and (over the longer term) oil and gas are among the industries facing formidable challengers determined to co-opt their purpose.

To safeguard your company at the level of purpose, you must make strategy the servant rather than the master. Strategies are time-bound and target specific results. Your purpose, in contrast, is what makes you durably relevant to the world. Strategy is but one of several important means to operationalize your purpose. Intrinsic human connection to your purpose is even more important.

The human capacity to operationalize a purpose is evident in the sublime unspoken synergy of a great athletic team, the interplay of a fine symphony orchestra, or the vibrant functionality of a healthy community. Even so, very few companies excel at operationalizing their purpose, which organizes human effort at a deeper level. A company fully operationalizing its purpose would be quintessentially attuned to its world, moving continually toward opportunity, systematically challenging the obvious, and wordlessly yet synchronously making the minute adjustments each situation demands. We can cite no pure examples of such companies, as few seem to grasp the fundamental importance of truly operationalizing their purpose. But we can highlight some ways to get there:

Know your purpose. What companies have achieved such clarity of purpose? SpaceX comes close. Serial entrepreneur Elon Musk (whose ventures include Tesla, and formerly PayPal) lamented the slow recent progress of humans into space and concluded that the big hurdle was cost. "If one can figure out how to effectively reuse rockets just like airplanes, the cost of access to space could be reduced by a factor of a hundred," Musk explains on the SpaceX website. Everyone at SpaceX knows their company exists to make space radically more accessible. That purpose is bigger than the company itself, providing natural cohesion, and it demands expansive thinking, driving innovation and progress.

For your declared purpose to have authentic relevance and power, it must ring true not just on the surface but down to the marrow. We have observed companies doing this to a certain degree. At Nestlé, Peter Brabeck-Letmathe introduced Creating Shared Value (CSV) as the operationalization model for fulfilling Nestlé's Corporate Social Responsibility commitments. Counseled by Harvard professor Michael Porter, Brabeck-Letmathe engaged the organization in designing the "CSV pyramid," with three overarching ambitions: (1) Enable healthier and happier lives (focusing on nutrition, water, and rural development); (2) develop thriving, resilient communities (focusing on sustainability); and (3) steward resources for future generations (with a focus on having zero environmental impact in operations). As Brabeck-Letmathe declared in Nestlé's 2016 CSV report, which quantifies the company's annual progress across a comprehensive set of key performance indicators: "Creating Shared Value is our way of delivering a long-term positive impact for shareholders and society, through everything that we do as a company."

Aim for the golden mean. As your people embrace and internalize your company's purpose, they will face many choices that feel irresolvable. But you can't make trade-offs when it comes to purpose. This is, instead, the time to aim for the golden mean. In Aristotle's philosophy, the golden mean is the desirable middle between the extremes of excess and deficiency. In operationalization, this means focusing on the "and" rather than the "or," such as asset building *and* enhanced dividends; long-term performance *and* short-term cash; empathy *and* authority. Unilever CEO Paul Polman, for example, was rising above a trade-off mindset when he told us: "We see that sustainability drives growth, cuts costs, reduces risk, and helps us serve a multitude of stakeholders."

Develop corporate plasticity. Corporate plasticity is the ability to collaborate in the pursuit of a common objective and rapidly reconfigure to face new challenges — which is of course essential to operationalizing purpose in the real world, where conditions constantly change and people's actions may yield unintended as well as intended consequences. Plasticity needs to be actively nurtured by leaders who free people to be guided not solely by management dictates but also by the company's clarity of purpose. Jorgen Vig Knudstorp, the CEO who revitalized the Lego brand, often told his employees, "Thank you for doing all the things I never told you to do."

Actively lead operationalization. Personal leadership is indispensable to operationalizing your purpose. You must consistently and authentically voice an inspiring external ambition, be the principal architect of a master plan to engage and align your organization, and provide your people all the means necessary to fulfill your shared purpose. Much is required of you and your company to make your purpose real. And nothing is more fundamental to your success.

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Harvard Business Review

STRATEGY

Good Strategy Execution Requires Balancing 4 Tensions

by Simon Horan and Michael Connerty
NOVEMBER 03, 2017

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Putting strategy into practice is notoriously difficult. In our experience, the primary obstacle to strategy execution is a failure to balance the inherent tensions that characterize any major execution effort. Successful strategy execution calls for skillful orchestration of sometimes opposing forces and competing needs. In particular, there are four core tensions that leaders need to balance.

Tension #1: An inspiring end-state versus challenging targets

A vision of an inspirational ”end state” is essential for getting people to commitment to change: a simple narrative that articulates not only why change is necessary but also what life will look and feel like once change is successfully implemented.

However, aggressive “mid-state” targets are also required to provide direction and to challenge people to give their all. Among workers, an inspiring end state without challenging targets will likely elicit the response, “I will give this a go, and we can see where we land.” That’s not optimal. But at the same time, challenging targets without an inspiring end state leads to a grind in which workers often ask themselves, “Why am I doing this?”

Consider the experience of a major utility that made the strategic decision to undertake a broad-based initiative aimed at improving efficiency and reining in costs. When a detailed cost assessment identified significant savings potential, executive leadership boldly added another five percentage points to the target. The team tasked with overseeing the effort designed an aggressive implementation plan that tied targets to manager compensation. However, beyond the strategic goal of becoming an industry leader in terms of cost structure, there was no “story” for how this effort would complement the business’s broader ambitions. After about six months, the effort began to falter, due primarily to staff frustration and a sense that the initiative lacked a compelling purpose.

Tension #2: Top-down control versus democratization of change

When everyone in the organization feels empowered to make decisions that can influence change, it creates a palpable energy: People tend to work harder, offer more ideas, and become far more invested in the process. If every activity is the result of a command from on high, the company runs the risk of sucking all the energy out of the room. But the flip side can be myriad groups of enthusiastic change agents dashing off in multiple, uncoordinated directions.

The successful but challenging experience of a large pharmaceutical company illustrates the tension between top-down and decentralized change efforts. The company defined a new growth strategy that would require a significant improvement in its ability to innovate rapidly. While there was broad consensus on the strategy, there was disagreement within the leadership team regarding the best way to implement the strategy — especially when it came to making critical decisions, involving and empowering managers and staff, and holding people accountable for results. Tensions arose, and significant debate ensued over several months as the leadership team tried to work their way through an initial set of critical decisions that would guide execution. Ultimately, leadership managed to strike a balance across these areas, continuing to drive the change effort while soliciting contributions of a broad set of managers and staff. The result was a far stronger and more efficient R&D organization.

Tension #3: Capability development versus pressure for results

Many strategies call for significant changes in the ways a company works, which raises questions of whether the organization needs to develop new capabilities. But the pressure to deliver immediate results is often so intense that an organization may be forced to forge ahead with its existing capabilities.

Take the example of a global industrial products company that was in the early stages of implementing a growth strategy. The strategy called for significant changes to the company's organizational structure and the way it marketed, sold, and serviced customers across numerous geographies. But as a publicly traded company, it was under the gun to deliver results every quarter. As the leadership team held numerous conversations across the organization about strategy execution, they came to the realization that most midlevel managers and frontline staff perceived serious capability gaps. This candid feedback allowed leadership to identify those capabilities most in need of strengthening in order for the strategy to be successful. At the same time, they were able to achieve some early wins that bought them time to develop these critical capabilities.

Tension #4: Creativity versus discipline

Creativity is a part of any distinctive strategy. Fearing that discipline will stifle creativity, it is not uncommon for executives to choose to "let the creatives run free." At its best this can lead to unanticipated insights and outcomes, but at its worst it can lead to chaos and complete unaccountability for results. In fact, creativity and discipline are not mutually exclusive — yet this tension can be the hardest one to balance.

Consider the experience of a services business that had an iconic reputation for its one core service. Entering a new space had been elusive for many years, and in desperation the company gave the business development function complete freedom. It moved to a new building, changed its business cards, hired "disruptive thinkers," and experimented with all manner of innovation techniques. Several months (and several tons of Post-It notes) later, they were called in to report back — only to serve up a raft of tired ideas and zero outcomes.

Getting strategy done well often calls for trade-offs between delivering short-term results and implementing foundational changes that require time. Yet companies that can achieve a balance between opposing forces are far more likely to realize successful strategies that endure.

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Harvard Business Review

STRATEGY EXECUTION

Smart Leaders Focus on Execution First and Strategy Second

by Rosabeth Moss Kanter

NOVEMBER 06, 2017

Dan Kenyon/Getty Images

"We found the perfect strategy" ranks with "And they lived happily ever after" as a perpetual myth. A strategy is never excellent in and of itself; it is shaped, enhanced, or limited by implementation. Top leaders can provide the framework and tools for a team, but the game is won on the playing field. When a strategy looks brilliant, it's because of the quality of execution. A dumb idea is the one you fumble in the field by missing critical details, like how customers would react or what competitors might change while you're still picking up the ball.

In decades of teaching executives at Harvard Business School and interviewing CEOs for my research, I've observed that savvy leaders whose strategies succeed tend to focus on four implementation imperatives:

Question everything. When Apple launched the iPhone in 2007 with AT&T as exclusive service provider, telecom giant Verizon decided to launch its own smartphone. It knew it had to act fast, so top leaders began by challenging major assumptions about how they operated. Instead of do-it-ourselves, they worked with Google and Motorola. Instead of we-know-better, they used their partners' capabilities and shared data. Instead of waiting for every step to be finished before proceeding to the next, they worked on many fronts simultaneously. They created an excellent product in record time, in time for launch in the 2009 holiday season. In the two months post-launch, Droid sales even outpaced the iPhone's launch numbers. Verizon would not have been able to so quickly and successfully change its strategy without being willing to question and overhaul traditional organizational structures.

Inform everyone, then empower champions. Excellent execution requires both breadth and depth. Big strategies need local options. A bank CEO who successfully implemented a new strategy for positioning the company as environmentally responsible in a country with strong environmental values started with broad awareness sessions for all employees, so they would know what was happening, and so the company could benefit from crowdsourced ideas. But then the CEO zeroed in on volunteer champions who stepped forward to realize the vision through innovations in products and customer relationships. He didn't worry about converting the skeptics, insist that all units make changes at exactly the same rate, or determine which innovations to undertake. He started a snowball rolling. The champions' wins became success stories that stimulated others to adopt practices or create their own.

Keep relationships tight and rules loose. Visionary leaders see further when they can see through many eyes. This means staying in close communication with their on-the-ground players, the way football coaches talks with quarterbacks on headsets throughout the game. The CEO and COO of a multisite nonprofit were rolling out a new strategy started with tight, rules-laden processes and playbooks. But as unexpected obstacles and shortfalls showed up on quarterly reports, they realized they should loosen procedural controls while working harder to get the on-site implementers working closely together and with HQ as allies in pursuit of a common mission. Once they articulated their shared purpose, took responsibility for how every other site performed, and developed mutual respect, they vaulted over hurdles and created better ways to meet goals. Shared values knit people together. Arrogance at the top and communication silos below undermine execution.

Modify quickly. David Kenny became the CEO of private-equity-owned Weather Company to bring its TV channel into the digital age by building on a wealth of data analytics. He also stressed synergies between digital and TV. On-air meteorologists were expected to produce content for social media and digital channels, while digital producers developed short-form videos that could be viewed online, on mobile devices, or on TV. This became difficult and burdensome. At the same time, the divergence between the two sides increased: dramatic growth for digital, flat for TV. So instead of exhorting each to redouble their efforts, Kenny split them into two divisions. This increased TV's performance and led to a lucrative sale of the digital assets. "Try, test, learn, and modify" is a better approach than sticking to something that isn't producing results.

Strategy can be viewed as a literary effort to craft a complete script and then hand it over to actors who enact it word by word. I prefer to think of it as resembling improvisational theater. A strategy takes shape from what actors do in front of audiences that provide feedback. Like the rapid prototyping of products in the tech world, or like a capital campaign for hospitals or museums that begins with a quiet phase, strategy often emerges from thoughtful planning followed by serendipitous execution experiments, like doing better than expected in a particular market. In fact, successful leaders sometimes wait to announce a strategy until it's well under way.

For all the faddish talk about audacious goals and moonshots, the bigger an unproven promise, the harder the fall when execution doesn't match the hype. It is important to avoid the temptation to declare victory at an announcement of a strategy — the photo op of merger partners' handshakes, the external award for product design, or the big donation for work not undertaken — only to find that the merger dissolves, customers ignore the product, and the new work never gains traction.

In short, encourage innovation, begin with execution, and name the strategy later.

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Harvard Business Review

STRATEGY EXECUTION

Is Execution Where Good Strategies Go to Die?

by Mark Bonchek

NOVEMBER 07, 2017

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Execution is an odd word. On the one hand, it means "the carrying out of a plan or course of action." On the other, it means, "the carrying out of a death sentence." When leaders "execute a strategy," they usually mean the former — putting an idea into action. But those efforts all too often end up meaning the latter. Execution is often where strategies go to die.

So what determines whether execution brings life or death to your strategy? It's not what you think. It's *how* you think. The mental models that inform strategy are usually different from those that determine implementation. To close the strategy-execution gap, leaders have to close several other, smaller gaps.

First, the thinking styles of the people who create strategy are often different from those of the people who implement it. In my work analyzing the thinking styles of leaders in organizations, I've found that strategy is usually developed by people who have a big-picture orientation, while execution is often done by those with a detail orientation. Furthermore, strategy is usually done by people who are focused on ideas and connections, while implementation is done by those who focus on process and action.

This difference in thinking styles creates a problem when strategy turns into execution. Those who create the strategy are often thinking about the destination, particularly the opportunity and intended outcomes. Meanwhile, those responsible for implementation are thinking about the realities of what it will take to get there. When the strategy is presented, they naturally begin to ask questions about risks and roadblocks — a natural consequence of having a detail-oriented thinking style. But to strategists focused on the big picture, this seems like resistance: "Don't they see the brilliance of the strategy?" So they get defensive and begin working on overcoming the "resistance." In turn, this makes the implementers feel suspicious: "I was just trying to understand it better. Why are they being so defensive?"

Right from the start, the relationship is adversarial rather than collaborative, not because of a problem with the strategy but because of a difference in thinking styles. The solution is for strategists to expect different kinds of questions from the implementers than from their fellow strategists. Understand that this can just as easily be a sign of engagement as a sign of opposition. Realize that it takes all kinds of thinking styles to turn a vision into a reality: big-picture and detail, ideas and actions, processes and relationships. If you want to change other people's behaviors, you have to shift their thinking. You also may have to engage in a bit of unlearning yourself.

The second gap is a result of the connection between participation and ownership. In a phenomenon dubbed "the Ikea effect," researchers found that people preferred things they helped make to things that were preassembled, even if their creations were of lower quality. What applies to furniture also applies to strategy. Often stakeholders are kept out of the strategy process out of concern that they will slow things down or compromise the quality of the outcome. But this is a shortsighted view. By involving stakeholders earlier, you give them a sense of ownership that speeds things up when it comes time for execution. Furthermore, the evidence suggests that diversity will actually improve the quality of the strategy. And it's far more likely the strategy will stick to its flight plan, because those responsible for its execution will have a stake in defending it.

The third gap between strategy and execution is in the narrative *around* the strategy. The strategy itself may be sound, but what matters for execution isn't what is said but what is heard. Strategy is inherently about creating something new or getting somewhere new. But the way humans are wired, it's difficult to process something that is completely unrelated to what we already know. A good narrative helps people move from the past to the future. Steve Jobs's genius in announcing the iPhone was explaining it as three devices: a touchscreen iPod, a new kind of phone, and an internet communicator. He built a conceptual "horseless carriage" — a bridge between the old and the new.

The lack of narrative is particularly a problem in the relationship between sales and marketing. Too often, marketing puts out a new advertising campaign, a new value proposition, or new messaging for the sales team with the expectation that the sales teams will just start using the new language, almost as if they were changing the content on a web page. This behavior is a result of the underlying mental models of sales and marketing. Marketers see the world as campaigns, messages, channels, and audiences. Salespeople see the world as prospects and products, offers and opportunities. To a marketer, sales is a channel for reaching their audience. But salespeople wants to be treated as customers, not channels.

Here the "Ikea Effect" can be particularly helpful. Too often, salespeople aren't involved in marketing conversations about messaging and sales enablement strategies. When I conduct workshops with marketing and leadership teams on the design of strategic narratives, I'm often asked, "Should we include the sales teams?" The question itself reveals the mental model at work. Inevitably, the sales leaders make vital contributions to the conversation. In addition, the deployment of the narrative into the field goes far more smoothly, both because the sales leaders have a sense of ownership and because the strategy is framed in a way the sales teams will best understand it.

The fourth gap between strategy and execution is in measurement and metrics. This, too, is a reflection of mental models. You only measure what you can see. And your mental models determine what is visible or invisible. I consistently see measurement as an afterthought in strategy development. The assumption is that financial measures like cost and revenue are sufficient metrics to measure progress. But that would be like a coach only tracking points on the scoreboard. You need metrics that tell you how well your game plan is being executed — metrics that all of your players can organize around. If you're a basketball coach, those metrics might be focused on rebounds, turnovers, or assists. If you're managing a new product launch, those metrics might be free trial sign-ups, preorders, or product reviews.

The mismatch between metrics and strategy is common in the digital transformation efforts of many companies. Their strategies are designed to create network efforts through platform-based business models or to leverage advanced technologies like AI or the internet of things. These companies expect the organization to execute exponentially, but their mental models — and therefore metrics — are still incremental. In the beginning of a disruptive innovation, the thing to measure is not ROI.

As an example, from the beginning Amazon was primarily concerned with the number of online reviews per product, the number of affiliates selling on the platform, and the number of Prime members joining the program. Meanwhile, other retailers were still focused on year-over-year same-store sales, treating their e-commerce operations as a "digital store." Their mental model constrained their metrics, which in turn distorted their behavior.

Focus your metrics instead on learning and the creation of network effects. How many experiments are you able to run per week or even per day? How well are you connecting the various forms of capital across your business? How rapidly is your ecosystem growing? How easily can people share data across the enterprise? These are much better indicators of whether you are truly aligning strategy and execution for digital disruption.

Execution doesn't have to be the place good strategies go to die. As you are developing your strategy, take into account the thinking styles and mental models of the people who will be responsible for its execution. Involve them to generate a sense of ownership and to tap into their collective wisdom. Craft a narrative that connects the past to the future. And design metrics that focus attention and motivate behavior around what will really make the strategy successful.

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Harvard Business Review

STRATEGY EXECUTION

Many Strategies Fail Because They're Not Actually Strategies

by Freek Vermeulen

NOVEMBER 08, 2017

Lobo Press/Getty Images

Many strategy execution processes fail because the firm does not have something worth executing.

The strategy consultants come in, do their work, and document the new strategy in a PowerPoint presentation and a weighty report. Town hall meetings are organized, employees are told to change their behavior, balanced scorecards are reformulated, and budgets are set aside to support initiatives that fit the new strategy. And then nothing happens.

One major reason for the lack of action is that "new strategies" are often not strategies at all. A real strategy involves a clear set of choices that define what the firm is going to do and what it's *not* going to do. Many strategies fail to get implemented, despite the ample efforts of hard-working people, because they do not represent a set of clear choices.

Many so-called strategies are in fact goals. "We want to be the number one or number two in all the markets in which we operate" is one of those. It does not tell you what you are going to do; all it does is tell you what you hope the outcome will be. But you'll still need a strategy to achieve it.

Others may represent a couple of the firm's priorities and choices, but they do not form a coherent strategy when considered in conjunction. For example, consider "We want to increase operational efficiency; we will target Europe, the Middle East, and Africa; and we will divest business X." These may be excellent decisions and priorities, but together they do not form a strategy.

Let me give you a better example. About 15 years ago, the iconic British toy company Hornby Railways — maker of model railways and Scalextric slot car racing tracks — was facing bankruptcy. Under the new CEO, Frank Martin, the company decided to change course and focus on collectors and hobbyists instead. As a new strategy, Martin aimed (1) to make perfect scale models (rather than toys); (2) for adult collectors (rather than for children); (3) that appealed to a sense of nostalgia (because it reminded adults of their childhoods). The switch became a runaway success, increasing Hornby's share price from £35 to £250 over just five years.

That's because it represented a clear set of just three choices, which fit together to form a clear strategic direction for the company. (Unfortunately, in recent years Hornby abandoned its set of choices, to quite disastrous consequences, where it was forced to issue a string of profit warnings and Martin was encouraged to take early retirement.) Without a clear strategic direction, any implementation process is doomed to fail.

Communicate your logic. Sly Bailey, at the time the CEO of UK newspaper publisher Trinity Mirror, once told me, "If there is one thing I have learned about communicating choices, it is that we always focus on what the choices are. I now realize you have to spend at least as much time on explaining the logic behind the choices."

A set of a limited number of choices that fit together — such as Hornby's "perfect-scale models for adult collectors that appeal to nostalgia" — is easy to communicate, which is one reason you need them. You cannot communicate a list of 20 choices; employees simply will not remember them. And if they don't remember them, the choices cannot influence their behavior, in which case you do not have a strategy (but merely a PowerPoint deck). However, as Bailey suggested, communicating the choices is not enough.

Consider Hornby again. Its employees — product designers and technical engineers, for example — could all tell me their company's new choices. But they could also tell me the rudimentary logic behind them: that their iconic brand names appealed more to adults, who remembered them from their childhoods; that the hobby market was less competitive, with more barriers to entry and less switching by consumers. It is because they understood the reasoning behind Frank Martin's choices that they believed in them and followed up on them in their day-to-day work.

It's not just a top-down process. Another reason many implementation efforts fail is that executives see it as a pure top-down, two-step process: "The strategy is made; now we implement it." That's unlikely to work. A successful strategy execution process is seldom a one-way trickle-down cascade of decisions.

Stanford professor Robert Burgelman said, "Successful firms are characterized by maintaining bottom-up internal experimentation and selection processes while simultaneously maintaining top-driven strategic intent." This is quite a mouthful, but what Burgelman meant is that you indeed need a clear, top-down strategic direction (such as Hornby's set of choices). But this will only be effective if, at the same time, you enable your employees to create bottom-up initiatives that fall within the boundaries set by that strategic intent.

Burgelman was speaking about Intel, when it was still a company focused on producing memory chips. Its top-down strategy was clear: (1) to be on the forefront of (2) semiconductor technology and (3) to be aimed at the memory business (not coincidentally a set of three clear choices!). But Intel implemented it by providing ample autonomy and decentralized budgets to its various groups and teams, for employees to experiment with initiatives that would bring this strategic intent to life and fruition.

Many of these experiments failed — they were "selected out," in Burgelman's terminology — but others became successes. One of them formed the basis of the Pentium microprocessor, which would turn Intel into one of most successful technology companies the world has ever seen. It was the combination of a broad yet clear top-down strategic direction and ample bottom-up initiatives that made it work.

Let selection happen organically. A common mistake in the bottom-up implementation process is that many top managers cannot resist doing the selection themselves. They look at the various initiatives that employees propose as part of the strategy execution process and then they pick the ones they like best.

In contrast, top executives should resist the temptation to decide what projects live and die within their firms. Strategy implementation requires top managers to design the company's internal system that does the selection for them. Intel's top management, for example, did not choose among the various initiatives in the firm personally, but used an objective formula to assign production capacity.

They also gave division managers ample autonomy to decide what technology they wanted to work on, so projects that few people believed in automatically failed to get staffed.

Be brave enough to resist making these bottom-up choices, but design a system that does it for you.

Make change your default. Finally, another reason many implementation efforts fail is that they usually require changing people's habits. And habits in organizations are notoriously sticky and persistent. Habits certainly don't change by telling people in a town hall meeting that they should act differently. People are often not even aware that they are doing things in a particular way and that there might be different ways to run the same process.

Identifying and countering the bad habits that keep your strategy from getting executed is not an easy process, but — as I elaborate on in my book *Breaking Bad Habits* — there are various practices you can build into your organization to make it work. Depending on your specific circumstances and strategy, this might involve taking on difficult clients or projects that fit your new strategy and that trigger learning throughout the firm. It may involve reshuffling people into different units, to disrupt and alter habitual ways of working and to expose people to alternative ways of doing things. It may also involve identifying key processes and explicitly asking the question "Why do we do it this way?" If the answer is a shrug of the shoulders and a proclamation of "That's how we've always done it," it may be a prime candidate for change.

There are usually different ways of doing things, and there is seldom one perfect solution, since all alternatives have advantages and disadvantages — whether it concerns an organization's structure, incentive system, or resource allocation process. We often resist change unless it is crystal clear that the alternative is substantially better. For a successful strategy implementation process, however, it is useful to put the default the other way around: Change it unless it is crystal clear that the old way is substantially better. Execution involves change. Embrace it.

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Harvard Business Review

STRATEGY EXECUTION

Corporate Learning Programs Need to Consider Context, Not Just Skills

by Todd Warner

NOVEMBER 10, 2017

Pat Canova/Getty Images

Spending on corporate learning, particularly leadership development, continues to increase at a staggering pace. According to one piece of research, spending on frontline leadership development alone increased by over 310% in a three-year period. Despite the amount they invest in corporate learning, organizations continue to struggle to connect these programs with the day-to-day work of strategy execution.

Learning departments are frequently part of the problem. Like many parts of large organizations, they are captive to a rich and debilitating status quo. They aspire to teach abstract concepts to their employees, such as “agility,” “collaboration,” and “coaching.” But to enable strategy execution, learning departments need to reorient from *what* they’re trying to teach to *where* these things show up in the work.

Organizations need to retool learning, changing it from an obsession on individually focused and content-driven events to learning that is deeply contextual, social, and embedded into real work. Learning needs to be built into how power really works within organizations, organized around peer power, functional power, and hierarchical power.

Learning with Peers Happens Through Routines

People work in context with others. They create social norms, they dictate the unspoken standards, they define whom to collaborate with and whom to avoid, and they decide how much risk to take. All of this is done in “tribes” of employees, beyond the purview of head office. We need learning departments brave enough to move toward social learning through the routines of these tribes and away from the hegemony of abstract competencies and capabilities.

In one pharmaceutical R&D company, we identified three critical populations that needed to change to enable the execution of the organization’s strategy. Each group had its own tribal norms with its own routines. Until we got into the details of their real work, and helped them recast their very distinct, idiosyncratic local routines, change initiatives and strategic priorities died painful, silent deaths in hundreds of disconnected ways within these groups. But once their understanding of their work and roles was recast around the three to four vital routines per role, performance improved.

In these local contexts, people work out of habit. The best organizations have begun recasting how they understand performance, switching from a decidedly individualistic and psychological lens to a much more social, behavioral lens. In many of these organizations, critical populations are identified that enable or inhibit the execution of strategy. We then identify the routines that differentiate the best performers in these populations. Routines are the regular social events that occur that can be seen to differentiate the best performers from average ones in any discrete population within an organization. Competencies tend to cluster in routines. Learning needs to recast its approach by focusing deeply on this context, and not by teaching new content and abstraction.

Learning in Business Functions Happens Through Processes

We think of learning as something that requires academic expertise and new models, but organizations teach all the time. One of the strongest mechanisms for teaching in any organizations surrounds how functions wield power. Now, all functions are not created equal when it comes to power. Organizational learning needs to identify the most powerful functions within their organization and build learning into the functional practices at the points where it will yield real impact.

In one organization, the new leader of the audit function (which was almost universally feared and loathed) decided he wanted to cultivate a more proactive learning footprint in the function's engagement with the business. The audit process and outputs were retooled away from "catching people out" and toward "identifying and spreading best practices." Because this approach affected the way the auditors executed their work, the on-the-ground impact and the effectiveness of the audit team improved dramatically. Rather than being the "death squad" that the organization feared, they became the "pollinators" that sought out and spread great ideas.

Historically, the arrival of an audit team at a site was preceded by the "hiding of bodies" and the alignment of key messages by the site team, to present a united, protected front. The shifts in the processes and approach of the audit team completely shifted this footing. By wielding its power differently, the audit function created a powerful platform for the entire organization to learn, day-to-day.

Every organization has functions that wield a disproportionate amount of power — the typical suspects are finance, procurement, and audit. These functions, due to their power over local teams, can be incredibly effective agents to teach the organization. Instead of owning programs and abstracted learning initiatives that most people in the organization treat as recess from work, the most effective learning organizations collaborate with these powerful functions to integrate organizational learning into their processes and practices.

Learning Among Leaders Happens Through Dialogue

Your leaders teach every day; they're just not aware they are teaching. Leaders wield power in organizations, but that power often involves perpetuating the status quo. If left to their own devices, they will present whatever strategy material was given to them, ask if there are questions, and move on to the things that really matter. This approach doesn't help organizations make improvements in strategy execution.

In a number of organizations, we've focused intensely on enabling leader-led learning. To be clear, our approaches are not your parents' "leader-led learning" of 65 PowerPoint slides covered in 60 minutes. Most people in organizations need to be woken up and provoked to share fresh stories and ideas in the context of their real work. One of the keys is building leaders that provoke the right dialogue.

In one large-scale transformation project in Australasia, our team worked with the top 400 leaders of a financial services company, in intact teams, to help leaders translate their insights around strategy back to the day-to-day realities of their team through a series of strategically designed "provocative dialogues." The focus of these sessions was not on content; it was on helping the leader connect differently with their teams and allowing the team to share their insights about what was really happening. New content was in these sessions, but it was camouflaged — it was just part of tackling and looking at real challenges, together, in new ways. The leaders were not allowed to "revert to type," as they were held accountable, by a facilitator, for engaging their teams with openness, curiosity, and vulnerability.

The impact was striking. Rather than getting hung up on interesting models, teams actually engaged around the ways they worked and what they could do differently. Leaders received valuable feedback about their impact on the system and how they needed to change their day-to-day practices to realize the strategy. The impact on the normal operating patterns of these teams, and their collective impact on the organization, led to significant improvements in change agility and performance of the organization very quickly. The sessions were dubbed, by the leaders, "funky team meetings."

People are trapped in organizations, and they learn from the status quo, every day. They react to power in isolated bubbles with familiar populations around known problems. Organizations need to shift from focusing on the traditional content-driven approach of corporate learning to focusing on the context of learning in organizations. People are smart — if you give them the right bread crumbs, they'll find the right way. It is the job of corporate learning to lay out and enable the right bread crumbs.

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STRATEGY

Your Strategy Should Be a Hypothesis You Constantly Adjust

by Amy C. Edmondson and Paul J. Verdin

NOVEMBER 09, 2017

Jonathan Knowles/Getty Images

The widely accepted view that strategy and execution are separable activities sets companies up for failure in a fast-paced world.

One of us (Paul) is a strategy scholar and economist; the other (Amy) studies organizational behavior and operations management. We came together to consider why strategy so often breaks down in the execution stage. While conducting research on recent dramatic cases of strategic failure in different industries, involving vastly different business models and strategies, we discovered a common pattern: What started as small gaps in execution spiraled into business failures when initial strategies were not altered based on new information provided by experience. These companies' strategies were viewed by their top executives as analytically sound; performance gaps were blamed on execution.

Take the notable failure at Wells Fargo last year. Executives formulated a distinctive strategy of cross-selling, which had much to recommend it. Selling additional products to current customers leverages the costs of establishing those relationships in the first place, and serving more and more of their financial service needs (to grab a greater "share of wallet") is appealing, in theory. Wells Fargo was even good in implementing the strategy — up to a point.

Yet the strategy eventually hit the realities of customers' finite wallets (their spending power) and real needs.

Cementing the business failure, salespeople appeared to believe that senior managers would not tolerate underperformance, and found it easier to fabricate false accounts than to report what they were learning in the field. The widespread nature of the behavior strongly suggests that the fraud was not the result of some corrupt salespeople. Rather, it points to a system set up to fail — by the pernicious combination of a fixed strategy and executives who appeared unwilling to hear bad news. (From the perspective of the senior management at many companies, missing sales targets is a failure in the execution of an analytically sound strategy.)

An alternative perspective on strategy and execution — one that we argue is more in tune with the nature of value creation in a world marked by volatility, uncertainty, complexity, and ambiguity (VUCA) — conceives of strategy as a hypothesis rather than a plan. Like all hypotheses, it starts with situation assessment and analysis — strategy's classic tools. Also like all hypotheses, it must be tested through action. With this lens, encounters with customers provide data that is of ongoing interest to senior executives — vital inputs to dynamic strategy formulation. We call this approach "strategy as learning," which contrasts sharply with the view of strategy as a stable, analytically rigorous plan for execution in the market. Strategy as learning is an executive activity characterized by ongoing cycles of testing and adjusting, fueled by data that can only be obtained through execution.

Imagine if Wells Fargo had adopted a strategy-as-learning perspective. Its top managers would have taken repeated instances of missed targets or false accounts as data to help them assess the efficacy of the cross-selling strategy. This learning would then have triggered a much-needed adjustment of the original hypothesis.

The key indicator of a strategy-as-learning approach lies in how managers interpret early signs of gaps between results and plans. Are they seen as evidence that people are underperforming? Or as data that indicates the initial assumptions were flawed, triggering further tests?

Volkswagen's software that allowed diesel engines in its vehicles to cheat on emissions tests is another case of a top-down fixed strategy that suffered in implementation. VW's strategic ambition to become the largest car company in the world required it to conquer the U.S. market. To help VW stand out and win in the U.S. market, its executives formulated a strategy of developing so-called clean-diesel vehicles that leveraged the company's core competence.

As was the case at Wells Fargo, VW's culture — specifically, its executives' lack of tolerance for pushback from people lower in the organization — seems to have played a major role in its diesel-emissions fiasco. Bob Lutz, who held leadership roles at General Motors, BMW, Ford, and Chrysler, describes a "reign of terror" that had long prevailed at VW. This, he says, undoubtedly contributed to VW's ignoring evidence that the claim that the diesel technology could comply with environmental regulations was too good to be true. In this way, VW leaders lost out on the opportunity to revisit and update the strategy. Meanwhile, engineers had developed software to fool the regulators — postponing the inevitable.

Cheating and cover-ups are natural byproducts of a top-down culture that does not accept "No" or "It can't be done" for an answer. But combining this with the approach that treats strategy and execution as separable is a sure recipe for failure. At both Wells Fargo and VW, disconfirming data was available for a surprisingly long time and was not acted on by senior management. Signs that corners were being cut were ignored. And the illusion that brilliant top-down strategies were working persisted — for a time.

We are not saying top-down fixed strategies necessarily lead to fraud. Rather, our point is that these two visible examples of strategic failure illuminate the risks of failing to *integrate* strategy and execution through a deliberate and continual executive-learning process.

Strategy as learning requires senior executives to engage in an ongoing dialogue with operations across all levels and departments. The people who create and deliver products and services for customers are privy to the most important strategic data the company has available. And the strategic learning process involves actively seeking deviations that challenge assumptions underpinning current strategy. Deviations and surprises must be welcomed for their informative value in adapting the strategy. Executives who adopt a strategy-as-learning framework understand that pushing harder on execution may only aggravate the problem if shortcomings are, in fact, evidence of inadequate market intelligence or flawed assumptions about the business model.

Companies that fuse strategy and execution, continually making adjustments and periodic dramatic pivots, demonstrate what strategy as learning can look like in action. Consider the steady strategic morphing of Amazon from online bookseller to global retail powerhouse. Or take ING Bank in the

Netherlands, which adopted an agile approach to strategy and execution that uses “squads” as the company’s “nervous system” to sense changes in customer needs and competitive realities and to give senior executives the data they need to rethink strategy and respond. These and other cases exemplify a fundamentally different (iterative) approach to strategy making.

Of course, embracing a learning approach at the top of the organization is not a new idea. What we suggest has much in common with the notion of execution as learning, introduced in HBR some years ago. Our ideas are also consistent with current work on organizational agility — defined as an ability to sense and respond quickly to changes in the environment. (See these articles by Jeff Gothelf, McKinsey, and the Boston Consulting Group.)

What is new is the idea that closing the gap between strategy and execution may not be about better execution after all, but rather about better learning — about more dialogue between strategy and operations, a greater flow of information from customers to executives, and more experiments. In today’s fast-paced world, strategy as learning must go hand in hand with execution as learning — bypassing the idea that either a strategy or the execution is flawed — to recognize that both are necessarily flawed and both are valuable sources of learning, improvement, and reinvention.

Some of the research for this article was supported by Solvay Brussels School of Economics and Management’s Baillet Latour Chair in Error Management and its senior researcher, Vincent Giolito.

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Harvard Business Review

STRATEGY EXECUTION

Executives Fail to Execute Strategy Because They're Too Internally Focused

by Ron Carucci

NOVEMBER 13, 2017

Imagno/Getty Images

Experts have opined for decades on the reasons behind the spectacular failure rates of strategy execution. In 2016, it was estimated that 67% of well-formulated strategies failed due to poor execution. There are many explanations for this abysmal failure rate, but a 10-year longitudinal study on executive leadership conducted by my firm showed one clear reason. A full 61% of executives told us they were not prepared for the strategic challenges they faced upon being appointed to senior leadership roles. It's no surprise, then, that 50%–60% of executives fail within the first 18 months of being promoted or hired.

Appointing that many unprepared leaders into roles directly responsible for crafting and executing strategy only fuels the risk of executional failure. Here are four of the most common signs that an executive is likely to fail when attempting to bring the organization's strategy to life.

They lack depth in their competitive context. Taking on broader leadership roles usually results in greater insularity for leaders. Their focus is pulled toward internal issues: resolving conflicts, reconciling budgets, and managing performance. Consequently, they pay less attention to external strategic issues like competitor moves, customer needs, and technology trends. One study reports that 70% of leaders spend on average one day a month reviewing strategy and 85% of leadership teams spend less than an hour per month discussing strategy. When leaders fail to understand the competitive context of their organizations, they sometimes hide behind unrealistic goals to overcompensate. When I ask executives to show me their organization's strategy, they often hand me a strategic plan that has product quotas and market share growth targets, or they show me the mission and values statement with some lofty statements on one page. But they rarely show me a clear market identity that articulates who they will serve and who they *won't,* what capabilities they will be disproportionately better at than their competitors, and why their target customers would choose them over competitors.

In a global food company I worked with, the new head of marketing announced that 40% of the coming year's revenue would be generated from new product launches. Nobody in the organization took her seriously, because their product launch efforts had been failures for the past several years. What their consumers really wanted was higher-quality products with healthier ingredients in more-convenient packaging. But she failed to learn the fundamental competitive dynamics of this segment of the food industry, so she defaulted to principles from her experience in an entirely different market. Too many executives fail to learn the basic competitive and financial context of their own organizations prior to assuming senior-level jobs. One executive in our study confessed in his interview, "We all fake it till we make it."

They are dishonest or naive about trade-offs. Strategy, at its most basic level, is a set of choices and trade-offs about where an organization will invest, compete, and win. For more-complex organizations, that means every "yes" to an idea or initiative requires a "no" to several others in order to secure the success of the first initiative. Limiting the number of commitments requires focusing all resources on a narrowed set of priorities, intentionally deprioritizing other efforts. Despite this, most executives struggle to understand the implications of not making effective trade-offs. In companies that poorly execute strategy, a staggering 60% do not even link their strategies to their budgets, guaranteeing a disconnect between commitments and resources. By contrast, in companies that successfully execute strategy, 76% limit the number of strategic initiatives they focus on and 64% actually build their budgets around their strategy.

Diluting the focus of an organization by overcommitting resources institutionalizes mediocrity and cynicism. People feel set up to fail. Saying no is one of the greatest gifts an executive can give their organization. Too many leaders overestimate the capacity of their organizations under the ruse of "stretch goals" or "challenge assignments" to justify their denial of the organization's true limitations. In one of the largest global retail companies I worked with, executional capacity was unusually constrained for an organization of its size and margins. I asked the CEO to estimate how many global initiatives (multicountry, more than $1 million in scope and budget) he thought were active at the enterprise level. He guessed 20 to 25. We did a comprehensive inventory for him — and stopped counting after we reached 147. Failure to make intentional, hard trade-offs when executing your strategy ensures that all efforts are likely to fall short of expected results.

They leave old organizational designs in place. An organizational design is the living embodiment of the company's strategy. You should be able to look at how the organization is put together and instantly detect what it is trying to accomplish. For many leaders, the only organizational lever they know to pull is the org chart. They shift pieces of the hierarchy around as if that could shift performance. But great executives become organization architects, taking a systemic look at capabilities — processes, governance, culture, competencies, technologies — and build them into the organizational machine expressly designed for a particular strategy. Research confirms the importance of this. In successfully executing companies, 77% effectively translate their strategy into operational mechanisms and monitor day-to-day progress.

The CEO of a fast-growing alternative energy company inherited an organization built to be a holding company over five disparate acquisitions that served different segments of the energy market. The strategic play was intended to be an end-to-end provider of energy solutions for private- and utility-sector customers. The only way for that to happen was to fully integrate the five companies into one enterprise built to deliver integrated solutions. The CEO intelligently, and courageously, took on the hyper-entrepreneurial cultures of the smaller companies. He chartered a design team comprising leaders from all five and built a ground-up enterprise design that integrated the best capabilities of each. Lesser CEOs would have naively tried imposing standardized core processes or aggressive incentive systems over the holding company design as a way to force cohesion, and would have ultimately failed. He knew the only way to successfully execute the bold strategy was to overhaul and align the organizational design.

They can't handle the emotional toll. For many leaders, the taxing nature of enterprise-level leadership is too great. Being sufficiently knowledgeable about context requires a huge tolerance for ambiguity and the acceptance of a perpetual learning curve. Making hard trade-offs means saying no to people and facing the many dysfunctional ways people deal with being disappointed by their leader. Shifting organizational designs means having to address the harsh realities of instigating major change — organization-wide anxiety, intensified political dynamics, and sometimes having to part ways with those not prepared for the new world you are creating. It's no surprise that mental and physical stress-related illnesses are high among executives. While some executives thrive on the challenges inherent in the trailblazing work of strategy, many simply collapse under the emotional toll it takes. In our research, 38% of executives said they didn't expect the loneliness and isolation that accompanied their jobs and 54% said they felt they were being held accountable for problems outside their control. Given the ruthlessly unforgiving nature of executive jobs, I encourage all my clients to have a team of professionals around them, including an executive coach, a licensed therapist, a personal trainer, and a nutritionist. That kind of "scaffolding" helps leaders bear the harsh realities of strategic leadership in healthier ways.

The work required to effectively craft and execute a company strategy is extraordinarily difficult. It's no surprise that many try to oversimplify it, or dilute it to match whatever level of competence they have. But if organizations actually invested in preparing executives for the real requirements of these roles, we would see failure rates decline and companies more consistently adapt and thrive.

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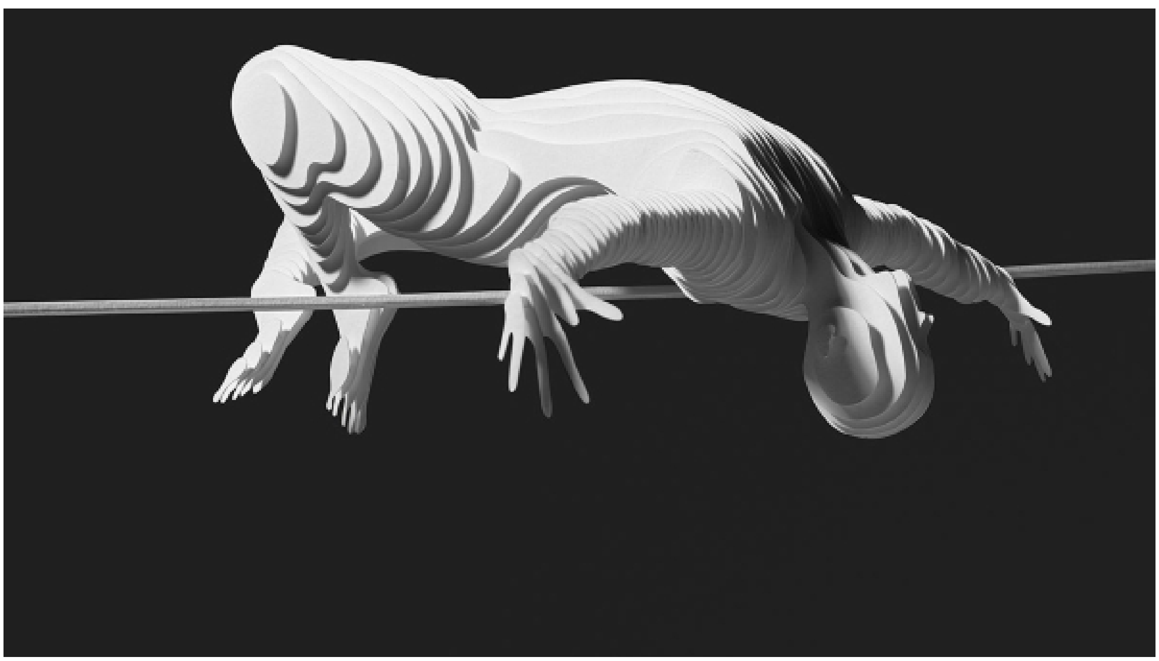
Harvard Business Review

STRATEGY EXECUTION

Your Strategy Has to Be Flexible — But So Does Your Execution

by Martin Reeves and Rodolphe Charme di Carlo

NOVEMBER 14, 2017



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Peter Drucker said: “Plans are only good intentions unless they immediately degenerate into hard work.” This and a slew of similar maxims reflect a common view of strategy execution: that it’s distinct from strategy, harder to pull off than defining a strategy, and therefore more critical to success — underpinned by seemingly indisputable virtues such as diligence, discipline, consistency, alignment, and focus. But such a simplistic view of execution can be misleading and can reduce actual impact.

In fact, several frequently observed traps result from such a view of execution:

1. **Losing the plot.** Action plans and Gantt charts can span many pages in pursuit of precision and concreteness. But excessive complexity can undermine thoughtful execution as much as a failure to specify tactics. In the worst case, busyness can become an implicit goal or cultural norm, and the original strategic intent can be lost in a frenzy of detail and activity. Execution must be insightfully focused on the most critical aspects of a challenge, or those which unlock other critical actions. For example, if category expansion is critical to value creation in a particular strategy, plans should focus disproportionally on how to achieve this. For example, former Mars' president Paul Michaels shares in *Your Strategy Needs a Strategy*: "The job of strategy for a segment leader like us is to drive category growth, and that's the thing you should be thinking about all the time."

2. **Metric obsession.** Drucker's exhortation, "What gets measured gets managed" is often invoked when approaching execution. In the sense that results count, and their quantification is desirable, it seems irrefutable. But the worst way to achieve a goal can sometimes be to pursue it directly. For example, new drugs are not discovered by pursuing a target number of new drugs, but rather by exploring new areas of chemistry and biology. It is also be a mistake to restrict ourselves to managing what we can easily measure. Few would deny the importance of corporate culture, for example, even though it is not easily quantifiable.

3. **Planning myopia.** Emphasizing compliance with a plan can, under stable conditions, accelerate fruition of a strategy. But under the changing conditions of a nascent or recently disrupted industry, a rigid plan can become a straitjacket for the flexibility and adaptation which is required to succeed. To take a historical example, centrally-planned economies in the Eastern Bloc left no space for adaptation to even the simplest types of change, like variation in demand. This inevitably created shortages and over-supply of goods.

4. **Missed learning opportunities.** The value of execution can, in the simplest cases, be boiled down to the successful accomplishment of specific tasks. But where a high degree of uncertainty and change is involved, the value can instead reside in the learning which accompanies execution, whether or not the immediate outcome is successful. A famous example is YouTube, which began as a video dating site back in 2005. The site failed to gain traction so the founders, leveraging what they learned while building the original platform, launched another version of the website focusing on sharing videos online, with significantly more success.

5. **Tyranny of intermediate goals.** When goals and tasks are broken down several times into lower level ones, it can clarify what is required of an individual or department and can therefore help scale the job of execution. But often the intermediate goal or task becomes an end in itself. A famous example is Hoover's free flights promotion. In 1992, to free-up warehouse space, the UK team promised free airline tickets to customers who purchased more than £100 worth of its products. A little later, the U.S. marketing team offered the same promotion to U.S. customers in order to boost sales. The offer was implemented so "successfully" that the company could meet neither the demand for vacuum cleaners, nor the cost of the flights. As a consequence, after the courts settled customer complaints, the U.S.-based company had lost £48 million and had to sell its UK branch a few years later.

6. **Missing the forest for the trees.** Strategic plans are often broken down into different modules for execution by different parts of an organization. Yet sometimes optimization of the parts does not lead to optimization of the whole. To take a biological example, the U.S. National Parks policy used to be to extinguish all forest fires. This led to an increase in the severity of fires. Why? Because most fires are small and stop by themselves, while creating natural firebreaks and eliminating the undergrowth which can fuel larger fires. In 1972, the policy was therefore adjusted so that only man-made fires were fought. Businesses can be equally complex: a diversity initiative, for example, might include some compulsory training, but if this triggers sentiments of resistance and skepticism, it can be self-defeating. Every action can change perceptions, motivations and actions, such that a list of individually plausible actions can easily create the opposite of the intended effect. In such cases, a holistic perspective to strategy and execution is required.

7. **Execution as a thing.** We often treat strategy and execution as being separable disciplines, each with its own distinct, and constant character. But as we have shown in *Your Strategy Needs a Strategy*, different strategic environments require different approaches to strategy and execution. A nascent technology business might require an adaptive approach and a stable commodity business might require a classical, planning-based approach. In predictable classical environments, strategy formulation can be separated from execution. But in adaptive environments, it cannot, since "strategy" continually emergences from amplifying the results of success experiments, i.e. execution. Furthermore, the nature of execution is also very different for each case. In the first, it centers on compliance to a pre-determined plan, in the latter on decentralized initiative taking and experimentation.

8. **Tyranny of practicality.** That an execution plan be "practical" – simple, concrete, familiar and unchanging – seems incontrovertible. Execution is praxis, after all. But when dealing with new or changing situations, familiar, plausible actions can easily fail to achieve the desired effect. Polaroid, for example, was a pioneer in digital photography. Yet, it tried to sell its digital cameras using the same business model as its film-based cameras – by aiming to make high margins on instant film sales. Believing that users would want hard copies, they added digital technology to instant cameras, instead of creating a new product not requiring film. As we now know, the company lost to rivals. Former Polaroid CEO DiCamillo summarizes the company's failure well: "The reason we couldn't stop the engine was that instant film was the core of the financial model of this company." More broadly, a mature business can often create its own increasingly questionable reality by focusing on the part of the market where its own beliefs about how things work still apply, creating a double opportunity for disrupters – one physical and one mental. Indeed, entrepreneurs and disrupters often refer to this double inertia of incumbents as their greatest asset in taking on incumbents.

We should not let the simplistic but comforting dualism of strategy and execution deceive us. Execution should be as varied, as thoughtful, as subtle, as diverse and as intertwined with strategy as is necessary to get the job done, and that will vary according to the specific challenge at hand. In short, your execution needs a strategy.

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Harvard Business Review

DISRUPTIVE INNOVATION

3 Changes Retailers Need to Make to Survive

by Nick Harrison and Deborah O'Neill

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Danita Delimont/Getty Images

Few industries are being disrupted as drastically as the retail industry. Pioneers of new business models, such as Alibaba and Amazon, are launching innovations in rapid succession, such as voice ordering and real-time pricing, while simultaneously building scale and driving down costs. More retail purchases are moving online, and a growing number of manufacturers now sell to consumers directly, cutting out retailers entirely. Making matters more challenging, these shifts are happening across practically every retail category – books, entertainment, housewares, clothing, food, financial services, and even energy.

The retailers left standing are those that figure out how to treat disruption as business-as-usual in an industry accustomed to slow, strategic planning. Today, even long-established retailers are starting to set and deliver on selling strategies at the nearly real-time pace set by their online competitors. It's either adapt to the new environment or step aside and make room for a competitor who can.

To accommodate frequent, fundamental changes to business models, leading retailers generally follow three principles that have been developed through trial and error, often in the midst of disruption. Below, we explore each one, in turn:

Empower mid-level teams. While executives excel at setting a firm's strategy, it usually takes teams made up of people on the front line from all of the divisions affected by proposed changes to figure out how to implement them at pace. That's why Alibaba and Amazon, for example, create and sprinkle autonomous cross-functional teams across their respective companies to invent and deliver products in new ways. These teams regularly come up with innovations that enable these online retailers to roll out more new products and services faster than their competitors.

At other future-focused retailers, setting up autonomous, cross-functional teams to meet constantly evolving challenges is taking hold in different ways. Some retailers maintain a separate in-house team to try out potentially superior new systems that don't follow traditional rules, in parallel with existing processes. Others have gone so far as to start their own technology incubators, such as Walmart's Store No. 8, to invest in small firms to test out new technologies – such as advanced data analytics or new ways to deliver products – before bringing them in-house. By incorporating these disruptors into its own operations, a retailer can more easily pose challenging questions and embrace change more quickly.

Once given permission to "think the unthinkable" via cross-functional teams, retailers can often realize material impacts on agility and costs. For example, by pulling together people from finance, human resources, sales, and other product-related departments, one retailer figured out how the company could operate with one-third fewer employees in its stores. The group designed an entirely new store model from the ground up, using lean store approaches, and cherry-picked the company's best products, reducing the number of offerings by 70% in its catalog and by one-quarter in its stores. They also simplified checkouts and shelf restocking processes and equipment.

By streamlining store complexity, the team was also able to slash the retailer's supply chain costs by 20 percent. In the process, the company became better acquainted with its customers – what they liked to buy and how they liked to shop.

Leading retailers continually improve their businesses by encouraging employees to not only abandon old ways of doing things, but to think as if they were creating the company from scratch and picking the system or tool that makes the most sense. This is especially effective since cross-functional teams do not answer to a particular department. So they are more likely to recognize, for example, when a company's legacy IT system has become a stumbling block to progress – a common affliction in retail operations.

Engage executives in continuous small sprints. Companies often pull together teams made up of technologists and front-line managers to continuously test and refine paths to progress, remove obstructions, and keep things on track. But top retailers have found that executives, including chief executive officers, need to get involved day-to-day for revolutionary thinking to be accepted quickly. Otherwise, issues raised will go unresolved or projects will drift back to more conventional paths.

At Amazon, for example, executives are required to "dive deep" as well as to "think big." That means they are expected to work regularly with junior operational teams to solve specific issues as well as set strategy, and they are rated by others on their ability to strike the right balance. By taking this approach, Amazon can improve its processes swiftly and the company's senior leadership stays in touch with what's happening on the front line.

One way insightful retailers are breaking free from their conservative cultures is to have the CEO lead a weekly "drop in" meeting for project teams or 15-minute daily catch-ups. When CEOs lead these meetings, teams can raise any issues, big or small, and get them resolved in minutes. Even complicated issues that cut across traditional organizational boundaries can be detangled, such as getting permission to change a marketing campaign without checking with the marketing director or to test a new product offer in stores without first having to secure agreement from both the commercial and store operations departments. Executive involvement can also help with breaking free of strongly ingrained principles or procedures, such as rules around how products are displayed on shelves.

Enable people to feel comfortable with failing fast – including the CEO. Leading retailers have developed the ability to nimbly change direction, even based on beta testing. The ones that do this best have CEOs who fight their instincts to avoid failure and instead champion taking more risks and learning from them – even at the very top of their organizations.

Amazon has practically codified failure throughout the company by separating decisions into "one-way doors" and "two-way doors." One-way doors are decisions that are difficult to reverse, such as a big acquisition, where it's critical for the decision to be more carefully considered and made at a slower pace. But two-way door decisions are reversible without costing the company its life, such as a new product launch or pricing decision. It's assumed that these decisions can be made fast with limited information and that failing is okay. As a result, Amazon can regularly adjust to trends and rush out products.

In some cases, retailers are setting up "lab stores" — pop-up establishments designed to test a specific hypothesis. Nordstrom, for instance, has set up a smaller "Nordstrom Local" test store where customers can try on clothes and then have them delivered to their homes later the same day. Nordstrom offers customers time-saving, personalized attention by keeping personal stylists, tailors, and manicurists at the store. But it does this at a lower cost by pulling merchandise from its other larger mall-anchored stores and web site instead of keeping inventory for purchase in stock.

The retail upheaval that began two decades ago when Amazon was founded is nowhere near an end. While painful, the turmoil has given retailers a head start in discovering how to transform constant disruption into new ways to unleash inventions that make their operations stronger. If managers in other industries take a page from retailers' playbooks, dealing with disruption could start to feel like second nature to them as well.

Editors' note: We've updated this article to correct that Walmart's Store No. 8 is a technology incubator, not a venture capital fund.

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Harvard Business Review

STRATEGY EXECUTION

Figure Out Your Company's Make-or-Break Strategic Problems, Then Use Small Teams to Solve Them

by James Allen

NOVEMBER 16, 2017

rosmaro/Getty Images

Can a large incumbent company rediscover how to act like an agile start-up?

I believe the answer is yes, though success depends largely on another question: Can the executive team learn to get out of the way?

Behaving like an agile start-up implies speed, a sharply defined mission, and a deep understanding of customers. Those qualities allow a company to consistently formulate the right strategy and execute it cleanly—but also to pivot decisively when conditions change.

Big companies generally don't act this way, and neither do their leaders. The complex organizations they've built to capture the advantages of scale slow them down and dull their reactions. Internal issues and processes muffle the voice of the customer. Divisional politicking fragments the sense of mission. There's too much planning and not enough doing.

When companies do find a way to recapture the insurgent energy of a start-up, it's usually because leadership has emphasized two things. The first is clarity. Ask what their mission is and they can tell you in a sentence, ticking off on their fingers the three or four distinctive capabilities that ensure its execution. The second is focus. Starting with a bold strategy, they pick specific battles that must be won and then design initiatives to attack potential failure points—the game-breaking issues that stand in the way of success.

At Bain, we call these initiatives "micro-battles" and believe they are a powerful tool for fighting back against the complexity that slows companies down when trying to implement strategy. Though they may sound like an exercise in micromanagement, they are actually the opposite. Leaders of these companies work relentlessly to focus the enterprise on their strategy's biggest potential challenges, but they delegate solving these issues to small, cross-functional teams of specialists drawn from across the company. That forces the action closer to the customer, dials up speed, and begins to break down bad corporate habits that have accumulated over time.

Micro-battle teams use agile ways of working to achieve narrowly focused missions, not sweeping divisional priorities. They have the authority to make rapid decisions rather than shop approvals up the line. Their objective is always to get a basic prototype, or "minimum viable product," in front of customers as quickly as possible. They can then test it, learn from it and devise a new prototype in rapid, iterative cycles based on real-world customer data.

Micro-battles are all about using these fast test-and-learn cycles to innovate—developing new products, opening new markets, figuring out better ways to do things. They also shed valuable light on the corporate behaviors, cultural habits, and complex processes that cut down innovation in its tracks. Building a winning prototype that incorporates both kinds of learning is the first aim of the micro-battle team. But the solution can start to be transformational if the team can turn that prototype into a repeatable model that can be rolled out across the organization.

Needless to say, trusting teams with this kind of responsibility doesn't come naturally for many top executives. Most leaders, in fact, have been trained *not* to trust those around them. Their default mode is to second-guess, to challenge, to assume they know better. Rather than solve the specific, their impulse is to broaden the inquiry, which only makes problems bigger.

Even leaders who embrace the micro-battle concept have trouble breaking old habits. One global logistics company CEO, for instance, launched a series of micro-battles in a bold effort to shake up a tired organization and implement a new strategy. The company staffed the battles with 20 of its biggest stars and set them free to start building prototypes. When the teams and top management gathered a month later to talk progress, the CEO showed up late and was clearly distracted. Ordinarily, this would have been a golden opportunity to exercise new coaching muscles and build up team confidence. But that didn't happen. Instead, the CEO asked: "So whose idea was this thing?"

"Well, actually, it was yours," answered one deflated micro-battle leader. "Three weeks ago, you asked me to lead what you said was one of your most important priorities."

Changing leadership behaviors like this is a major part of making micro-battles work. It means standing the typical large-company approach on its head. Instead of creating enterprise-scale solutions at the center and pushing them down through the organization, leaders rely on teams of front-line stars to find solutions that actually work in the real world and then help them clear a path to broad corporate adoption. Leaders set strategy. They make the hard decisions about which micro-battles to fund and at what level. But their most important role is coaching, mentoring, and breaking through the inevitable big-company organizational hurdles that would otherwise block progress. This typically requires a period of behavior modification as leaders buy into moving decision making closer to the front line. But if leaders set the right course and deploy the right people, it should be easy to trust that their teams will deliver the goods.

More than anything else, companies that act like insurgent start-ups know how to get things done. They have finely tuned radar for what customers want and are relentless in delivering it quickly. The most effective micro-battles are set up as microcosms of the fast-moving, strategy-driven insurgent you want to become. Given the chance, that energy will grow and spread across a large organization. The biggest challenge for leadership is stepping back and letting it happen.

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Harvard Business Review

LEADERSHIP DEVELOPMENT

How to Excel at Both Strategy and Execution

by Paul Leinwand and Joachim Rotering

NOVEMBER 17, 2017

Adam Pretty/Getty Images

For decades, we've often thought of leadership profiles in unique buckets—two popular varieties were the "visionaries", who embrace strategy and think about amazing things to do, and the "operators", who get stuff done. We intuitively knew that there must be leaders that span these areas, but in fact, few do. According to a global survey of 700 executives across a variety of industries conducted by Strategy&, the strategy consulting division of PwC, only 8% of company leaders were said to excel at both strategy and execution.

You may think that success can be achieved by excelling at either strategy or execution individually—that great visionaries can change how we see the world, or that amazing operators can wind up outperforming competitors. But our experience and research suggests that the days of keeping strategy and execution as separate topics are ending: We need leaders that can create big promises to customers, *and* help their organizations deliver on those promises.

Take Starbucks: CEO Howard Schultz created a very ambitious aspiration for the company, far more than just being a seller of coffee. He wanted Starbucks to be a "third place" for conviviality beyond home and the workplace. Visit a Starbucks anywhere in the world, and you will find the same consistently comfortable and welcoming ambiance. But he didn't get there simply by telling his staff to "be warm and friendly".

Starbucks has been able to deliver on its promise because that promise is tightly linked to the company's distinctive capabilities. The feel of Starbucks stores isn't created merely by the layout and the décor—it exists because the people behind the counter understand how their work fits into a common purpose, and recognize how to accomplish great things together without needing to follow a script.

Over many years, Starbucks has built a capability to foster a relationship-driven, "employees-first" approach. It was Schultz who famously said "You can walk into [any type of retail store] and you can feel whether the proprietor or the merchant or the person behind the counter has a good feeling about his product. If you walk into a department store today, you are probably talking to a guy who is untrained; he was selling vacuum cleaners yesterday, and now he is in the apparel section. It just does not work."

Schultz made sure that Starbucks would be different: Workers are called "partners" rather than employees, and even part-time staff (in the U.S.) receive stock options and health insurance. At the height of the global financial crisis, when other companies were cutting HR costs wherever they could, Starbucks invested in staff training, including coffee tastings and courses that ultimately qualified employees for credit at higher education institutions. Beyond employees, much of what you will see and experience at Starbucks has been well thought out to accomplish the company's mission, from the music played to the furniture selected. Even the bathrooms are strategic at Starbucks, because they play a part in allowing customers to spend time in the "third place."

Leaders like Howard Schultz don't just have both the visionary and operator skills—they deeply value the connection between the two skill sets. In fact, they see them as inextricably linked, since a bold vision needs to include both a very ambitious destination *and* a well-conceived path for execution that will get you there. This is ever more important today, where differentiating your company is so difficult. Differentiation increasingly requires more innovative thinking, and the use of very specific areas of expertise (like Apple's winning design, a capability that wouldn't have been prioritized in most technology companies before Jobs).

Leaders who master both strategy and execution start by building a bold but executable strategy. Next, they ensure that the company is investing behind the change. And last, they make sure the entire organization is motivated to go the journey.

Developing a bold but executable strategy starts with making sure leaders have addressed the questions of "What are we great at?" and "What are we able to achieve?" rather than coming up with lofty plans and asking functional and business-unit teams to do their best to execute. Indeed, they spell out the few differentiating capabilities that the company must excel at to realize the strategy.

Ensuring that the company is investing behind the change means that leaders recognize that the budget process is one of the most important tools in closing the strategy-to-execution gap. Cost isn't an exogenous variable to be managed—it is the investment in doing the most important things well. But rarely are budgets linked closely to the strategy. If your company is merely incrementalizing the budget up or down by a few percentage points, ask yourself whether the investments are really reflective of the most important tasks.

Motivating individuals is a hugely underleveraged tool to close the gap between strategy and execution. Great leaders know that success stems from specific skills that come together in unique ways to do the challenging tasks in executing the strategy. But today most employees don't even understand how they are connected to the strategy. In a recent (not-yet-published) survey of 540 executives, managers, and non-managers by Strategy&, only 28% of employees said that they feel fully connected to the purpose and identity of their organization. Articulating the strategy in human terms—what capabilities the company will need to build, and what skills are required to do so—not only helps the company focus on how to develop the right talent, but it allows individuals to understand how their role fits into the overall strategy, and allows them to see their work in a much more fundamentally connected way.

How are you doing in combining strategy and execution? Below are some questions for you to think through that cover all three stages of the strategy-to-execution continuum. Getting these three areas right allows leaders to make a big step forward toward closing the gap between strategy and execution:

1. ***Build the strategy***.

- Are you very clear about how you add value to customers in a way that others don't, and about the specific capabilities that enable you to excel at that value proposition?
- As strategies are being developed, are you using the classic approach of "build the strategy, then think about execution," or are you asking yourself the question, "Do you have the capabilities needed—or can you build the capabilities needed—to execute the strategy?"
- As you're dealing with disruption, are you shaping the world around you with your given strengths, or are you waiting for change to happen, and therefore playing by someone else's rules?

2. ***Translate the strategy into the everyday.***

- Are you diligently following through on what you have decided? You need to be very clear about what the strategy is and what it takes to succeed—and to communicate it so that everyone in the organization understands what they should be doing.
- Are there visible programs (for example specific new technologies, new processes, or training programs) to build the key capabilities your organization needs to win with its strategy?
- Are you building specific connections between strategy and the budgeting process so you're reallocating funds to where they matter most? And do you have mechanisms in place that translate the strategy into personal goals and rewards for managers and employees?

3. ***Execute the strategy.***

- Are you motivating employees every single day to understand how what they're doing connects to the important strategic levers that you have focused on?
- Are you enabling employees to work together across organizational silos to tackle the cross-functional challenges that allow the company to win?
- Are you keeping track not just of your performance, but of how you're building and scaling up those few key capabilities that enable you to create value for customers in ways that others cannot?
- Is your management team engaged in how you are executing the strategy—not just by measuring results, but by constantly challenging the organization and supporting it in improving its key capabilities? Are you setting your team's sights high enough for what they need to accomplish, and by when?

We believe there's a tremendous upside for companies that can succeed at strategy through execution. The leaders who are able to be both visionaries and operators, and switch between these two mindsets, are the ones who can turn their organizations into super-competitors.

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Harvard Business Review

STRATEGY EXECUTION

5 Ways the Best Companies Close the Strategy-Execution Gap

by Michael Mankins

NOVEMBER 20, 2017

James Balog/Getty Images

Executives say that they lose 40% of their strategy's potential value to breakdowns in execution. In our experience at Bain & Company, however, this strategy-to-performance gap is rarely the result of shortcomings in implementation; it is because the plans are flawed from the start.

Too many companies still follow a "Plan-then-Do" approach to strategy: The organization works tirelessly to create its best forecasts about the future market and competitive landscape. Leadership then specifies a plan that it believes will position the company to win in this predicted future. This approach may have made sense when first popularized by GE and others in the 1970s, but in today's fast-paced world, the "cone of uncertainty" surrounding future market and competitive conditions is too great for companies to prescribe every element of a multiyear strategy. The Plan-then-Do approach is obsolete – even dangerous.

Today's successful companies close the strategy-to-performance gap with a new strategy approach best described as "Decide-Do/Refine-Do". This agile, test-and-learn approach is better suited to today's tumultuous environment. It also helps bridge the chasms that exists at so many companies between great strategy, great execution, and great performance.

Here are five lessons we've gleaned from what we see the best companies doing:

Treat strategy as evergreen. The best companies see strategy less as a plan and more as a direction and agenda of decisions. In effect, a company's strategy is the sum of decisions it effectively makes and executes over time. This mindset focuses leadership on making near-term decisions with the longer-term destination in mind, but it doesn't presume that there is only one path from here to there.

Take Dell Technologies, for example. Following the company's go-private transaction in October 2013, Dell put in place new models for strategy development, resource allocation, and performance management. Instead of formulating detailed, long-term financial plans, executives at Dell now align around a common performance ambition—a cash flow vector consistent with growing the company's intrinsic value faster than competitors. Executives then delineate a multiyear outlook for each of Dell's businesses, capturing the current performance trajectory of the business given the decisions management has made to date. Finally, the team defines a strategy agenda comprising the highest value at stake and most urgent issues that leadership must address to close the gap between its ambition and Dell's current trajectory.

Dell's executive leadership team focuses on systematically addressing the issues on the company's strategy agenda. Once they address an issue and make a decision, they allocate the resources needed and turn to the next issue on the agenda. Strategy development at Dell is no longer a batch process tied to some planning calendar; it is a continuous process.

Value flexibility. When the road is obstacle-free, the value of maneuverability is low. Leadership is better off selecting a single path forward, even if it limits the company's ability to steer around potential roadblocks. In today's world, however, flexibility matters.

The rise and fall of Webvan illustrates the cost of an inflexible strategy. Internet usage was growing fast when the world's first online grocery delivery business hit the scene in 1996. Webvan promised to deliver the best quality groceries at the cheapest price by the click of a button. The strategy required a massive capital investment in a nationwide system of distribution centers with robotic stock-picking equipment. To justify the investment, Webvan made a bold forecast of future usage, order sizes and costs. There were no reliable proxies to use to create this forecast. Any deviation from management's forecast meant failure, regardless of how effectively the strategy was executed. Unfortunately, usage turned out to be far lower than expected, order sizes much smaller, and capital costs far higher. Webvan was forced to cease operations by 2001.

Think of strategy as a portfolio of options, not bonds. The traditional plan-then-do model treats the value of any strategy like a bond. Management forecasts the future coupon payments (or cash flows) associated with various strategies and then selects the one that has the highest discounted value. When volatility is high, however, strategic decisions should be treated more like call options. Leadership decides whether the small up-front investment is worth making as a call on potential profits. As long as the option appears "in the money," management can continue to invest; the moment the strategy becomes "out of the money," leadership can stop investing, cut its losses, and move on.

Take Google. Since 2005, Google (and more recently, its parent company, Alphabet) has invested in countless new ventures. Some have been highly publicized (YouTube, Nest, Google Glass, Motorola phones, Google Fiber, self-driving cars); others are less well known (grocery delivery, photo sharing, online car insurance comparison). While many of the company's investments have succeeded, some have not. Larry Page and his team have been quick to respond, shedding these investments and doubling down on others. Over the past three years, Alphabet has closed smart home company Revolv, shut down Google Compare, paused Google Fiber, and sold Motorola Mobility to Lenovo. During this same period, the company has increased its stake in cloud services and various new undertakings managed by the company's X lab group. By treating strategic investments like options, Alphabet has avoided committing too early to new businesses. This approach has also allowed the company to double down on promising ventures and build them into profitable new businesses.

Create response mechanisms. In a world where the best laid plans can go awry, companies that react quickly and effectively come out on top. Rigorous contingency planning is as important as disciplined action planning. It requires that you identify the most important known unknowns associated with your company's strategy, specify concrete steps to adjust course if you see an unplanned change in the external environment, and put in place mechanisms to continuously monitor market and competitive conditions. Caterpillar, for example, is reported to have put in place robust contingency plans in advance of the global financial crisis in 2007. Well before the crash, Caterpillar's CEO insisted that all division heads develop contingency plans for a recession. At the time, Caterpillar and its competitors were at full capacity, and global demand was high. Few of Caterpillar's competitors were contemplating a downturn. When the recession hit, Caterpillar put its contingency plans into effect, safeguarding the company's profits and giving it the ability to support critical players in the value chain.

Test and learn, then test some more. Agile planning can be thought of as a series of time-boxed sprints—or micro-battles, as my Bain colleague James Allen would say—with the objective of moving forward, testing the waters, learning, and refining the strategy based on the results.

Caesars Entertainment has built test-and-learn into its marketing investments. For gaming companies such as Caesars, promotions are a major strategic investment. Successful promotions (free hotel rooms, subsidized flights, comped meals) bring new customers to the casino, and the profits generated by the games they play offset the cost of the promotion. Many promotions are unsuccessful. They either fail to spawn new customer interest or the cost of the promotion is too high relative to the incremental gains. Caesars uses its network of more than 50 casinos to test promotions before rolling them out. This test-and-learn approach lets Caesars limit the unsuccessful promotions and ensures that its most successful promotions are pushed out to as many casinos as possible.

Most companies do not take advantage of their opportunities to test and learn. They go for a big bang — and risk a big bust — when a series of smaller, more productive bangs would generate better results.

Great performance requires great strategy *and* great execution, but poor execution is often used as an excuse for flawed strategy. Today's leaders need a new approach to strategy development. They can no longer define a plan over many years and then just do. Success requires identifying the next few steps along a broadly defined strategic path and then learning and refining as you go. This approach makes execution easier and increases the odds of delivering great results.

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Harvard Business Review

STRATEGY EXECUTION

CEOs Should Stop Thinking that Execution is Somebody Else's Job; It Is Theirs

by Roger L. Martin

NOVEMBER 21, 2017

Awakening/Getty Images

The common perception is that strategy is done at the top of the org chart, and execution is done below. It is exactly the opposite – let me explain why.

First, I should explain that I have always hated the use of the term "execution." Its common definition is fundamentally unhelpful, and contributes to what executives often call "the strategy-execution gap."

Usually when businesspeople talk about "strategy" and "execution," the former is the act of making choices and the latter the act of obeying them. My quibble with this characterization is that the things that happen in the activity called "strategy" and the activity called "execution" are identical: people are making choices about what to do and what not to do. In my 36 years of working with companies, I still haven't seen an example of a strategy that was so tightly specified that the people "executing" it didn't have to make major choices—choices as tricky and important as the so-called "strategy choices" themselves.

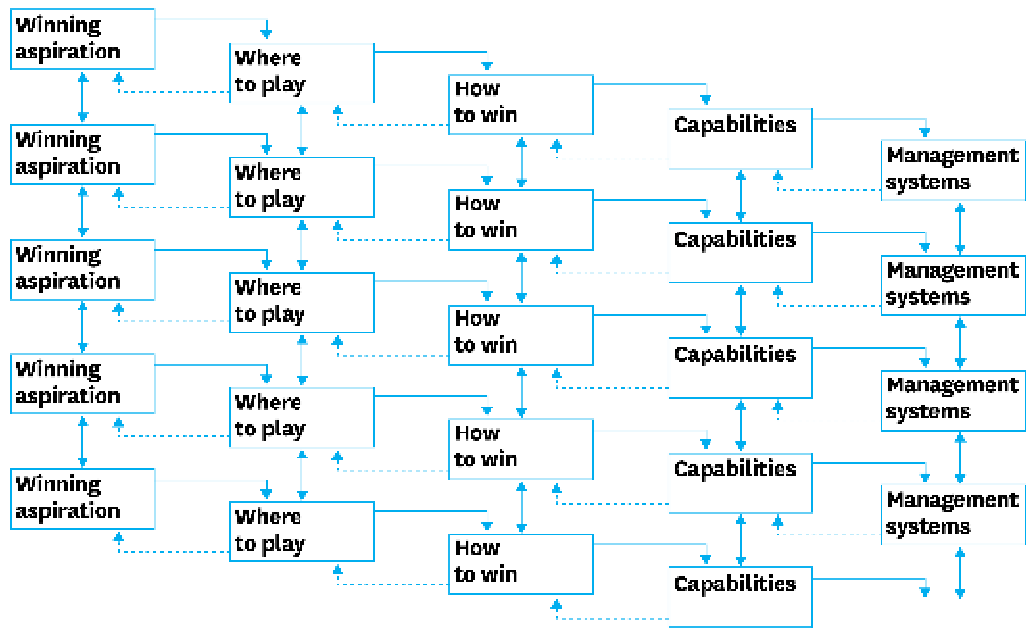
For example, imagine that the CEO's chosen strategy is to differentiate on the basis of superior "fit and finish," e.g., the flawlessness and detail-orientation of her products. She asks her EVP of manufacturing to please go execute that strategy. That strategy is not sufficiently specified for the manufacturing EVP to just do it without needing to contemplate making some a number of key choices—nor will it ever be. What are the various plausible ways of beating my competitors on "fit and finish"? Which has the highest probability of success? Is it even a plausible way of winning against competitors who already focus on "fit and finish"?

Since those choices look remarkably similar to the kind of choices made by the CEO, it begs the question: Why on earth do we call the CEO's choices "strategy" and the EVP's choices "execution?" Of course, as people are wont to point out, the EVP's choices are constrained by the CEO's choices, so aren't they fundamentally different? That would only be a valid argument if the CEO's choices were truly unconstrained. But ask CEOs and they will give you chapter and verse about the many constraints they face, from capital markets to boards of directors to regulations.

In complex organizations, there is very little choiceless doing. Even after the Manufacturing EVP decides how to differentiate on fit and finish, his SVP Plant Operations will have to make some important choices, as will her VP of Plant Logistics, and so on. The is why my conception of strategy work in organizations is as a series of interconnected choices: What's our winning aspiration? Where will we play? How will we win? What capabilities do we need in order to win? And what systems do we need in place to manage those capabilities? We might visualize it this way:

How Strategy Really Happens in an Organization

It's an interconnected cascade of choices.



SOURCE *PLAYING TO WIN: HOW STRATEGY REALLY WORKS*, BY A.G. LAFLEY AND ROGER L. MARTIN (HBR PRESS, 2013) © HBR.ORG

No matter where you are in the organization, the choices are the same: they are all where to play/how to win strategy choices. The arrows show that you can't either start at the top and proceed downward or start at the bottom and proceed upward. You have to toggle back and forth until the choices fit with and reinforce one another.

And that is why I describe leadership in this layered choice cascade as follows:

1. Make only the set of choices you are more capable of making than anyone else.
2. Explain the choice that has been made and the reasoning behind it.
3. Explicitly identify the next downstream choice.
4. Assist in making the downstream choice, as needed.
5. Commit to revisit and modify the choice based on downstream feedback.

Until recently, I had never once heard a useful or compelling definition of execution that distinguished it from strategy – literally not a single one. That is, until in a strategy seminar for senior Verizon executives, a young executive named Andres Irlando offered up the following: *Roger, wouldn't you call execution the act of setting up that series of choice cascades, identifying the manager responsible for the choices in each cascade, and following up to ensure that they make the choices for which they are responsible?*

A brilliant answer! Strategy is the act of making choices about “where to play” and “how to win” across the various levels and parts of the organization. Execution is the act of parsing out responsibility for those choices, making sure people actually *choose* (instead of waffling around in indecision).

This reverses the normal implied responsibilities. While the traditional definitions hold that strategy is done at the top and execution is done below, in this alternative, more useful definition, strategy choices are made *throughout* the organization and the responsibility for execution lies at the top.

If there’s a “strategy-execution gap” in a company you lead, consider whether adopting the role of the executor would help you close it.

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Harvard Business Review

STRATEGY EXECUTION

Is Your Company Actually Set Up to Support Your Strategy?

by Eric Garton
NOVEMBER 22, 2017

sweetvenom/Getty Images

How do banks switch customer relationships from branch offices to mobile phone screens? Why is one multinational consumer goods company organized by category, while another organizes by region? Why is one insurance company deep into an agile transformation while another is experimenting with it only at the edges of its business?

For every company wrestling with evolutions in its strategy, success depends as much on matching the operating model to those evolutions as it does on the soundness of the strategy itself. Whether a company has reinvented itself, sought growth through expansion, or turned to partnerships or M&A, gaps between what it says it does for customers and what it delivers are usually the result of an operating model that isn't set up to deliver the strategy.

An "operating model" — how a company organizes and manages its resources to achieve its strategic ambitions — is the bridge between strategy and execution. The idea that organizational structure follows strategy is not new — business historian Alfred Chandler laid this out in 1962 in his book *Strategy & Structure*. But exactly how do today's companies create or update an operating model to match adaptations or wholesale changes in strategy?

After all, a well-designed operating model involves far more than the lines and boxes or spans and layers in the organization chart. It includes accountabilities. Who has P&L authority? Who on that org chart has the authority to make which decisions? As companies move to more agile operating models, they must learn to balance accountability with autonomy. A new operating model also requires a governance structure and leadership model so leaders know how they will exercise operational control and inspire employees—and hold themselves accountable for doing both. That means choosing the right dashboards, defining which metrics matter most and mapping out how long-range planning, resource allocation, and budgeting will work. And since people ultimately make all the difference, your operating model should define how you manage the assignments and career paths for your difference-making talent.

Crucially, the operating model also must define ways of working and behaviors that actually bring your company's strategy to life. If your company's promise to its customer is lowest costs, is everyone focused on cost control? If your reputation is built on superb service, is everyone — not just the front line, but even back-office functions like accounting or legal or procurement —highly attuned to how they affect the customer experience? What high-performance behaviors are nonnegotiable, and how do you make sure that you're enabling and reinforcing them? What is your approach to risk taking, experimentation, and test and learn?

And finally, does the operating model support the company's strategic mission with the right combination of people, process, technology, and tools? Are you focusing opex and capex on these priorities in order to build competitively differentiated capabilities?

None of these are easy questions. Consider traditional banks, which Gartner estimates spend an average of about 66% of their IT budgets to maintain legacy IT systems vs. just 22% to grow the business and 12% to transform it. A decade after the global financial crisis, many banks remain averse to risk, and their legacy talent pools, processes, and IT systems are ill-suited to major change.

Yet change they must. Do they focus on "manufacturing" (creating products), "distribution" (managing channels and customer relationships), or some combination of the two? How do they ensure someone owns each customer experience or "journey" on an end-to-end basis? Citibank Asia, which has a strong customer loyalty position in most of its markets, decided to change its operating model to double down on customer relationships to counter locally based competitors. Among other steps, it elevated the role of customer segment heads, giving them authority over products and channels for those segments. It also placed a team charged with ensuring an excellent experience for each customer segment. Banks emphasizing products, meanwhile, have turned to partnerships. Bank of China and Deutsche Bank set up a host-to-host platform for domestic and international payments. Others have joined forces with fintech companies, such as JPMorgan Chase partnering with OnDeck to approve and fund small business loans in as little as a day.

More such partnering is inevitable in banking, but is challenging for banks that now have less control over the people and IT involved in providing services to their customers. When an insurance company's staff works in a bank's branches and uses tablets that collect customer data, this arrangement pushes each organization into new territory. Who owns each customer relationship? Who is responsible for regulatory compliance?

A common mistake we see companies make when tackling such complex and often political questions is that they dive straight into a detailed redesign of their operating model — and lose sight of the strategic intent.

We believe redesigning your operating model must start with a blueprint based on a few basic principles. First among them: Agree on what really matters to deliver your strategy. An operating model that tries to make your company good at everything is doomed.

Your company must be great at some things — and can probably be just OK at the rest. Agreeing up front on the capabilities that truly matter turns what can be a very subjective and emotionally charged discussion among your leadership team into a fact-based dialogue. This is especially needed in organizations that have been geared for functional excellence everywhere.

Across industries and countries, effective principles share three characteristics.

First, they're grounded in facts in order to bring that needed objectivity. Principles informed by a fact-based strategy encourage impartiality, highlighting gaps, and forcing difficult choices.

Second, they're specific enough to help senior management make trade-offs. One CEO we know worried that some principles developed by his senior team were too generic to help them evaluate different operating model options. "Can any of them equally apply to a dog food company as to us?" he asked. Generic statements such as "leverage scale" or "create a streamlined organization" have little explanatory power. For a sports apparel and equipment maker, for instance, the generic "improve collaboration across different categories" contains less useful direction than "make it easy for us to deliver coordinated head-to-toe apparel and footwear to stores in time for the season."

Third, effective principles stay brief. The best sets of principles fit on one page. If they exceed 10 or so, it's best to identify the ones that should be weighted most heavily.

Once the blueprint is developed, we find that the best CEOs focus not only on the capabilities that matter, but on the individuals and teams that matter. For individuals, they make sure that difference-making talent is in mission critical positions. They make sure that the most important battles are entrusted to agile, cross-functional teams with real authority and support. We refer to these discrete, customer-focused initiatives as "micro-battles" whose key lessons then can be applied to other parts of the business.

Finally, we urge companies not to lose sight of an essential goal of good organizational design: constructive conflict. The CEOs we know who have built effective operating models have a real intuition about designing creative conflict into their operating models, as well as the means for efficiently and effectively resolving that conflict. The result is often inspired outcomes for their customers, employees and other stakeholders. A CEO I once worked with would often say the decisions that were made without debate or agreements that came without conflict were "often pleasant, rarely pleasing — and never transformational."

If your company's operating model can't deliver on your strategy, or needs to be upgraded to match the evolution of that strategy, start the redesign with your leadership team not by digging into the details, but by pulling up and agreeing on a few basic principles. Clarity and simplicity are the watchwords here.

Eric Garton is a partner in Bain & Company's Chicago office and leader of the firm's Global Organization practice. He is coauthor of *Time, Talent, Energy: Overcome Organizational Drag and Unleash Your Team's Productive Power* (HBR Press, March 2017).

Harvard Business Review

STRATEGY EXECUTION

How the Most Successful Teams Bridge the Strategy-Execution Gap

by Nathan Wiita and Orla Leonard

NOVEMBER 23, 2017

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The strategy-to-execution gap is an enduring problem with no easy solution. As the Japanese proverb goes, "Vision without action is a daydream. Action without vision is a nightmare." In their seminal HBR piece, Paul Leinwand, Cesare Mainardi, and Art Kleiner outlined what senior leaders must do to close the strategy-to-execution gap. We built on this research by going beyond the lens of the individual leader to investigate how the most successful teams bridge the gap. We wanted to unpack the *how* by identifying what sets these teams apart in terms of how they spend their time and the critical behaviors they engage in. To do this, we examined how 49 enterprise leadership teams spend their time and also looked at their perceived effectiveness on critical behaviors of a senior team. They also responded to items that corresponded to the Leinwand et al. framework, as detailed below.

Commit to an identity. The first tenet of their framework is that an organization must commit to an identity through a shared understanding of its value proposition and distinctive capabilities. In short, the organization must commit to focus on what it is good at and then go after it. We found the key differentiators for high-performing teams to be that:

- They spend nearly 20% more time (compared to low-performing teams) defining strategy (i.e., translating a high-level vision into clear actionable goals).
- They spend 12% more time aligning the organization around that strategy through frequent internal communications and driving a consistent message downward into the organization.

Indeed, our experience with senior teams corroborates these data. That is, we've found that teams that excel in this arena are those that break strategy down into clear, practical deliverables and then cascade those deliverables downward through frequent messaging.

Translate strategy into everyday processes and capabilities. Our analysis of how senior teams spend their time shows that for this dimension:

- High-performing teams spend over 25% more time focusing the enterprise than their lower-performing peers. That time is spent establishing financial and operational metrics, aligning goals with overarching strategy, allocating resources, and reviewing key metrics.
- High-performing teams spend 14% more time checking their progress against strategic goals by reviewing key metrics and shifting resources accordingly.

The most successful senior teams create a permeable membrane between the organization's mission and its day-to-day activities. They are also agile in course-correcting when the needs of the business change, and are more easily prepared to shift organizational resources to ensure that the strategy is executed.

Concentrate on the unique cultural factors that fuel success. Implicit in this assumption is resisting the temptation to drive traditional change programs based on addressing gaps or weaknesses. This is an area where the data present a more complex picture.

- High-performing teams spend 28% more time engaging the organization in ongoing dialogue about cultural enablers and barriers to execution. This includes forums for employees to voice concerns via surveys (e.g., employee engagement) and actual dialogue.

- Those same teams invest almost one-third more time in optimizing talent capabilities by reviewing development plans, ensuring that succession plans are in place, and evaluating compensation plans to be competitive.

Our data suggest that the approach of leveraging cultural strengths is both commendable and efficient, but organizations that continue to monitor and challenge their cultural and leadership biases are those that have the edge. As others have pointed out, simply focusing on strengths is not enough.

The academic literature as well as our consulting experience suggest that the ability to prioritize is a key ingredient to an enterprise leadership team's success. This is no small task, given the constant and overwhelming demands on most teams. What do our data suggest about *how* teams go about this?

- High-performing teams, compared to lower-performing teams, spend 54% more time first setting direction, crafting a vision that serves as a guiding light for decisions regarding resources.
- When it comes to execution, lower-performing teams spend an astounding 83% more time fire-fighting and dealing with issues at a tactical rather than strategic level.

Our high-performing teams in this dimension also rated themselves 36% more effective at prioritizing and sequencing initiatives than the lower-performing cohort. Our experience suggests that a critical piece in prioritization can be as simple as determining when the team comes together and what topics they discuss. Ensuring that the top team is sufficiently elevated and creating a consistent drumbeat around priorities will prevent distractions and cement the close link between strategy and execution.

Shape the future. High-performing teams successfully shape the future, rather than always being in a reactive mode in the present. How do they do it?

- They spend 25.3% more time influencing high-level stakeholders by identifying their needs and managing their expectations.
- Unsurprisingly, though easier said than done, the high-performing teams spend 13.2% more time planning for the future by setting direction, creating a vision, and defining their strategy.
- Finally, they shape the future by responding to change in the present (20.7% more effectively than lower-performing teams), positioning the enterprise for future success. This is consistent with much of the existing literature around the importance of agility in high-performing teams.

How might you close the strategy-to-execution gap in your own company? We believe that being intentional about the best and highest use of the team's time is the key lever in getting results.

Where should you start? As we look across our findings, teams that performed well across the strategy-to-execution dimensions did the following:

- Spent more time strategizing and translating that strategy into actionable goals
- Spent more time engaging the organization, surfacing barriers and unmet needs and communicating direction and behavioral guardrails
- Spent more time interacting with key stakeholders to ascertain and anticipate roadblocks and opportunities
- Spent less time fighting fires

Take a glance at the agendas of your team meetings over the last six to twelve months. Then, ask yourself the following questions:

- What percentage of the team's time was spent fire-fighting or dealing with issues that could have been dealt with at the next level down? How much time was invested on the big-ticket strategic items?
- How much time did the team spend thinking proactively about the future of our industry, our business model, the regulatory landscape, and our consumer?
- What percentage of time did the team spend engaging and aligning with the organization? How about key stakeholders? Does the team have a decent pulse check on their blatant and latent needs?

Perhaps most important, ask yourself, "Have we successfully executed our strategy?"

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Orla Leonard is a Partner and Practice Leader of Senior Team Effectiveness at RHR International.

Harvard Business Review

STRATEGY EXECUTION

Great Corporate Strategies Thrive on the Right Amount of Tension

by Carsten Lund Pedersen and Thomas Ritter

NOVEMBER 24, 2017

Azri Suratmin/Getty Images

After expending considerable effort on formulating a strategy, most executives would like to see their company's strategic plans fully executed. Deviations from the strategic plan are often assumed to be detrimental to corporate performance. However, compliance with the strategy doesn't necessarily correlate directly to performance.

The gap between strategy and the execution of that strategy is often referred to as "strategic dissonance." We like to call it "strategic stress." The "Yerkes-Dodson Law," which has been used in research that examines the relationship between stress and individual performance, shows that stress increases performance up to a certain point, but not beyond that point. In a similar vein, "strategic stress" can improve your company's performance – up until a point.

Strategic stress is characterized by three zones, which executives must consider and effectively manage:

Strategic Burnout (too much strategic stress). Excessive strategic stress is typically a result of one or more of the following causes: (1) Too much autonomy, i.e. employees that follow their own agendas at the expense of corporate alignment (2) unrealistic strategic plans, i.e. the organization is not able to live up to the plans put forth by top management, and (3) market dynamics, i.e. external developments that push the organization in other directions than what was initially planned. When strategy execution moves too far away from the initial strategy, the link between the plan and reality is broken, resources are wasted, and the organization lacks guidance. This scenario is characterized by many divergent projects, fragmented activities that have little in common with the initial strategic plan, and projects that do not fit together. The outcomes of such anarchy are random and, as such, unpredictable. Such organizations experience strategic burnout. Strategic burnout can occur if prophets and experts (that is, employees who enthusiastically work on projects outside the predefined strategy) dominate the organization without the counterweight of executors and gamblers, who drive projects related to the planned strategy (here, executors implement low-risk strategic projects, and gamblers bet on high-risk projects that are within the confines of the predefined strategy).

An example of strategic burnout can be found at Lego around 2004. The company had expanded into too many different and overly complex projects, which essentially created high levels of strategic stress. The multitude of projects drove the company in numerous directions at the same time. The resulting complexity was an underlying cause of the company's strategic burnout. A turnaround subsequently lowered strategic stress to a productive level by discontinuing many of their seemingly unrelated projects, re-focusing on their core business, as well as streamlining operational processes that improved coordination activities.

Strategic Boredom (not enough strategic stress). When strategy execution aligns perfectly with initial plans, the organization does not experience sufficient strategic stress. This results in strategic boredom. The concept of strategic boredom does not necessarily suggest that the content of the strategy is boring, but that the conformity and limited challenges give rise to the risk of strategic complacency, which may result in rigid execution that is blind to emerging risks or opportunities. Strategic boredom can occur if executors and gamblers dominate the organization without the counterweight of prophets and experts who push for new ways to drive the business.

An example of strategic boredom is illustrated in Clayton Christensen's famous work on the disk-drive industry. Leading disk-drive manufacturers found it nearly impossible to maintain their success when the technology and market structure began to change. In other words, their previous success meant that employees failed to challenge the once-successful strategy—that strategy was instead challenged by new market entrants.

Strategic Sweet Spot (just the right amount of strategic stress). When strategy execution differs moderately from the initial plan, the organization is in the strategic sweet spot. This scenario is characterized by a sufficient balance between alignment and nonconformity, which is needed to ensure strategic success. The sweet spot can be reached if there is a balance among the four project-manager types: executors, experts, gamblers, and prophets. The optimal amount of each will depend on the specific organization and the situation, and on changes in technologies, customer needs, and the competitive context.

An example of the strategic sweet spot is documented in Gary Hamel's study of a gang of unlikely rebels who woke IBM up in time to catch the internet wave. Certain project leaders at IBM started an initiative to build a community of web fans, i.e. early adopters of the web, that would subsequently transform the company. The group developed an internal "Get Connected" manifesto that helped guide and leverage the web at IBM. Moreover, a variety of popular, public websites for sports events were developed to illustrate the potential of the novel technological development. The strategic stress generated by these employees was enough to change the organization while not moving it too far away from its original strategic domain.

What can you as a leader do to ensure that your strategy is experiencing just the right amount of stress? We suggest the following:

- **Adopt a mindset for stress:** Make sure that you do not view strategic stress as a problem from the outset—you want your strategy to be subjected to some stress. Therefore, emphasize the value of both challenging and executing the strategy when communicating with your employees.
- **Set up for stress:** Proactively think about how emerging autonomous projects can influence your strategy and its execution. Build structures and processes in the organization such as hackathons and innovation days that provide one-day bursts of autonomy to enable employees to experiment with alternative projects. By providing a clearly limited space for employee autonomy, you ensure that you won't step into the "too many different projects" pitfall, potentially leading to a strategic burnout.
- **Diversify for stress:** Employ a mix of people so that your organization can carry out different projects, some of which focus on executing the strategic plan and others that challenge that plan.

Strategy making involves both the deliberate execution of intentional plans and responsive actions to emerging issues. Both activities are necessary to ensure strategic success and corporate longevity. Therefore, your strategy needs a level of stress that requires you to cope with the gap between the plan and its execution.

Too much stress to your strategy can be detrimental; but a sufficient amount of strategic stress ensures that your organization moves forward efficiently, and keeps you alert and responsive to emerging developments. Just like a diamond is the valuable outcome of constant pressure from multiple sides, strategic success results from balanced pressure on your strategy.

Carsten Lund Pedersen is Postdoc at the Department of Strategic Management and Globalization at Copenhagen Business School, where he researches in project-based strategy, employee autonomy and matching employee types with business development projects.

Thomas Ritter is a Professor of Market Strategy and Business Development at the Department of Strategic Management and Globalization at Copenhagen Business School, where he researches business model innovation, market strategies, and market management.

WEBINAR SUMMARY

How to Choose and Execute the Right Strategy

PRESENTER:
Martin Reeves, senior partner, managing director of Boston Consulting Group, and director of the BCG Henderson Institute

MODERATOR:
Julie Devoll, marketing and communications director, *Harvard Business Review*

Overview

In business environments that change quickly, becoming ever more uncertain and complex, leaders must choose the right approach to strategy. But many organizations struggle with this challenge, because different business circumstances present many different strategy options. Leaders must evaluate the unpredictability, malleability, and harshness of the market in which their firm operates. This analysis will reveal whether the company should pursue a classical, adaptive, visionary, shaping, or strategic renewal approach. Simultaneously, organizations must become proficient at ambidexterity, which is essential for long-term survival.

Context

Martin Reeves, the co-author of *Your Strategy Needs a Strategy*, discussed how to choose and design the right strategy. He offered tips for assessing the business environment, selecting the right approach, and executing for maximum impact.

Key Takeaways

As the diversity of strategic environments grows, multiple approaches to strategy are required.

In its work, Boston Consulting Group (BCG) has found that companies are confused and stressed about the strategy department's role and the effectiveness of the annual planning process. In response, BCG embarked on research to determine whether strategy is still relevant in today's world.

The firm analyzed 135,000 companies over 65 years to determine the performance differences of successful and unsuccessful companies. BCG concluded that an important change in the business environment is greater diversity of strategic environments. This suggests that a single approach to strategy doesn't fit all circumstances.

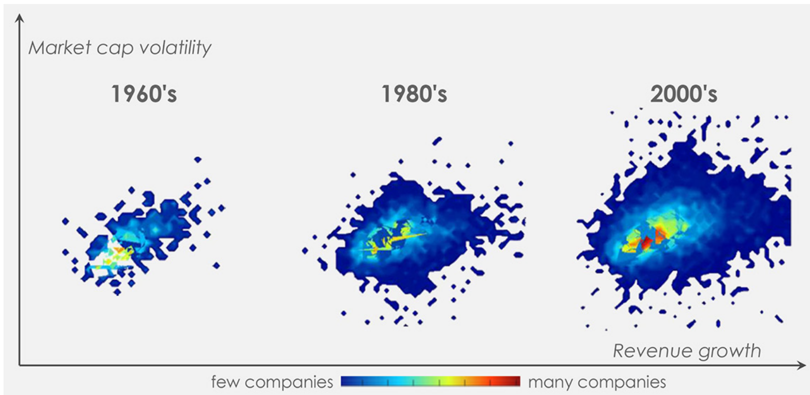

FIGURE 1: THE DIVERSITY OF STRATEGIC ENVIRONMENTS IS GROWING

"A key question is why is planning less effective today? Many things have changed since the early days of strategy, such as globalization, new technologies, millennial values, connectivity, cheap computing power, and more."
—Martin Reeves

The Strategy Palette offers different approaches to strategy and execution based on market unpredictability, malleability, and harshness.

To address challenges associated with diverse strategic environments, BCG developed the Strategy Palette. This tool helps analyze strategic environments and different approaches to strategy and execution. It focuses on:

1. **Unpredictability.** Can the organization plan?

2. **Malleability.** Can the organization shape its environment, rather than treating it as a given?

3. **Harshness.** How do the organization's profitability, cash flow, and growth reflect the harshness or beneficence of the environment?

The Strategy Palette gives rise to five different approaches to strategy.

1. **Classical.** In stable, predictable environments companies can use a classical approach to strategy. This requires an algorithm focused on analyzing, planning, and executing. One example is the candy company Mars. Demand for chocolate grows with GDP, and key brands are stable over decades. As a result, it is possible to forecast with a reasonable margin of error. With the classical approach to strategy, Mars focuses on scale, economy, efficiency, and execution discipline. Since Mars'

competitors are taking the same approach, innovation is essential. Mars involves only a few people in the strategy process and the company insists that its strategy must be explainable to anyone in 20 minutes. Strategies aren't effective unless they are understood and executed by all employees.

2. **Adaptive.** Tata Consulting Services (TCS) is the world's second largest IT services company. Its business environment is highly unpredictable on two fronts: the technologies and how companies use them. Rather than planning, TCS views its business as a portfolio of experiments. Every customer deployment is an experiment that yields an outcome. If an experiment is successful, the company codifies the learnings, scales them, and applies them to other clients. This is a more evolutionary approach to strategy. The algorithm for an adaptive strategy is to create variance, select what works, and scale those practices. This process is continually iterated upon.

3. **Visionary.** This is the approach used by entrepreneurs. When markets don't yet exist, they can be shaped by the first mover. For centuries, entrepreneurs have created visions, realized them, and scaled. Today, large companies can be disrupted by startups that leverage a new technology or business model.

4. **Shaping.** This is a powerful approach to strategy based on platforms and ecosystems. Examples include Alibaba, Amazon, and Red Hat. These companies have leveraged the capabilities of other firms to reshape industries. The shaping approach contains elements of malleability because companies orchestrate the ecosystem, but it also contains elements of unpredictability because firms don't control or own all of the assets. The algorithm is one of creating influence, cultivating an ecosystem, and co-evolving with the ecosystem.

5. **Strategic Renewal.** By fixing obsolescent business models, companies are able to avoid redundancy. Strategic renewal is very common, due to the rate of change in the business environment. However, the failure rate is high. Around three quarters of companies that set out to renew fail to restore their profitability in the short and medium term. The biggest cause of failure is the inability to pivot between the early stages of the renewal process to intermediate-term growth and value creation.

The key to using the Strategy Palette successfully is knowing which environment the company is in and the basis of competition.

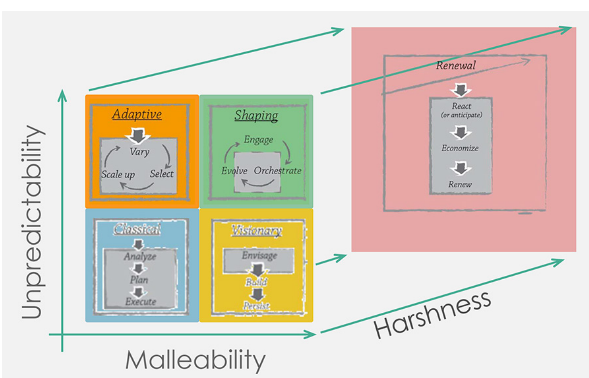

FIGURE 2: THE STRATEGY PALETTE AND EXECUTION

To identify the right approach to strategy, organizations must build adaptive and shaping capabilities.

Adaptive capability is the ability to undertake disciplined experimentation. Shaping capability is the ability to create new spaces and shape the external environment. The key to building adaptive and shaping capabilities is focusing on information, innovation, organization, and culture.

- **Information.** Organizations must capture and exploit signal changes. They can use this knowledge to create information-enabled marketplaces.
- **Innovation.** Innovative firms manage a portfolio of bets and experiment in a data-driven manner. They often create platform and service innovations, as well as orchestrate auto-innovation.
- **Organization.** It is important for companies to stay close to the customer and enable de-centralized initiatives. Many firms emphasize the ecosystem and enable self-organization.
- **Culture.** Organizations must value speed over accuracy and tolerate failure. Firms that successfully run platform businesses know when to keep managerial mechanisms away from marketplaces, because marketplaces are self-organizing.

Without ambidexterity, it is impossible to adopt different approaches to strategy simultaneously in different parts of the firm.

Many companies measure productivity using backward-looking financial accounting measures. Current performance is important, since it pays for tomorrow's growth. Vitality, on the other hand, is the ability to generate future growth through innovation. Companies often lack good metrics to quantify vitality.

Ambidextrous companies can simultaneously run the firm and reinvent it. Ambidexterity is difficult because it involves a contradiction. Only about 3% of companies possess this skill. However, those that do enjoy 6% to 8% higher total shareholder return in the long term.

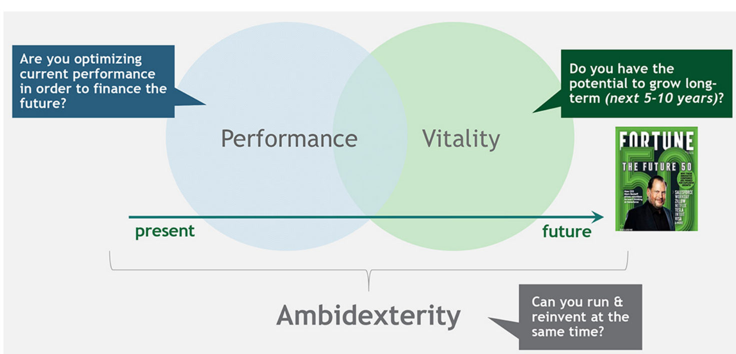

FIGURE 3: EMBRACING AMBIDEXTERITY

"Ambidexterity is rare, but some companies can do it. It's necessary for longevity and long-term survival."
—Martin Reeves

BCG found that companies structure for ambidexterity in four ways:

1. **Separate.** In this approach companies segregate the old ways of operating from the new ways. One example is the Skunk Works at Lockheed Martin to develop an advanced jet fighter.

2. **Switch.** With this approach, multi-skilled teams are created. The mix between disciplined and creative work evolves over the product life cycle. Corning illustrates this approach.

3. **Self-organize.** Each business unit selects its own approach to strategy and execution. Management's role is to create a marketplace for business units to buy services from one another. Haier uses this model.

4. **External ecosystem.** Hundreds of collaborating companies supply R&D, software, or hardware. The firm orchestrates the ecosystem and taps into their different approaches to strategy and execution. This model is used by Apple.

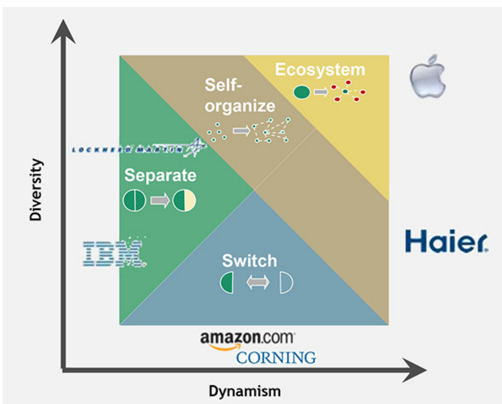

FIGURE 4: STRUCTURING FOR AMBIDEXTERITY

Leaders must acquire new skills to promote ambidexterity in their organizations.

Ambidextrous leaders exhibit several signature behaviors. Among them:

- **Antenna.** The antenna function is very important because large companies become introverted. To adapt to a changing environment, leaders must be externally focused.

- **Accelerator.** Organizations tend to migrate in the right direction over time. However, most are unable to do this quickly and cleanly. Leaders with the accelerator skill make organizations aware of what they need to do and mobilize teams to act.

- **Disruptor.** One way to protect an organization from disruption is to become a preemptive disruptor. Large companies are often bad at preemptively disrupting themselves.

- **Inquisitor.** In unpredictable environments, it is more effective to lead with questions than with instructions. Examples of questions include: Are we experimenting and failing enough? Where can we leverage our advantaged positions? What future do we want to realize?

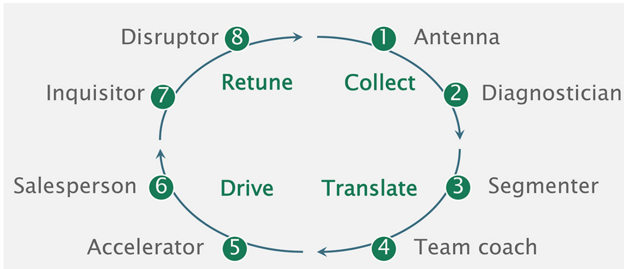

FIGURE 5: AMBIDEXTROUS LEADERS AND THEIR SKILLS

Other Important Points

- **"Your Strategy Needs a Strategy" game.** BCG created a game based on the book *Your Strategy Needs a Strategy* to build capability and uncover opportunities for action. It is available in the Android and iTunes stores.

- **Supporting assets ecosystem.** A full ecosystem of supporting assets is available for *Your Strategy Needs a Strategy*. This includes an HBR article, TED Talk, workshop, e-course, competitions, and more.

Martin Reeves leads the BCG Henderson Institute worldwide and is a member of the Strategy practice's leadership team as well as a senior member of the Health Care practice. Martin is also a member of the BCG Henderson Institute's Innovation Sounding Board, which is dedicated to supporting, inspiring, and guiding upstream innovation at BCG. He has been a Fellow since 2008.

His research topic focuses on the future of strategy. Strategy has historically relied on concepts of scale, efficiency, and first-order capabilities. However, traditional approaches are often undermined by unpredictability and dynamism in today's business environment. Therefore, companies must supplement traditional competitive advantage with dynamic, adaptive capabilities and strategies—which Martin is exploring.

Martin is the coauthor of *Your Strategy Needs a Strategy*, which offers the "strategy palette" as a tool to enable business leaders to tune their approach to strategy into their strategic environment. In 2014, he presented this topic during his TED talk as part of a series of talks curated by TED and BCG.

Since joining BCG in 1989, Martin has led a broad range of strategy assignments in the Financial Institutions, Consumer, Industrial Goods, and Health Care sectors. Prior to joining BCG, Martin worked for Zeneca in Japan and the United Kingdom, where he focused on marketing and strategic planning.