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CONFRONTING THE CONUNDRUM

ALIGNING STRATEGIC EXECUTION
WITH LONG-TERM PERFORMANCE

A White Paper by
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THE “SITUATION”

(the combination of circumstances at a given time that produce a problem)

The leaders of America’s top companies face a serious problem that affects every aspect of their performance. Every year, these companies launch new strategic initiatives aimed at growing the bottom line—and every year, the majority struggle to deliver on the desired expectations.

Multiple sources have observed that the vast majority of these failures are not limited to leadership issues but are often the result of both leadership challenges and a corporate environment that breeds failure. Unfortunately, an organization that is not focused on execution—even one with the strongest executives—will rarely succeed.

At the other end of the performance spectrum, however, there are companies that have created an environment where their strategic intents succeed at a far greater rate. In those cases, credit for success is often attributed to the culture of the organization as a whole, and likely identified and acknowledged enthusiastically by its leadership.

What is the difference between success and failure for these companies?

THE USUAL “SUSPECTS”

(deserving to be regarded with suspicion)

Analysts have suggested that strategic failures are often related to one or more of the following issues:

- “...the biggest factor of all may be executive inattention...”
- “...there is often surprisingly little follow-through...”
- “Less than 15% of companies routinely track how they perform...”
- “It’s the execution of the strategy that produces results...”
- “...not a ‘quick-fix’ approach...”
- “...the longer-term commitment required...”
- “...requires leaders to stay engaged in the effort...”
- “...leaders must reinforce the importance...in their regular communications and in the ways that they manage their business and people...”

Wharton Business School, AMA, INSEAD/CIMA, and Motorola University

These observations point to a conundrum that prevents organizations from focusing on, committing to, and managing strategic efforts over time.

“Most often today the difference between a company and its competitor is the ability to execute. If your competitors are executing better than you are, they’re beating you in the here and now, and the financial markets won’t wait to see if your strategy plays out...Leaders who can’t execute, don’t get free runs anymore.”

— Ram Charan / Execution: The Discipline of Getting Things Done

THE “CONUNDRUM”

(an intricate and difficult problem)

The role of leadership in the long-term performance of organizations has always been a significant factor in success. No one can deny that great leaders are an instrumental part of any great organization. Unfortunately, there is an alarming downward trend of CEO and C-suite tenure in corporate America. This declining tenure usually results in leadership aggressively pursuing short-term, rapid improvements in the organization—a pursuit that often fails to realize the desired value and then leads to leadership turnover. Thus, organizations have a real conundrum, a self-perpetuating downward spiral in performance.

The following data get at the heart of the conundrum.

Declining leadership tenure ...

- Average CEO tenure has dropped from 9.5 years to 2.5 years since 1995
- 60% of CEOs stay in the chair for fewer than 5 years
- 63% of CFOs stay for fewer than 5 years
- 79% of COOs stay for fewer than 3 years (with a trend toward fewer COOs than ever before)

Crist Associates 2007 Executive Survey on Tenure and Volatility

... contributes to strategy execution failure

- 9 out of 10 companies fail to execute strategy
- 85% of executive teams spend less than one hour a month on the management of strategy
- Only 5% of the workforce understand the strategy
- Only 25% of managers have incentives linked to the overall strategy

Balanced Scorecard Collaborative

“There is a clear correlation between the tenure and role of the CEO and the long-term performance of the companies they work for...”

— Conference Board CEO Survey: Why CEO's Fall

and at the same time

“There is a dramatic and catastrophic downward trend in the tenure of our CEOs, and their terminations are attributed to company performance.”

— Crist Associates 2007 Executive Survey

THE “RESPONSE”

(something constituting a reply or a reaction)

You have likely lived through the typical response to the conundrum multiple times—a series of urgent, reactionary decisions that can often be more damaging than stabilizing. An everyday analogy is the tendency of a driver to over correct and jerk a car back into the road after it suddenly veers in a slick patch. As everyone knows, this quick desperation can cause great damage or even complete catastrophe.

The same can happen in a company. Instead of just one catastrophe, however, many companies develop an environment of endless, urgent crises that must be addressed—immediately. This cycle can be extremely destructive for leadership and the organization, and often goes something like this:

A significant revenue shortfall occurs due to a downturn in the economy, often stimulated by a totally unrelated industry (unanticipated circumstances). Immediately, the mandate to cut travel, purchases, production costs, overtime, and sales expenses blankets the organization. The inability of the organization to quickly identify and control its primary cost drivers leads the company into a very real crisis that commands the entire organization to rally around this single initiative.

In the company's effort to rally, the leadership of the organization, which is intensely focused on quarterbacking this challenge, fails to realize that the downturn has begun to reveal revenue opportunities (errant focus). Unfortunately, they cannot turn to the external needs of the market quickly enough and redirect their organizational focus on the revenue generation processes. Then, at the end of one or two of these difficult cycles, trouble begins to brew for the CEO, often leading to his/her turnover, which has equally destructive implications for the organization left behind.

Companies stuck in this cycle of under-performing and over-reacting tend to:

- Focus on the next big thing that will solve the company's urgent problems; initiative-based solutions like "a new strategy," Six Sigma/Lean transformation, new measurement systems, etc., become the primary focus of leadership.
- Manage the wide variety of initiatives within the company as separate and distinctly different elements of the business.
- Inadvertently allow their most precious resource—their highly talented people—to be "all consumed" with the management of these disconnected parts.

This approach actually puts truly strategic efforts in jeopardy, and a large percentage of these significant investments in people and time simply fail. They are viewed by the organizations as huge distractions, the latest fad, the new effort that looks just like the last one. As a result, organizations find themselves with:

- Little to no visibility into the true company strategy (if one exists).
- A lack of leadership and management alignment around the stated strategy and its critical priorities, often compounded by a systemic “wait and see” attitude toward leadership commitment and longevity.
- A lack of organizational discipline around the ongoing integration, development, management, and accountability of the company’s strategy and operations; focus and investments made early on diminish greatly after the initial interest and excitement have worn off.
- A large gap in understanding the processes that influence the strategy and how they must create value relative to that strategy over time.

Fortunately, there is a framework your organization can use to guard against these failures and greatly reduce the manifestation of this unhealthy spiral: Enterprise Performance Management (EPM). EPM identifies and reinforces the critical fundamentals an organization can actively manage in its efforts to perform well over time.

EPM is arguably even more critical to the organization that finds itself in the midst of a major crisis, as it gives the company a way to focus through the crisis while building the base of fundamentals necessary for sustained performance once the crisis has stabilized. It is likely to be the only approach that can be leveraged effectively in both the crisis and the long-term performance of the company.

ENTERPRISE PERFORMANCE MANAGEMENT

EPM offers company leadership the development of disciplines needed to manage strategy, drive organizational alignment, set and cascade objectives, and drive strategic operational processes. It is essential in communicating and, most importantly, driving execution into the organization where strategy really happens.

EPM is not something that is done to a company or a quick-fix technique that will instantly place the company back on track (if such a thing exists). Rather, it is a discipline that is developed within a company, a means by which the company culture grows and develops capabilities that sustain the organization through any single negative event, transition of leadership or market downturn.

How can EPM support your company's efforts to develop these critical fundamentals and build sustainable performance over time?

EPM, simply put, is a seamless management system. It provides your company with the ongoing discipline to combine two vital components of your business:

- The ability to articulate and align strategy (no matter how broad or narrow)
- The ability to manage organizational and operational processes that most materially influence that strategy
- The discipline utilizes strategic objectives to focus on the essential metrics and processes that drive the performance of the organization.

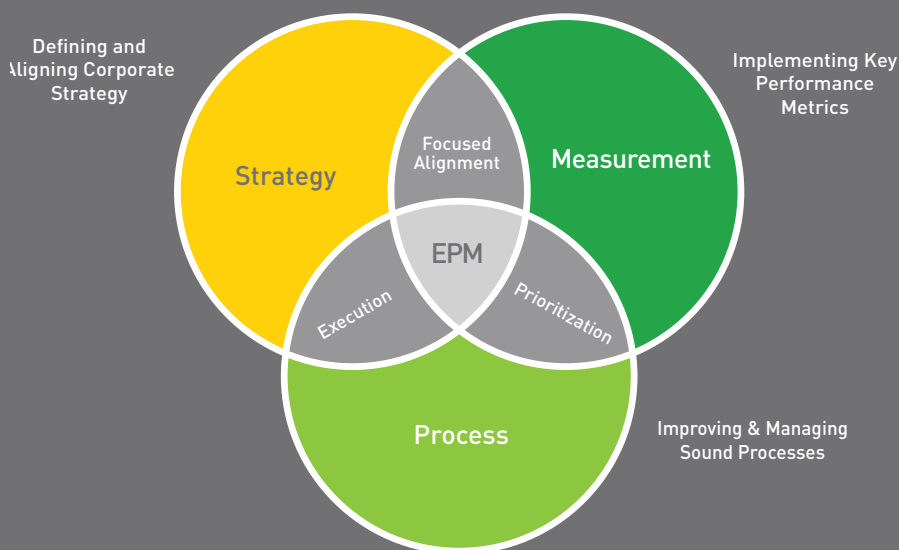
EPM is a seamless management system that provides your company the ability to articulate and align strategy with the ability to manage the processes that most materially influence that strategy.

This is where the discipline of the EPM framework must make a difference in your company. It should be viewed as a wide-angle lens that enables you to see the big blocks of strategy execution (direction, measures, and processes) as an integrated whole. At the same time, it must provide you with the ability to zoom in on those aspects of the framework that compromise your execution (broken processes, lack of focus, shortage of resources, etc.).

That framework consists of the strategic view, the measurement view, and the process view. Each supports a critical role in the overall management of the strategy, but one without the other will dramatically limit the organization's ability to execute even the most well-defined strategies and initiatives.

Integrating these into one effective management system requires sustained focus over time. We refer to it as "the pick and shovel work" of corporate execution. EPM provides the tools that focus leadership, at all levels, on the day-to-day processes and factors that drive execution throughout the organization.

THE ENTERPRISE PERFORMANCE MANAGEMENT FRAMEWORK



A closer look at the essential building blocks of the EPM framework will reveal that they are highly connected. Each view has its own distinct role in executing corporate fundamentals:

The Strategy View, which is the primary role and responsibility of the leadership team, is the ongoing process of articulating and aligning the organization to the strategy. It consists of two essential components of organization leadership:

- The articulation process involves taking a complex, potentially far-reaching strategy and putting it into the language of organizational level objectives that critical contributors can comprehend and connect to. This is often accomplished by the development of a top-level strategy map. This map identifies the strategic objectives that drive execution.
- The alignment process is the means by which the strategy's organization-level objectives can be cascaded into the objectives of the most critical resources and processes. To execute the strategy successfully, these objectives, processes, and resources must be carefully guarded from "over-steering" reactions to daily crises.

The Measurement View is essentially the glue that connects strategic management to operational processes and resources. It has two major components:

- Strategic measures "look up" at strategy and reflect the organization's performance at meeting strategic objectives (such as share growth in new markets, or sales from new products). This is often a combination of leading and lagging indicators that can be effectively managed through the use of the balanced scorecard in conjunction with the strategy map.
- Process measures "look into" the organization and reflect the performance of processes that are essential to the tactical execution of strategy (such as new product sales leads, or new product/new market unit sales). Although these measures may be very tactical in nature, they are absolutely critical for strategy execution to take place. The ability to properly measure these processes is directly dependent upon the company's ability to clearly manage the processes.

The Process View is truly where the “rubber meets the road.” If the organization cannot effectively focus and manage those processes that most directly influence the strategy, all the effort in the world will not produce the desired strategic or tactical results. This is the target at which all process management and improvement disciplines must be aimed. There are two primary components:

- Process improvement is the discipline by which a company improves the performance of its strategic processes. Process improvement tools such as Six Sigma or Lean can be applied, and many of these tools are highly effective for sustaining ongoing improvement in process performance—but they cannot be the strategic focus. They are just tools to support the sustained strategic effort.
- Process management is the means by which a company chooses to manage, measure, and develop all strategic processes critical to its execution. Process management is focused, structured, disciplined, and constantly under the lens of the management team.

WHY EPM IS DIFFERENT

EPM combines all of these very important and valuable pieces into one highly integrated system of managing the strategic and tactical elements of the organization. Companies that invest in the required commitment of time, resources, and leadership will change both their culture and their ability to sustain superior performance. When EPM is sustained long enough, the ability to manage change simply becomes “the way we do business.”

THE “SILVER LINING”

(a consoling or hopeful prospect)

How does EPM help develop these disciplines? Successful companies use the EPM framework to develop and leverage some basic fundamentals:

- Maintain constant effort up and down the organization to position and retain talent who can drive value creation
- Integrate management of strategy with business operations, through a sustainable strategic management process (leadership, initiatives, investments, etc.)
- Build a fact-based culture through process measurement, and management information
- Create a clear system of accountability and ownership for the integration and execution of strategy and operations
- Carefully select and fully commit only those tools and technologies that will help accomplish their strategic focus

“The gears and mechanisms of the ticking clock do not grind against each other but rather work in concert—in alignment with each other—to preserve the core and stimulate progress. The builders of visionary companies seek alignment in strategies, in tactics, in organization systems, in structure, in incentive systems, in building layout, in job design—in everything.”

— Jim Collins, *Built to Last*

CONCLUSION

Companies that sustain these fundamentals over time are far more able to leverage the talents of their organizations by weaving organizational disciplines into the very fabric of their strategic and management activities. These disciplines, once established, become as simple as “breathing” to these organizations. The result is a company built to weather the inevitable challenges that will come its way through an organizational competency that is far bigger than any single aspect of its culture.

HOW STRONG IS YOUR COMPANY ON EPM FUNDAMENTALS?

Consider these questions:

How well do your executives understand the company’s strategy? Will each be able to articulate the organization’s objectives in a consistent manner?

How well do team members understand their individual contributions to execution? Can they connect their area’s priorities to the overall strategy?

What are the management practices in place that are effective in executing your strategy?

Do your executives know how their metrics align with and drive performance on strategic objectives?

ABOUT THE AUTHORS

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ABOUT NORTH HIGHLAND

North Highland is a global consulting firm that has changed the model of how a consultancy serves its clients. We hire only experienced consultants who live and work where our clients live and work, leveraging our global network of service area expertise. We also guarantee our work. As a result, we achieve exceptional results for some of the most recognizable names in the world.



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Of what value is a great solution that's not fully understood and embraced by those invested in it? As far as we're concerned—not much. That's why we don't jam our work with pages of obscure data and industry jargon. We are concise and to the point, seeking clarity in all communication. Yet all of our work is informed by our broad and deep expertise in industry best practices.

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