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The Strategic Management of Execution

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THE STRATEGIC MANAGEMENT OF EXECUTION

"Tell me David, is it better to have a great strategy poorly executed, or a so-so strategy really well executed?" The age-old question suggests there is a fundamental tradeoff between strategy and execution. The tone in which it is asked typically flags that the questioner already knows the answer - the superiority of execution over strategy. But is this really true? Does, to borrow a phrase, execution eat strategy for lunch?

While some evidence, such as the failure of many acquisitions in the post-merger integration phase, might suggest otherwise, I argue no, for two reasons. First, strategy and execution are not mutually exclusive. Indeed, effective execution is only possible when there is a clearly articulated, well communicated, broadly understood and economically valid strategy in place[1]. If those carrying out the work don't know the plan, you can't expect them to execute it.

Second, and more importantly, the reason the two are seen as at odds with each other, is that there has never been a clear articulation of what "execution" of a strategy actually involves. There has always been a missing link been between the high-level statement and underlying economic logic of the strategy, and the individual projects and programs put in place to implement the strategy[2]. Traditionally this gap was filled by describing a one-time change management process that aligned the entire organization behind a carefully constructed new direction laid out in a fully fleshed out strategy (See BOX).

BOX: CHANGE MANAGEMENT

As the most powerful force inside any organization is inertia, implementation is, by definition, about change to current organizational routines. Classically, execution of a strategy therefore involves two aspects - **HOW** to change the organization and **WHAT** exactly to change. Execution must always leverage the former skill set, for which others have provided much valuable advice concerning organizational behavior and design (Kotter, Tushman….). Strategy's concern is with WHAT needs to be changed. Possible alterations resulting from executing a new strategy include a shift to any of its elements that contribute to competitive advantage.

Value Proposition: Amendments to product or service features - whether improving or reducing customer purchase criteria that affect customer demand and willingness to pay, such as extending the durability of the product.

Activities: Altering the routines and processes that shape performance of the firm's activities, such as offshoring an accounting function to a developing country.

Scope: Expansions or contractions of scope by entering or exiting product market segments, channels of distribution, or geographies.

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[1] See, for example, my article,"Can you say what your strategy is?" HBR 2008

[2] I will use execution and implementation interchangeably in this article.

Scale and Penetration: Deepening the scale of operations by increasing the investment in, or penetration of an existing asset, like a manufacturing facility.

Resources and Capabilities: Building new organizational capabilities, like data analytics, while allowing old ones to erode.

There might also be a question of **WHEN** to change a strategy, but note the implicit assumption that a dramatic shift between strategies is necessary. It is true that, while a test of effective strategy is its robustness over the next several years, it should never be followed blindly when events intrude. If the underlying logic or a key assumption underpinning the strategy's success, such as a predicted shift in demand or technology, is violated, the strategy should be changed. More often, however, implementation concerns not such a radical shift, but ongoing course corrections.

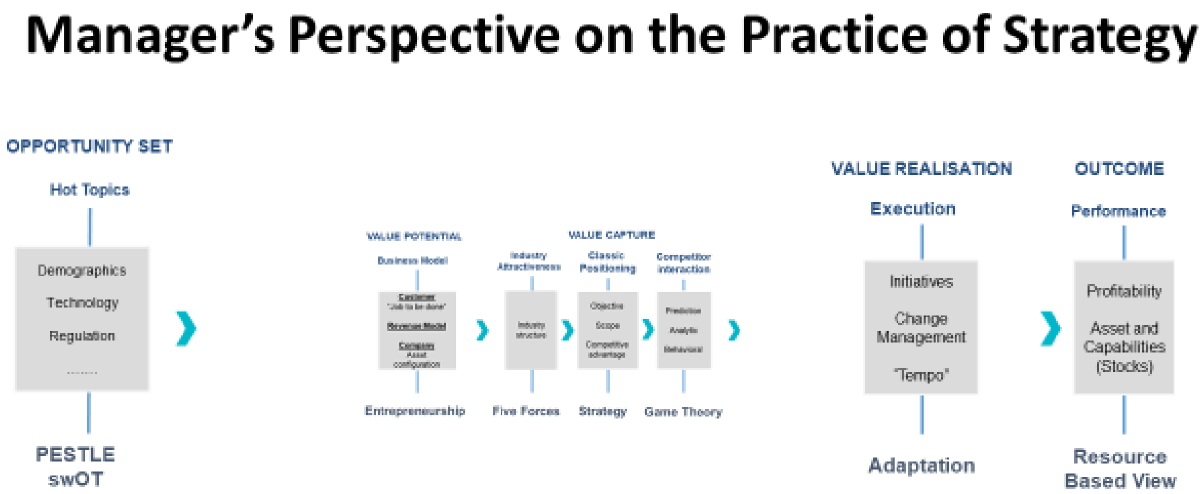
END BOX

The problem with viewing execution as a one-time phenomenon is that it is exactly that – only one time! The real challenge, and the critical role for execution in the contemporary volatile, uncertain, complex and ambiguous (VUCA) environment is ongoing - continuously adapting a firm's activities to the ever-changing external environment without violating the current strategic positioning or introducing misalignments with existing routines and practices.

Remember when SWOT was the preferred framework for strategic analysis? The notion of competitive advantage has enlightened the Strength and Weakness elements of that framework, but what has happened to Opportunities and Threats? Their place within the complete strategy landscape, as the ever-changing opportunity set that the strategist has to work with, has been sorely overlooked (see first article). Yet it is developments in this space that contain both the seeds of failure and the high ground on which future fortunes are made. An emphasis on value capture and the static application of Industry Analysis has taken attention away from the dynamic drivers of value creation. Yet in today's world there are few sustainable competitive advantages as changes in the external environment end the reign of any incumbent, no matter how apparently dominant their position.

The continuing realization of value, the third step in the Complete Strategy Landscape, does not therefore come from the initial implementation of a novel strategy, but in the speed with which the company adapts to changing circumstances. The requirement is to maintain overall strategic direction while responding effectively to the "hot topics" that are always arising.

This perspective on implementation is much closer to actual practice of strategy in companies today. The truth is that most organizations typically have an extant strategy in operation – perhaps not well articulated or communicated, but one that nevertheless shapes decisions and behavior, however ineffectively. As a result, strategy as experienced by most managers does not involve the formulation of a complete novel strategy on a blank sheet of paper followed by its rollout – in forty years of consulting on strategy projects I think I have done this about twice! Rather, it addresses an issue arising in the industry or with the business model that currently challenges executives[3] – how do we react to a declining distribution channel? Are we effectively exploiting big data? – in a way that is consistent with the stated strategy (see Figure 1 for how managers actually experience their role in the practice of strategy today).



This never-ending struggle highlights the weakness of the classic top-down change management approach to execution when agility and responsiveness are required, not planning and predictability. The world moves too fast to allow for the completion of any detailed plan of action - rather agility and speed of response become the keys to success.

STRATEGIC FRAMEWORK FOR EXECUTION

In filling the gap between strategy statement and action, the CEO has to recognize that she has limited tools to effect change. She can make critical decisions, like exiting a business, agreeing a capital budget, or mandating adoption of corporate level initiatives, but cannot oversee or be involved in every tactical project. She must therefore shape an administrative context that delegates authority to front line managers, empowering them to continually adapt activities to an ever-changing environment consistent with the overall strategy.

Execution therefore involves the design of three separate, but equally important tasks that we can array in ascending order of difficulty – commitments, projects and initiatives. It is important to distinguish among the types of decisions because each requires a different style of involvement by senior management.

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[3] R. Rumelt "Good Strategy, Bad Strategy"

BINARY COMMITMENTS*:* There will always be some major either/or decisions, such as acquisitions and facility investments, that periodically confront a business. Such irreversible investment decisions have to be made by top management, ideally after discussion and analysis generated by the formal capital budgeting or strategic planning processes, since they require a simple up or down choice. Unfortunately, these decisions are so obviously the purview of the CEO that they become a crutch, or overused lever. Reshaping the portfolio through M&A activity or aggressive entry into a new geography or line of business are so simple to mandate and have such dramatic impact, that these high level portfolio moves can become the refuge of lazy executives.

TACTICAL PROJECTS*:* Strategy can never be a five hundred page document specifying in full every step that every function will take over the duration of the strategy. That was the death knell of the "planning" component of strategy in the bad old days. At any point in time, therefore, there should be many tactical projects of three types (see below) underway, each with a clear objective, process, timetable, metrics and milestones for review which trigger cutoff decisions (fast fail), and after action reviews to assess the reasons for success or failure.

The CEO cannot and should not be involved in the minutiae of these projects. There are simply too many, and they require too much contemporaneous information for her to even be aware of the detail of probably ninety percent of these changes. Instead, strategic direction is maintained, even as the CEO empowers lower levels to make these decisions, if there is a clear, well articulated and well communicated strategy in place. If the strategy specifies the bounds beyond which the firm will not go – the red lines in the sand - the CEO can encourage experimentation, support adaptations and champion explorations whatever shape they might eventually take, because she is confident they fit with the overall strategy.

Operational Efficiency: One challenge is simply to make sure that current operations are running smoothly. When Bob Holland took over as CEO of Ben & Jerry's he found a factory that did not work, a marketing campaign that had given away nearly a half year's production in unnumbered discount coupons with no expiry date, an accounts receivable process that struggled to bill accounts with names that came late in the alphabet, among other operational failures. If value is to be realized, the basic blocking and tackling of running the business has to be in shape.

No one can deny the importance of simply doing the job of management right (Sadun et al HBR). Any failure to make things work prevents value being realized, regardless of how fancy the words in the strategy statement. That reality is where the rubber hits the road. If Tesla simply cannot produce 400,000 vehicles a year, it will never fulfill the promise of its electric vehicle strategy. Effective operations are a sine qua non of value realization. These are the "meat and potatoes" actions that are part of the day job of each and every manager. Thus the first task of implementation is to use regular management reporting to correct operational inadequacies by monitoring what is working and what not working inside the organisation.

Correcting Gaps and Misalignments: Included here are driving the changes necessary to implement the agreed strategy (see Box above). If it is known that the value proposition requires a more durable product offering, a plan must be developed to extend the product's life. Any gaps between the desired and current value proposition and configuration of activities – the twin aspects of competitive advantage – have to be corrected.

Entrepreneurial Improvements: In addition, are all the micro-battles (to use a term from Bain & Company) representing front line experiments to adapt to the ever-changing external environment. These projects, such as adopting mobile technology in the ordering process, do more than merely remedy gaps in the current positioning or push out the efficiency frontier. Tactical in scope though they might appear, they are fundamentally strategic because they cut across functions inside the firm and require systemic change. Extending the life of a critical component might seem to be a simple design challenge that can be managed by the product development department, but since it could affect the manufacturing process or the sales proposal it must draw in the entire organization.

As it will never be ex ante clear exactly what the response to "hot topics" should be, assigning a cross-functional project team the task of finding the best solution is appropriate. What precise levers can improve the product's durability as 3D printing is introduced? Change the material? Redesign the interface's moving parts? This is where delegating authority to teams employing tools such as "lean start up" and "scrums", are useful in fostering an entrepreneurial culture within the organization. It is also where skunk works to pursue new business models should vest.

Reconciling the deliberate and emergent strategy processes sets the bounds defining what the firm will not do (see earlier HBR "Lean Strategy" article). This is why strategy and execution are complementary not antithetical. Strategy is the filter against which the problem is tested, the relevant hypotheses derived, analyses performed and learning interpreted. The clearer you can be about the strategy, the easier it is to get alignment behind its implementation – "If you don't know where you are going, any road will get you there".

CORPORATE INITIATIVES*:* Finally are the initiatives that are critical components of the CEO's long-term agenda. These are not individual projects – how to adopt mobile technology in the order entry process? – but represent the capabilities that the firm has to build – the distinctive competences, asset stocks, or resources it must possess or develop - if it is to succeed over the long haul.

Unlike tactical projects, these higher-level strategic programs must be the responsibility of the CEO who alone can ensure adequate investment in, and progress towards their goal. She takes personal responsibility for implementing a limited number of longer term, broader corporate level initiatives that build the underlying capabilities of the firm.

Typically these become the "Corporate Initiatives" identified for the organization each year (and often described as the strategy in an Annual Report or Investors Strategy Presentation). Examples would be Horst Keiser's "digitalization" initiative at Siemens; Bob Iger's commitment to leveraging quality branded franchises, technology and globalization under his, now fifteen year, tenure at Disney; or the three Adidas initiatives concerning – Cities (six key cities in which to over-proportionally grow share of mind, share of market and share of trend), Open Source (using athletes, consumers and partners to cocreate the future), and Speed. These become the **"must-win" battles** whose achievement is absolutely necessary if the firm is to continue to outperform competitors.

They are not objectives since they lack a timeframe and a specific metric, but rather represent aspirational, if ill-defined, capabilities that will underpin the firm's ability to deliver on the stated strategy. One way of identifying them is to work back from the CEO's legacy statement. If her tenure has been a success, what will be true about the company he leaves behind after her period of stewardship? Ignore the shareholder value metrics that too often characterize such a target, and think more of the type of organization left behind. What has to be true of the firm, if it is definitively to be in a stronger position at the end of the CEO's tenure than when she took over? What capabilities have to be turned over to the successor that were absent on assuming the position? What skills and resources?

They are not single items, but longer term themes that govern the sequence, selection and design of individual tactical projects. They will not be achieved easily or quickly, but must be injected into every ongoing change program in the firm that cut across silos and boundaries.

Such initiatives have to be owned and championed by the CEO since no one else has the authority to shepherd them forward; must be continually promoted and monitored as a key part of the CEO's agenda; and need to be limited to a manageable number – probably seven or less. Each must be adequately funded and sustained over time, even though they lack a discrete and identifiable outcome and probably will not be achieved in the short term. They cannot be altered regularly, since if this happens, initiatives will be viewed as "flavours of the month" that can safely be ignored or met with lip service as mid-level executives become confident that "this too shall pass."

It is these initiatives that will make or break the execution of the strategy and must be the prime responsibility of the CEO. She has to continually revisit those few macro-critical capabilities to ensure that individual tactics aimed at winning the micro-battles are consistent with them, and that, across the suite of such projects, adequate progress is being made to succeed in the must-win battles. Periodically the CEO must sit back and see if adequate progress is being made to deliver on these goals. If not, she must intervene and identify what specific new projects need to be undertaken to realise their achievement. In this regard, the occasional symbolic action can be important. Bob Iger, for example, believed that signing a deal with Steve Jobs very early in his tenure as CEO had a dramatic impact on Disney embracing technology as an opportunity rather than fearing it as a threat.

These initiatives should not be confused with the strategy itself. Ironically, because this is one of the few levers top executives actually have to implement the strategy, and because this is how managers get involved in strategy, these initiatives easily become the public face of the strategy. When Kasper Rorsted took over as CEO of Adidas, he agreed to continue to pursue, what were called, the three strategic choices of his predecessor: Speed, Cities and Open Source. Those are not a strategy! They could apply to any consumer goods company since they do not specify any of the elements of a strategy – objective, scope of product and customer, or value proposition. What they are is a set of initiatives appropriate for executing an actual strategy. In fact Rorsted introduced four other initiatives to support "the strategy": Portfolio (to sharpen the focus and reduce complexity of the brand portfolio); North

America (as a strategic priority for investment); digital; and ONE Adidas (to act as one global company, not twenty smaller ones)[4]. Together, the seven items (about the right number) are actually the must-win battles on which Rorsted should focus his attention, since delivering against those will have meant that Adidas has built a set of capabilities to succeed into the future.

Note that Rorsted himself cannot be involved in the detail of the experiments and actions necessary to achieve "Speed" or "Digital". He has to designed an administrative context where empowered cross functional teams come up with ideas, test them, and then rollout successful routines and approaches throughout the firm, confident that those are consistent with the actual (though apparently unarticulated) strategy. He has to delegate the micro battles while concentrating on building the must-win capabilities.

To illustrate with the example that has run through all three articles, consider some of the must-win battles that the newly appointed Managing Partner at Edward Jones, Penny Pennington, has identified. To shift to the "solutions" business model in response to the changing opportunity set and industry structure, Edward Jones has to address (among other issues): diversity – the majority of net worth in the next twenty years will be created in minority households and yet the firm has fewer than 15% minority FAs; Intergenerational Wealth Transfer as $40 trillion in assets are inherited by millennials; and Multi-channel Solutions if it is to effectively serve a full range of net worth clients. Each of these will not be solved with a single project. They require several multi-dimensional cuts at the topic.

The pursuit of these, and other, must-win battles are supported in the current Five Year Plan by about thirty project teams each working on an aspect of the broad theme, but each designed to solve a specific element of the challenge, such as how to enter urban markets with a large minority population. While these projects will hopefully identify solutions, other projects will arise in coming years, each which will contribute to fulfilling the larger goal of an initiative.

TEMPO OF CHANGE

If we understand something about the strategic management of execution, it is important to realise that there is hidden in this part of the strategy landscape, a unique source of competitive advantage. This does not have to do with the efficiency or effectiveness of execution – we take that for granted – but with the speed of that process, with, what George Stalk calls the "tempo" of the change management and experimentation process[5].

As "Lean Strategy" intimated, strategy is a continuous and iterative process of hypothesis, experimentation, learning and action. As with the classic Boyd loop for fighter pilots, the faster a firm can cycle through the process, the more effective it will be in the competitive marketplace. If it does this, it creates a new and different type of competitive advantage. Indeed, the more a firm can accelerate that loop or **compress** the time to complete a cycle, the more of an advantage it will possess.

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[4] See "Adidas Strategy" accessed 1/31/2019 at https://www.adidas-group.com/en/group/strategy-overview/

[5] This is the modern version of time based competition, in which is not compression of the time to perform operational activities that creates advantage, but acceleration of the speed of the decision cycle, see G. Stalk "Time based Competition" HBR

Thus even the execution phase of the complete strategy landscape holds the potential for being a source of sustainable competitive advantage.