

TURNING STRATEGY INTO REALITY

Despite the vast sums of money, time and energy invested in strategy development in most organisations, few fulfil their promise. We would go further and suggest that companies achieving 70% of their strategic objectives are well above the norm. Many strategies decay on boardroom shelves, few live on beyond their published date, and far fewer still go on to form the backbone of financial, operational and sales planning and execution. This strategy-reality gap and the underlying causes are often invisible to senior management. As a consequence, the business rudder is 'jerked' in the wrong direction, the wrong levers are pulled, and all too often the wires joining mission control (top management) and the engine room (operations) are disconnected.

Naturally, when results fall short of expectations, executives press for better execution (more of the same) or opt for a change of strategy (do something different) without understanding which option is going to yield improvement. The result: dissipation of energy and enthusiasm, loss of focus and time, and spiralling underperformance.

In contrast, high performing organisations experience relatively small fluctuations between strategy and reality. They close the strategy-reality gap through robust planning *alongside* smarter execution. Here strategy is more than a snapshot of management thinking or a high level business plan - it is a mantra that galvanises employees towards a common purpose, it drives operational activities, and it becomes the organisation's *raison d'être*. Does this mean high performing organisations are better strategic planners or simply set their sights too low? The answer is neither - they are more disciplined in their planning, tracking and monitoring, and execution processes. Of course, there are times when their performance falls below plan - but they are quick to see the downturn, discern the cause and take corrective action.

WHAT CAUSES THE STRATEGY-REALITY GAP?

We have found the following faults rank as the top five contributors to the strategy-reality gap:

1. Lack of performance monitoring and benefits tracking

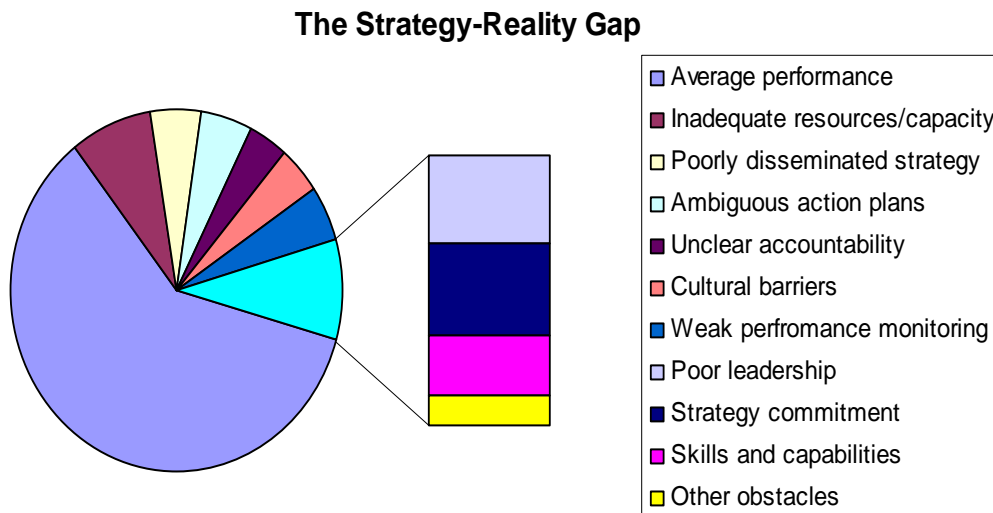
We estimate **less than one in five** organisations compare business performance against last years strategic plans. How then are managers supposed to understand whether their investment, operational, and sales and marketing strategies are focussed in the right areas? This indiscipline is often dismissed under the guises of market volatility or business change, when the reality is executives don't want to face the truth and consequences of poorly planned and/or executed strategy. The disconnect between results and forecasts becomes embedded in future investment decisions, so companies continue to fund losing strategies - money which could otherwise be used to fund winning strategies.

2. Forecasting from an unreliable baseline

Most organisations start their business planning cycle or strategy development from last year's start or forecasted end point. So if results are on the up, year on year targets are revised upwards. However, as we have already established performance rarely matches prior years' projections - resulting in year after year of underperformance. In contrast, many organisations see underperformance as a reason to tear up the business forecast and/or strategy and start again from a revised "more realistic" baseline without understanding the root causes and effects.

3. Poor dissemination of strategic goals

Ask employees responsible for delivering success in most organisations to define their company's strategy and their contribution to it, and they will probably paraphrase from the company's mission statement, core values, and headline financial targets. Ask them what how the strategy translates into what they do day-to-day and they are often struck dumb. In short, a lot of value is lost in translation and misaligned resources.



4. Slow response to performance bottlenecks

The systems, methods and procedures used by most companies to develop plans, manage resources, and monitor performance hinder senior management's attempts to interpret whether strategy-reality gaps stem from poor analysis, poor planning, poor execution, all three or none of the above. And because plans often incorporate unrealistic (or ungrounded) projections, they are written down. Likewise, when plans *are* realistic but performance falls short, there are few early warning mechanisms. Consequently, they have no way of knowing whether planned actions were carried out on schedule, what the consequences were, what responses were delivered, and so on. Without clear timely performance management information, it is virtually impossible to take appropriate corrective action.

5. A culture of underperformance

Breakdowns in planning and execution are reinforced - or even magnified - by a culture shift and once it has taken seed it becomes difficult to uproot. On one hand, unrealistic and unfulfilled plans set an expectation that plans are simply not to be adhered to. It becomes the norm that performance commitments are not met, so commitments are not binding and underperformance goes unpunished. In such organisations, people spend more time covering their tracks and finding excuses to support under performance than they do putting things right. They become less critical, less reflective, less honest about weaknesses, and ultimately they lose their capacity to compete.

CLOSING THE STRATEGY-REALITY GAP

Whilst the strategy-reality gap is significant in most organisations, OnPoint believes it can be closed with the right help. We work with senior managers to simultaneously solve both sides of the equation: raising standards in both planning and execution processes and establishing clear links between the two.

We apply simple, perhaps even obvious, cardinal rules to objectively assess the strategy-reality gap and determine whether it stems from strategy formulation, execution, and/or capabilities. We then apply the same rules to identify problems early and create preventative strategies to mitigate future shortfalls. The rules are summarised below.

Rule 1: Keep it Simple

In our experience, most organisations confuse strategy with vision or abstract aspirations that cannot be easily translated and communicated into action. Without a clear sense of where the company is headed and why, lower levels within the organisation cannot put in place executable plans. The link between strategy and performance cannot be drawn because the strategy itself is not sufficiently grounded and embedded.

We guide clients through the strategy development process, keeping them on track, insisting on simple language to describe their course of action and avoiding drawn out descriptions and lofty meaningless ambitions. We help clients to focus on the right things, and communicate effectively what the strategy is and isn't to get everyone pulling in the right direction. As a result, subsequent stakeholder engagement is smoother, resource and action planning becomes more effective, and accountability easier to specify.

Rule 2: Make the forecasts drive what you do

Strategy formulation in many organisations is a political process – a business unit's plan little more than a bargaining settlement at the end of a wrestling match with the corporate centre. In this scenario, the corporate centre argues for higher financial projections whilst the business unit looks to negotiate the levels down with the incentive of higher performance related bonuses. The centre and its divisions pulling in opposite directions, living by different rules, and working with opposing motives.

Even in organisations where the processes are not so starkly biased and political factions are subdued, typically the financial planning processes are undertaken in isolation of sales and marketing, and operational delivery. This generates long-term opex, capex and working capital requirements are based on assumptions tied into efficiency and revenue growth gains which are not grounded in hard evidence.

We help our clients to view planning as a joint activity where forecasts drive the work they actually do. This means assumptions underlying plans must reflect reality and supported by deep insight into situational economics, competitor analysis, market analysis, and so on. We spend considerable time with cross-functional teams to concentrate on the *assumptions* that are going to drive long-term (financial) performance not the financial forecasts themselves.

Rule 3: Adopt a rigorous framework

One of the frameworks we recommend to clients is the use of *profit pools* as devised by Michael E. Porter amongst others. We use profit pools to ensure financial performance and operational activities are aligned to the markets and offerings that are going to yield the greatest returns. However, the choice of framework is secondary to its rigorous application

and the use of a common language in the dialogue between the corporate centre and business units.

Rule 4: Deploy the right resources early

As important as it is to engage the right resources early in the planning process, this rule is really concerned with ensuring the right resources are deployed during execution of the strategy. So, for example, when fulfilment of the strategy demands processes or systems need to change, the right resources are committed to the cause. Instead, many companies ignore the strategy if it doesn't fit with the accepted current view of the world.

Rule 5: Clearly identify priorities

The execution of any strategy is likely to involve several thousand tactical actions - some pivotal, some marginal. It is the pivotal actions carried out at the right time in the right way that make the difference between hitting the mark and falling short. High performing companies identify these 'must do' actions and make them explicit so that every accountable manager is in no doubt where to focus their efforts. These 'must do' actions are aligned to stretch targets in the form of key performance indicators that are actively monitored with milestone checks, and rewards are aligned to their attainment. They spur continuous improvement teams taking a total systems approach to eliminating bottlenecks and barriers.

Rule 6: Continuously monitor performance

From the very small to the very large business unit, experienced managers instinctively know when a target is out-of-reach or too low and whether there are insufficient capacity or inadequate capabilities to deliver against the plan. This intuition is generally self-taught over years of trial-and-error. In comparison, high performing organisations use near real-time performance monitoring systems to accelerate the trial-and-error process providing them with consistent and objective feedback data on which to make informed decisions. This information is used to spot flaws early, assess root-causes of variability and feedback customer experience too. By proactively monitoring the primary drivers of performance, high performing organisations are better able to make the necessary minor adjustments to keep performance on plan, and also develop and deploy effective counter measures when unforeseen events throw plans off course.

Rule 7: Invest in the development of execution capabilities

No company can ever have enough outstanding people. No process can ever be better than the people who have to make it work. So when you find them, you have to nurture and develop them - and reward and retain them. Practically every successful organisation we have ever encountered has recognised that the selection and development of its leaders is an essential ingredient of their success.

In the best organisations, the top team takes responsibility for hiring peers. Furthermore, they have a meaningful meritocracy in place that rewards talent at all levels for the contribution they make to the success of the organisation. The organisation's core values nearly always include an emphasis on 'customers', 'team', 'integrity' and above all 'results-driven' and 'performance-focussed' - and these core values are apparent in its culture and ways of doing business.

THE ULTIMATE PRIZE

We started out by suggesting that above-average businesses were themselves suffering a 30% strategy-reality gap – and in many companies the gap is much, much wider. A performance improvement on this scale is, in itself, a huge gain but this is not the ultimate prize.

The organisations that can tighten the links between strategy, planning, and execution not only benefit from closing the gap but they also experience multiplier effects in quality and culture. Over time, as strategies drive great performance and this becomes the norm, leaders grow in confidence and set stretch targets that inspire and transform. In turn, managers make firm commitments to deliver and are rewarded for achievement, employees respond to working for a successful organisation with faster career progression and rewards, the best talent available wants to be part of the success story – and this reinforces the behaviours needed to propel the business forward.

Roll forward a few planning cycles, and a culture of overperformance emerges where leaders and stakeholders have the confidence to support bold moves and a performance premium is attached to the company' stock as its reputation rises. The same is true of not-for-profit organisations too.

Closing the strategy-reality gap has a short-term fiscal year impact and pushes immediate performance improvement, but it also an important driver of cultural change that can have a long and lasting positive impact on an organisation's capabilities and competitiveness. That is the ultimate prize.

OnPoint helps clients develop winning strategies and then execute those strategies to maximise their potential. For more information, contact us via email at enquiries@onpointconsulting.co.uk