Why Is Executing Strategy So Hard?

Brian S. Lassiter
President, Minnesota Council for Quality

Given today's economic challenges, strategy is critical. But in various surveys by various experts, it is claimed that as many as 70-90% of business strategies fail. According to a recent study, we may now know why…

I'll define "strategy" as simply an organization's approach (formal and informal) to preparing for the future. Creating strategy is relatively easy: you gather some information, you conduct some sort of leadership retreat to sort through things, and then you set goals and maybe even create some action plans. But, then you go back to the office (the plant, the shop, the bank, the school, the hospital, the whatever) and you work on more urgent things (notice I didn't say more "important" things?). Why? Because executing strategy is hard, and there is always something more urgent that comes up in daily operations.

"Companies often manage strategy in fits and starts," says Robert Kaplan, Harvard professor and co-author of several books on the Balanced Scorecard and strategy execution. "Though executives may formulate an excellent strategy, it easily fades from memory as the organization tackles day-to-day operations issues" – doing what Kaplan calls "fighting fires." I think we can relate: sometimes we all must react to issues within the business rather than managing the business itself.

Maybe it's just how we're wired as humans. Think about it: we set New Year's resolutions, only to have 60% of them fail by late January (the average date of failure). Or we get our annual physical and find that we need to exercise more, cut down on unhealthy foods, and quit smoking. So we try for a few weeks (or months), but then eventually those entrenched habits start to creep back into our daily routes (the fast food, the shorter or skipped workouts, etc.). So, in our Darwinian nature, maybe humans are just wired to react to problems rather than proactively set – and take – new direction. After all, we're creatures of habit that settle into natural patterns, rather than true change agents that set, implement, and sustain new courses of action that may, in fact, be healthier, more productive, and just better for our overall outlooks.

So why should organizations (made up of humans) be any different?

A recent study by locally-based Digineer (conducted by Pat Salaski, a management consultant and a 2009 Minnesota Quality Award Evaluator), set out to answer the fundamental question: Why is executing strategy so difficult – especially during today's tough economic conditions, when strategy is really so paramount to long-term success?

They surveyed 65 leaders from various industries in the Twin Cities, representing a mix of industries and diversity of organizational levels (34% senior executives and other high level leaders, 30% middle level leaders, and 36% lower level managers). The findings were actually quite interesting (for a report on the findings, visit http://www.councilforquality.org/improve_documents.cfm).

Take, for example, the fundamental notion that 69% of these leaders are *not* confident in their organization's ability to execute strategy. Wow – that is as disturbing as it probably is accurate: leaders at various levels in the organization fully recognize and are realistic about the challenges in implementing strategic actions within their organizations. The more interesting question, however, had to do with why…

When responding to the question of what was the number one barrier to effectively executing their strategy, what would you predict? The economy and constrained financial resources perhaps? Increasing competition, which causes priorities to shift? Maybe rapidly changing market dynamics and customer needs? Game-changing regulations? No, no, no, and no. In fact, most of the barriers reported by these leaders were *internal* issues, not external factors. In ascending order, they were:

- Company reputation, mentioned by 4% of respondents
- Customers, 10% (those darn customers)
- Lack of confidence, 16%
- Technology, 18%
- Competitive Environment, 24%
- Government Regulations, 26%
- Employees, 30%
- Way We Work Together, 34%
- Budget, 40%
- Economic Conditions, 44%
- Middle Management, 46%
- CEO/President, 50%
- Senior Management, 52%
- Company Culture, 64% -- and the number one reason strategies fail to be fully executed:
- Past Habits, 66%

Wow – I never saw that coming. In fact, look at the top two vote-getters: company culture and past habits. There are those habits again –organizational inertia, inability to take action on new initiatives, slow or indecisive decision making, lack of accountability, short-term focus ("chasing rabbits" or finding the next big fad) – who knows the real reason(s), but interestingly enough: these leaders believe their strategies are not executed because of the organization's tendencies itself. (Economic conditions, despite the depth and length of this recession, came in sixth. And, along with Government Regulations, were the *only two* external factors listed in the top 10!)

I find it also fairly interesting that these conclusions were very similar to a University of Michigan study in 2005, which also found that internal barriers were more constraining in general than external ("Leaders Talk About Executing Strategy," Michigan Ross School of Business, Theresa Welbourne, March 2005). So these tendencies seem to exist in good times and in bad (and maybe they have for decades or generations, which might explain why 70-90% of strategies are said to fail).

But why? The Digineer study found several possible contributing reasons as to why internal dynamics and past habits get in the way of strategy implementation. Of those nearly 70% who were not confident in their organization's ability to execute strategy. Here were the top reasons for that lack of confidence:

- Unclear accountability for execution, 52%
- Internal resistance to change, 48% ("we've always done it that way")
- Buy-in or agreement on critical execution steps or actions, 40% (perhaps because the right people were not involved in setting direction or action plans)
- Employees' lack of ownership, 38% (involvement, again)
- Lack of a model to guide strategy execution, 27%
- Organizational structure, 23%
- Inappropriate incentives to support execution objectives, 21%
- Poor or inadequate information sharing, 19% (which surprised me that it was this low, as poor communication, including action plan and results tracking, to me at least usually contributes to execution challenges).

This is quite similar to a list presented in an issue of Quality Digest last summer ("Enterprise Performance: The New Quality Goal," David Boghossian, August 2009 – find it at http://www.councilforquality.org/improve_documents.cfm). Boghossian recognizes the age-old challenge of implementing strategy: "Strategy into action. It remains at the leading edge of management science. Very few organizations do it well, and even those that do often get there more through art than through science. Extremely rare are organizations that have a well defined, documented, trainable, continuously improvable process for executing strategy."

He goes on to state that all contemporary methodologies for implementing strategy – Balanced Scorecard, Hoshin Planning, and others –really have five common elements, that wrap nicely into a process sequence (with my commentary in parenthesis):

1. Focus on a few critical strategic goals. (My sense is you identify these critical goals through traditional environmental scans, SWOT analysis, and other data sources.)
2. Identify key performance indicators that measure progress toward those goals. (One of the themes that emanates from the Digineer study is the lack of data in strategy execution – measures to help leaders monitor progress of plans, communicate plans, reinforce accountability, serve as a basis for reward, and so forth. Without measures, you simply cannot expect action to take place…or take hold. And you certainly won't know if you ever "got there.")
3. Assess initiatives against a screen of strategic effect and cost benefit. (This speaks to prioritization – of selecting the RIGHT strategic initiatives, given your desired direction and the expected return on investment of your actions.)
4. Execute programs that deliver the benefits. (Simply put: do something. Take action. Eliminate other work if you need to create capacity, but organizations have to allow – and require – actions by various contributors in the organization – to move the enterprise closer to its desired destination.)
5. Review progress against Key Performance Indicator targets in real time and adjust course quickly when necessary. (This part is hard, but critical. Use the data and measures you've selected to monitor progress and make mid-course corrections. If the actions are not moving the organization closer to the desire end-state, then either the measures or hypotheses were wrong, or the actions were wrong. Either way, make adjustments and measure the effectiveness in your new set of actions. This is the classic closed-loop process of strategy – design, test, do, measure, adjust. Sound familiar? It should: it's the basis of PDSA (Plan-Do- Study-Act) and Six Sigma's DMAIC (Design-Measure-Analyze-Implement-Control)).

In challenging times (and really in ALL times) a key role for leaders is to set and execute strategy – to set a vision for the future and align organizational resources to move (and adjust) toward that vision. Strategy is critical to helping organizations address their environmental challenges; leverage their core competencies and strategic advantages; address their marketplace and stakeholder needs; recognize and respond to risks, competitive pressures, internal weaknesses, shifts in technology or regulations; and – in essence – prepare for the future and sustain the enterprise.

The Digneer study asked leaders their opinion on the consequences of poor strategy execution (or said the inverse way: the benefits of good execution). The top responses included:

- Decreased employee commitment, 67%
- Lost Market Opportunities, 53%
- Decreased Revenue, 53%
- Increased Costs, 39%
- Increased Cycle Times, 28%
- Decreased Customer Loyalty, 28%
- Lost Market Share, 28%.

Sounds like a case for action to me.

"These findings represent both good news and bad news," says Pat Salaksi of Digneer and author of the study. "The good news is that these internal factors should be able to be addressed by senior leaders. The bad news is that they are the same internal factors that have been identified in multiple other studies on this topic for years."

In other words: we haven't learned how to break through the strategy execution barrier, in good times or in bad. But maybe we'll have better results this time, as companies get serious in taking action to emerge from this economic downtown. We can only hope.