



# Strategic achievement

Superior, sustainable company performance lies in solid execution

BY ANDREW SPANYI

What's more critical: strategy formulation or strategy implementation? While both are essential to achieving superior organizational performance, an increasing number of authors have concluded that implementing strategy is where companies succeed or fail.

Why is it that many organizations with experienced, energetic leadership teams,

solid products, and viable market opportunities stumble when it comes to execution?

Some experts maintain that the economy is the culprit. Others point to an increasingly competitive business environment, the greater-than-ever power of the customer, or the lack of breakthrough thinking in strategy formulation and execution. While these observations have merit, the

biggest impediment to execution is the traditional functional mindset of many senior executives.

The traditional functional mindset, prevalent since the industrial revolution, promotes attitudes and behaviors that are counterproductive in the current business environment. Functional thinking is based on an inside-out view in which depart-



mental focus, reporting relations, and the flow of authority are predominant factors. This drives a disproportional preoccupation with company structure and leads to frequent restructuring in the hope that if the organization chart were properly defined and filled, the organization's performance would automatically improve.

Functional thinking also reinforces the

traditional view of performance measurement in which the dominant factors are actual-vs.-budget performance by department and a conservative view of technology.

### Organizational capability

*"We are moving from the specialist who is soon obsolete to the generalist who can adapt."*

– John Naisbitt, futurist

Organizations that excel at execution know how to create value for customers and shareholders. A feature of such organizations is their ability to define key organizational capabilities — activities that produce observable value to customers. Typical organizational capabilities include order taking; developing, commercializing, producing, and shipping products; providing advice and service; installing equipment; sending invoices; paying suppliers; and collecting funds.

An organizational capability approach requires that leaders subscribe to two fundamental beliefs:

- Organizations should be designed, led, and managed so that it is easy for customers to do business with the company and to create an environment that helps employees serve customers.
- Organizations are complex business systems in which a change in any one component is likely to have an impact on other components. An understanding of critical relationships is essential.

How does an organizational capability approach differ from the traditional functional paradigm?

In the capability model, senior managers are predominantly concerned with issues about the quality of products and services provided to customers (external and internal), the flow of value-added work, and roles and responsibilities. The dominant view on performance measurement shifts from the traditional focus of actual-vs.-budget to a more balanced model that includes the timeliness, quality, and cost of providing products and services to customers. Allocation and budgeting of resources moves from the traditional practice of individual units vying for resources based on their own needs toward cross-group teams that jointly assess resource needs based on the flow of work needed to create value for customers. Problem solving would seldom involve situations in which unit managers had to compete with

each another; instead, organizations would adapt to departmental interdependence, recognizing that issues are best addressed through cross-group problem-solving sessions focused on providing services to customers and the required flow of work.

An organizational capability approach nurtures three of the most critical factors essential to achieving superior, sustainable results: strategic focus, organizational alignment, and operating discipline. Conversely, taking action to achieve strategic focus, organizational alignment, and operating discipline develops capability thinking.

### Focus

*"The ability to focus attention on important things is a defining characteristic of intelligence."*

– Robert J. Shiller, economics professor, Yale University

Strategic focus is essential to execution. It requires a succinct statement of direction, with clarity on the critical business issues that need to be addressed for success. The capability approach fits well with the thrust of Michael Porter's landmark 1996 article "What is Strategy?" in which Porter argues that "activities are the basis of competitive advantage" and competitive strategy means "deliberately choosing a different set of activities to deliver a unique mix of value."

Does your organization struggle with maintaining strategic focus? Is it a challenge to develop a shared understanding of strategic direction as senior players choose to interpret strategic intent and initiatives within a departmental paradigm?

Consider these four fundamental components to developing market focus:

- Look at the business from the outside-in as well as the inside-out. By doing so, choices about which markets to serve and which products to offer become clearer.
- Articulate strategic direction in a way that inspires from the boardroom to the lunchroom. Avoid the use of jargon, and express strategic direction simply.
- Express critical business issues concisely. This will provide guidance for organizational alignment.
- Develop plans to keep strategic direction in the front of people's minds throughout the year.

A useful tool is a high-level business process relationship map, which docu-

ments the company's core business processes and the cross-group or department dependencies in execution. It can provide a framework on which to attach data about desired levels of performance, depict current performance, assess the size of gaps, and show which departments will need to work at closing the gap. Furthermore, it's a useful illustration to frame key choices.

**Alignment**

*"In strategy, it is important to see distant things as if they were close and to take a distanced view of close things."*

– Miyamoto Musashi, Samurai warrior

Quote, unquote  
**RISKY BUSINESS**

"More CEOs need to adapt their own business strategies for a world that will probably never again seem quite as safe as it did just a few years ago. Staying frozen in time isn't an option for individual companies or for the U.S. economy.

In business, you're either moving ahead or you're slipping behind. The world isn't going to become a safer place to live in or work in tomorrow or next quarter. Businesses need to just accept that fact and find ways to prosper anyway."

– Amey Stone, associate editor, *BusinessWeek Online*

Clarity about strategic direction is only the beginning; it's simply a plan. To execute the plan requires that the organization be aligned to produce results, and that requires a design that addresses business process performance, technology, performance measures, and rewards.

By first addressing the scope of change needed to

Capability	What to measure	Possible indicators
Quote	Time Cost	Quote turnaround time Cost per quote
Sell	Effectiveness Share	Conversion rate from design to sale Share of wallet by major account
Design product	Time Accuracy Cost	Elapsed time from inquiry to final design Percent of completed design requiring rework Average or median cost per custom design
Buy materials	Time Completeness Cost	On-time delivery performance Backorders Percent improvement over prior year
Build product	Cost Time	Manufacturing margin Product availability for on-time delivery
Deliver/invoice	Time Accuracy Completeness	Percent on time (as per customer request date) Percent accurate Percent complete (no backorders)
Service product	Cost Completeness	Service margin, warranty claims Percent of visits requiring recall

**Figure 1. Performance measurement framework**

close performance gaps on critical organizational capabilities, the stage is set to improve critical business processes, make decisions around information technology, and develop measures and rewards.

Structure does matter, but form should follow function, and business process redesign efforts naturally reveal major structural disconnects and can add patches in the form of cross-group or cross-functional teams to address minor structural issues.

While restructuring is necessary in some cases, it should be the exception rather than the rule. The only reasons to restructure are if the current structure is impeding the execution of strategy or if it is sub-optimizing the performance of a critical business process

For example, a technology company that is organized by functional department, dedicated to leading new product introduction, and operating in an industry where product life cycles are short represents a case for restructuring since the functional structure is weighed down by many hand-offs. Then again, a manufacturing firm committed to a low-cost producer strategy and organized in a product structure may decide on a wholesale restructuring to address the duplication of effort and loss of scale intrinsic to that design. However, in every instance, restructuring will have a greater chance of success if it addresses critical business issues and business process design.

If it's true that an army walks on its stomach, then one might say business processes walk on enabling technology. The organizational capability approach helps place information technology in perspective. It promotes the view that technology is for the purpose of equipping the business to serve customers better and to execute

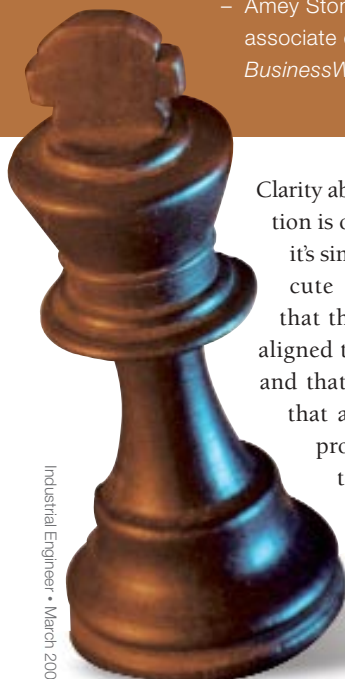
internal business processes better, cheaper, or faster.

Understanding key performance gaps and addressing them through technology can allow organizations to avoid the pitfall of automating broken business processes. For example, in a hypothetical custom equipment manufacturer, the executive team would likely ask and answer the following questions:

- What percent of our customer request for quotations came through our Web site?
- How many hits are we getting per month on our technical information Web pages?
- What percent of service calls are logged electronically?
- What percent of our purchase orders are placed and settled electronically?
- What percent of shipments are set up for delivery electronically?
- What percent of our new hires made their initial application through our Web page?

Then information technology projects would be deployed to achieve specific performance improvement. The capability approach encourages the leadership team to become involved in discussions about the payback of IT investments and assess the value of IT investments by what they add to business operations.

To illustrate how capability thinking can facilitate the development of a balanced view on performance measurement, let's again consider the case of a hypothetical custom equipment manufacturer. This company would likely define its core capabilities as quote, sell, design, buy, build, deliver/invoice, and support. Then it might develop the performance measurement framework depicted in Figure 1 to supple-



ment and provide balance with the traditional financial measures.

This framework promotes a focus on essential qualitative aspects of performance and provides guidance for the development of a reward system that will compensate managers for value creation.

### Discipline

*"In theory there is no difference between theory and practice. In practice there is."*

– Yogi Berra, baseball player

You may think that given strategic focus and organizational alignment, operating discipline is simply a matter of blocking and tackling. But that's where many companies stumble. While market factors are often blamed, the internal, subtle enemies of execution are shifting priorities and turf protection.

Companies that aspire to superior, sustainable performance cannot afford to be diverted from its strategic goals — and that requires operating discipline. Valuable lessons can be learned from professional sports. Winning sports teams are renowned for maintaining focus week after week, measuring performance incessantly, recognizing success, and creating a team. The organization capability approach provides a platform for corporations to act similarly.

This means communicating strategic direction and progress toward company goals regularly with variety in delivery. It also calls for monthly management reviews of performance, with public recognition given to outstanding performance and a dedication to following up on action items. Another key ingredient is the establishment of common language and culture.

A management practice that can facilitate operating discipline is process management, including process ownership. Somewhat neglected in the 1990s as organizations yearned for the silver bullet that re-engineering appeared to offer, business process management fits well with the capability model.

The position of the process owner is central to business process management. Ideally, each member of the executive team is accountable for the performance of one large and critical business process. At this level, the process owner is the executive who has most at stake based on the performance of that business process.

The role of the executive process owner

is to monitor the performance of the process, ensure that the business process measures tie into the organization's performance measures, make sure that individual and team rewards support improved business process performance, and keep an eye on evolving technology that could enable performance. The process owner should also select the members for a standing process team and hold regular meetings.

A major strength of process management is the potential to create a culture in which workers internalize their individual contribution as well as the goals of the business process within which they work. For many organizations, this involves an investment in training people about business process thinking and requires a clear definition of the major business processes (including where processes start and end, understanding the output and the customer, and knowing how performance will be measured).

Perhaps the most important element of business process management is reframing the definition of team. In traditional organizations, individuals' primary loyalty is dedicated to their functional area. Business process management allows employees to redefine their allegiance to business process performance over functional excellence. This creates accountability on what is produced for customers — which is where it belongs.

This does not necessarily mean that a company dedicated to business process management needs to restructure along business process lines. There is little compelling evidence that the business process form of organization design automatically leads to significantly better levels of performance.

Another advantage of business process management is its capacity to integrate well with other tools and initiatives such as TQM, activity-based costing, and Six Sigma. In some instances, this integrating and framing feature of process management can ensure that improvement initiatives keep the big picture in mind, identify key linkages, and do not morph into a series of discrete cost-cutting projects.

### Conclusion

*"In this business, by the time you realize you're in trouble, it's too late to save yourself."*

– Bill Gates, chairman of Microsoft Corp.

## What does it take TO BE THE BEST?

*Five key questions for those who want to break into business*

1. Is there one product or service you feel passionate about?
2. Have you studied the works of the management gurus?
3. Are you creative and spontaneous?
4. How extensively have you trained in the industry you're targeting?
5. Are you an idea person?

– Joshua Hyatt and  
Shane McLaughlin,  
Inc.com



Old solutions don't work anymore. The time for functional thinking, with all of its attendant weaknesses, is past. The organizational capability approach offers a contemporary, engaging, and action-oriented approach.

Achieving superior, sustainable corporate performance isn't easy in the best of times, and the current business environment makes it that much more difficult. Strategic focus, organizational alignment, and operating discipline will appeal to those leaders who are passionate about winning, challenging them to think systematically as well as systemically.

### For further reading

- Hammer, Michael, *The Agenda*, Crown Business, 2001.
- Porter, Michael, "What is Strategy?" *Harvard Business Review*, November/December 1996.
- Rummler, Geary, A. and Alan P. Brache, *Improving Performance*, Jossey-Bass, 1991.

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