CFO Insights
Strategy execution: What could possibly go wrong?

Every year, many companies convene their sharpest thinkers to develop strategies to enter new markets, capture greater market share, become more profitable, or otherwise improve some aspect of the business. And every year a large percentage of these strategies are doomed from day one. The past is littered with new strategies that were unveiled with much fanfare only to fall short of meeting expectations.

How do organizations go wrong? Often, there's nothing inherently defective with the strategies. Rather, the strategies do not live up to their promise because organizations don't do what it takes to effectively put them into practice. More specifically, there is a mismatch between what the strategy was designed to accomplish and the approach taken to implement it. In this issue of *CFO Insights*, we will examine the root causes of strategy execution risk and offer a set of dynamic implementation tactics designed to overcome many common barriers to the successful rollout of new strategies.

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Three root causes

The high probability of execution risk, including strategy execution risk, is not lost on CFOs. In fact, it is regularly named as a top internal risk in Deloitte's *CFO Signals*™ quarterly results. And in the Q3 2016 survey, for example, CFOs voiced escalating concerns about executing against their strategies and plans (see Figure 1).

For many companies, strategy execution risk can be found in three areas:

- *Failure to adequately translate the strategy from high-level ambition to specific actions the organization must take to make that ambition a reality.* In this case, strategic ambition—while understood tacitly by senior leadership—is poorly translated into design principles and downstream implementation choices. This communication failure disaggregates the ambition so that elements of the strategy, when built, no longer fit. The result: the execution of the strategy defaults to best (or average) practice rather than calling for next practice.
- *Failure to appropriately adapt the strategy when conditions change.* Real-world conditions change. Key employees leave, competitors act, customer expectations evolve, and new regulatory laws are passed. Implementation efforts often insufficiently account for such changing conditions, however. Moreover, "implementers" are expected and incentivized to stay on plan. The result: certain elements of the change (for example, organizational structures, new processes and programs, technology architecture) are "locked in" before key learnings can occur.
- *Failure to put in place the organizational capabilities required to sustain the strategy after it is enacted.* Implementation efforts "run out of steam" in this scenario, or do not take off at all. Some of the culprits include initiative fatigue, organizational resistance, and lack of ownership or clear accountability. The result: change fails to take root after implementation; people revert to their old ways; and organizations do not build the capabilities to sustain the new way of working.

Moving from traditional to dynamic execution

Failures in translating, adapting, and sustaining a strategy may thwart an organization's efforts to effectively execute it. Worse, these failures are often virtually inevitable because they are the natural outcomes of the *traditional approach* to strategy implementation.

That approach is highly administrative, focusing on the time, manpower, and sequence of activities. It frames the implementation challenge as a giant manufacturing process: Break the problem into pieces, develop a master plan that details the assembly instructions, specify the timing and sequencing of work streams, and deploy teams in parallel to assemble the components. But while this administrative approach is attractive on many levels (for example, it offers the certainty of clear timelines, and could provide reassurance that a large, complex issue can be divided and conquered), it is most effective in very specific situations, such as when the organization desires only a modest amount of change, when the competition is stable, or when a top-down approach is sufficient because the organization does not need to learn.

Such situations are rare today, however. That's why a more *dynamic* alternative approach may work better. This approach is based on the belief that for strategy implementation to be effective, companies should treat it as a leadership activity and avoid structuring it as a purely administrative activity. Dynamic strategy implementation focuses on translating leaders' strategic ambition into downstream implementation choices needed to create the desired outcomes, explicitly designing activities to enable the organization to adapt to changing conditions, and investing in capability-building efforts to embed new skills and behaviors.

Translate strategy into explicit implementation guidelines and choices. A translation problem arises because strategic ambitions are tacit knowledge ("I know it when I see it") and require some effort to be made explicit ("I can describe to you what it looks like"). If leaders can't make their ambition explicit, the rest of the organization will likely find itself forced to interpret the ambition's meaning on their own.

For example, what should the leader of the customer-centricity team do with a strategic ambition to "become more customer-centric"? Does that mean the company should organize by customer group? Should the team conduct research to understand what customers really

Figure 1. What constitutes "execution risk"?

Every quarter *CFO Signals* asks finance chiefs about their most worrisome risks. Execution risk is often named a top internal risk and typically includes strategy execution risk. Here is how CFOs defined execution risk in the Q3 2016 report:

Execution risk; (n) =number of respondents

- **Execution strategies/plans (15)**
- **Perform/adapt in tough conditions (4)**
- **Technology project execution (3)**
- **Execution failures (3)**
- **Complacency/forcing change (2)**
- **Manage M&A integrations/restructuring (2)**
- **Lack of focus/discipline (2)**
- **Regulatory compliance (2)**
- **Selecting right investments (2)**
- **Manufacturing effectiveness (2)**

Source: *CFO Signals*, Q3 2016, Deloitte CFO Program, September 2016 want? Should the company incentivize its service people to be highly responsive? Should it initiate an effort to make its products the highest possible quality? All of the above? None of the above? Something else? In this situation, all are possible—and that is the sign of a major translation problem.

The dynamic approach addresses the translation problem on multiple fronts, beginning with articulating actionable design principles. Design principles provide direction to implementation teams without being overly prescriptive. For example, actionable design principles related to becoming customer-centric might include “Make the first moment of customer contact memorable” and “Focus marketing investments on customer segments disproportionately and sequentially.” By giving the implementation team this type of direction, leaders describe what they want with enough specificity so people know where they should start and how to evaluate what they come up with—but without prescribing the exact solution.

There are other necessary elements involved, however. Staffing the effort with “multilingual” leaders skilled at seeing how operational choices impact strategic outcomes is key. Dynamic strategy implementation demands a different kind of leadership attention as well, with consistent focus on managing for outcomes, not managing to milestones. Finally, a dynamic approach requires the use of metrics that specify a clear line of sight between program deliverables and the desired strategic outcomes.

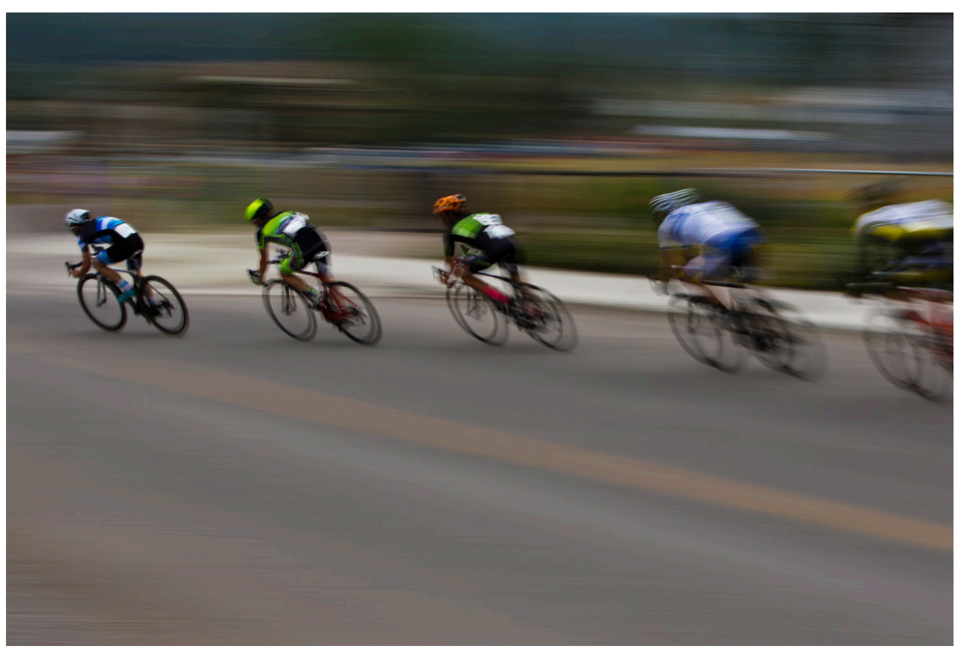
Adapt to rapidly changing conditions. Conditions change, both internally and externally. Thus, companies should be prepared to course-correct and sometimes even change course as they implement strategy. A dynamic approach enables such flexibility by emphasizing learning throughout implementation. Instead of viewing the effort as a change program to be managed and “done to” the organization, the dynamic approach builds in mechanisms for course-correcting and learning. For example, the dynamic approach seeks to improve leadership’s contextual awareness, soliciting diverse perspectives through a variety of collaboration tools—from social media platforms to crowd-sourced improvement ideas—to share and test ideas in their early stages. It leverages scenario-planning and environment-scanning tools to anticipate changes. And it emphasizes the importance of productive conversation to facilitate more effective collaboration and stronger partnerships with key constituents.

Dynamic implementation also requires greater attention to understanding “What should we learn from the fact that we are off track?” It allocates additional expertise to assess whether the problem is a detour requiring rapid course correction or a leading indicator that a change of course is required. This “heads up” perspective may enable leadership to adapt the implementation plan in response to changing conditions and new information, and reduces the risk the organization could find itself at point B when it should have aimed for point C instead.

Sustain the strategy by building organizational capabilities. Sustaining implementation changes over the long term requires investment in organizational capabilities. After all, the behavioral changes required by a new strategy may not stick until they are embedded as enduring organizational capabilities.

By investing in helping individuals develop the new competencies required by the strategy, the dynamic approach increases the likelihood that the implementation effort will not be a temporary, isolated event. Rather, the effort results in a sustained, long-term improvement in the organization’s performance. Building organizational capabilities requires significant effort, from clearly defining the desired capabilities to diagnosing the current level of organizational capabilities to designing the integrated system of assets and activities that builds and sustains these capabilities.

Dynamic strategy implementation can also help address the organizational resistance that often torpedoes implementation efforts. Whereas traditional approaches typically require significant up-front investment over many months before showing results, the dynamic approach adopts a different mix of activities in the initial stages, emphasizing those that set the stage for organizational learning (for example, demonstration projects, pilot programs, and applied learning programs). By experimenting



with small-scale actions that may later be scaled across the organization, the dynamic approach can produce concrete deliverables and value in the early stages of an implementation effort, increasing learning, buy-in, alignment, and enthusiasm across the organization.

Whether you are entering a new market, launching a new product, or changing your business model, strategy execution risk looms large. Major economic and competitive shifts can require real-time adaptation of approaches, expectations, and responsibilities. By adopting a dynamic approach to strategy implementation, however, companies and CFOs can increase the chance of successful strategy execution and potentially reduce the chance of failing to effectively translate, adapt, and sustain the new strategy.

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