



Research shows that enterprises fail at execution because they go straight to structural reorganization and neglect the most powerful drivers of effectiveness—decision rights and information flow.

The Secrets to Successful Strategy Execution

by Gary L. Neilson, Karla L. Martin, and Elizabeth Powers

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The Secrets to Successful Strategy Execution

The Idea in Brief

A brilliant strategy may put you on the competitive map. But only solid execution keeps you there. Unfortunately, most companies struggle with implementation. That's because they overrely on structural changes, such as reorganization, to execute their strategy.

Though structural change has its place in execution, it produces only short-term gains. For example, one company reduced its management layers as part of a strategy to address disappointing performance. Costs plummeted initially, but the layers soon crept back in.

Research by Neilson, Martin, and Powers shows that execution exemplars focus their efforts on two levers far more powerful than structural change:

- **Clarifying decision rights**—for instance, specifying who “owns” each decision and who must provide input
- **Ensuring information flows where it's needed**—such as promoting managers laterally so they build networks needed for the cross-unit collaboration critical to a new strategy

Tackle decision rights and information flows first, and only then **alter organizational structures** and **realign incentives** to support those moves.

The Idea in Practice

The following levers matter *most* for successful strategy execution:

DECISION RIGHTS

- Ensure that everyone in your company knows which decisions and actions they're responsible for.

► Example:

In one global consumer-goods company, decisions made by divisional and geographic leaders were overridden by corporate functional leaders who controlled resource allocations. Decisions stalled. Overhead costs mounted as divisions added staff to create bulletproof cases for challenging corporate decisions. To support a new strategy hinging on sharper customer focus, the CEO designated accountability for profits unambiguously to the divisions.

- Encourage higher-level managers to delegate operational decisions.

► Example:

At one global charitable organization, country-level managers' inability to delegate led to decision paralysis. So the leadership team encouraged country managers to delegate standard operational tasks. This freed these managers to focus on developing the strategies needed to fulfill the organization's mission.

INFORMATION FLOW

- Make sure important information about the competitive environment flows quickly to corporate headquarters. That way, the top team can identify patterns and promulgate best practices throughout the company.

► Example:

At one insurance company, accurate information about projects' viability was censored as it moved up the hierarchy. To improve information flow to senior levels of management, the company took steps to create a more open, informal culture.

Top executives began mingling with unit leaders during management meetings and held regular brown-bag lunches where people discussed the company's most pressing issues.

- Facilitate information flow across organizational boundaries.

► Example:

To better manage relationships with large, cross-product customers, a B2B company needed its units to talk with one another. It charged its newly created customer-focused marketing group with encouraging cross-company communication. The group issued regular reports showing performance against targets (by product and geography) and supplied root-cause analyses of performance gaps. Quarterly performance-management meetings further fostered the trust required for collaboration.

- Help field and line employees understand how their day-to-day choices affect your company's bottom line.

► Example:

At a financial services firm, salespeople routinely crafted customized one-off deals with clients that cost the company more than it made in revenues. Sales didn't understand the cost and complexity implications of these transactions. Management addressed the information misalignment by adopting a “smart customization” approach to sales. For customized deals, it established standardized back-office processes (such as risk assessment). It also developed analytical support tools to arm salespeople with accurate information on the cost implications of their proposed transactions. Profitability improved.

Research shows that enterprises fail at execution because they go straight to structural reorganization and neglect the most powerful drivers of effectiveness—decision rights and information flow.

The Secrets to Successful Strategy Execution

by Gary L. Neilson, Karla L. Martin, and Elizabeth Powers

A brilliant strategy, blockbuster product, or breakthrough technology can put you on the competitive map, but only solid execution can keep you there. You have to be able to deliver on your intent. Unfortunately, the majority of companies aren't very good at it, by their own admission. Over the past five years, we have invited many thousands of employees (about 25% of whom came from executive ranks) to complete an online assessment of their organizations' capabilities, a process that's generated a database of 125,000 profiles representing more than 1,000 companies, government agencies, and not-for-profits in over 50 countries. Employees at three out of every five companies rated their organization weak at execution—that is, when asked if they agreed with the statement "Important strategic and operational decisions are quickly translated into action," the majority answered no.

Execution is the result of thousands of decisions made every day by employees acting according to the information they have and their own self-interest. In our work helping

more than 250 companies learn to execute more effectively, we've identified four fundamental building blocks executives can use to influence those actions—clarifying decision rights, designing information flows, aligning motivators, and making changes to structure. (For simplicity's sake we refer to them as decision rights, information, motivators, and structure.)

In efforts to improve performance, most organizations go right to structural measures because moving lines around the org chart seems the most obvious solution and the changes are visible and concrete. Such steps generally reap some short-term efficiencies quickly, but in so doing address only the symptoms of dysfunction, not its root causes. Several years later, companies usually end up in the same place they started. Structural change can and should be part of the path to improved execution, but it's best to think of it as the capstone, not the cornerstone, of any organizational transformation. In fact, our research shows that actions having to do with

decision rights and information are far more important—about twice as effective—as improvements made to the other two building blocks. (See the exhibit “What Matters Most to Strategy Execution.”)

Take, for example, the case of a global consumer packaged-goods company that lurched down the reorganization path in the early 1990s. (We have altered identifying details in this and other cases that follow.) Disappointed with company performance, senior management did what most companies were doing at that time: They restructured. They eliminated some layers of management and broadened spans of control. Management-staffing costs quickly fell by 18%. Eight years later, however, it was déjà vu. The layers had crept back in, and spans of control had once again narrowed. In addressing only structure, management had attacked the visible symptoms of poor performance but not the underlying cause—how people made decisions and how they were held accountable.

This time, management looked beyond lines and boxes to the mechanics of how work got done. Instead of searching for ways to strip out costs, they focused on improving execution—and in the process discovered the true reasons for the performance shortfall. Managers didn’t have a clear sense of their respective roles and responsibilities. They did not intuitively understand which decisions were theirs to make. Moreover, the link between performance and rewards was weak. This was a company long on micromanaging and second-guessing, and short on accountability. Middle managers spent 40% of their time justifying and reporting upward or questioning the tactical decisions of their direct reports.

Armed with this understanding, the company designed a new management model that established who was accountable for what and made the connection between performance and reward. For instance, the norm at this company, not unusual in the industry, had been to promote people quickly, within 18 months to two years, before they had a chance to see their initiatives through. As a result, managers at every level kept doing their old jobs even after they had been promoted, peering over the shoulders of the direct reports who were now in charge of their projects and, all too frequently, taking over. Today, people stay in their positions longer so they can follow

through on their own initiatives, and they’re still around when the fruits of their labors start to kick in. What’s more, results from those initiatives continue to count in their performance reviews for some time after they’ve been promoted, forcing managers to live with the expectations they’d set in their previous jobs. As a consequence, forecasting has become more accurate and reliable. These actions did yield a structure with fewer layers and greater spans of control, but that was a side effect, not the primary focus, of the changes.

The Elements of Strong Execution

Our conclusions arise out of decades of practical application and intensive research. Nearly five years ago, we and our colleagues set out to gather empirical data to identify the actions that were most effective in enabling an organization to implement strategy. What particular ways of restructuring, motivating, improving information flows, and clarifying decision rights mattered the most? We started by drawing up a list of 17 traits, each corresponding to one or more of the four building blocks we knew could enable effective execution—traits like the free flow of information across organizational boundaries or the degree to which senior leaders refrain from getting involved in operating decisions. With these factors in mind, we developed an online profiler that allows individuals to assess the execution capabilities of their organizations. Over the next four years or so, we collected data from many thousands of profiles, which in turn allowed us to more precisely calibrate the impact of each trait on an organization’s ability to execute. That allowed us to rank all 17 traits in order of their relative influence. (See the exhibit “The 17 Fundamental Traits of Organizational Effectiveness.”)

Ranking the traits makes clear how important decision rights and information are to effective strategy execution. The first eight traits map directly to decision rights and information. Only three of the 17 traits relate to structure, and none of those ranks higher than 13th. We’ll walk through the top five traits here.

1. Everyone has a good idea of the decisions and actions for which he or she is responsible. In companies strong on execution, 71% of individuals agree with this statement; that figure drops to 32% in organizations weak on execution.

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Blurring of decision rights tends to occur as a company matures. Young organizations are generally too busy getting things done to define roles and responsibilities clearly at the outset. And why should they? In a small company, it's not so difficult to know what other people are up to. So for a time, things work out well enough. As the company grows, however, executives come and go, bringing in with them and taking away different expectations, and over time the approval process gets ever more convoluted and murky. It becomes increasingly unclear where one person's accountability begins and another's ends.

One global consumer-durables company found this out the hard way. It was so rife with people making competing and conflicting decisions that it was hard to find anyone below the CEO who felt truly accountable for profitability. The company was organized into 16 product divisions aggregated into three geographic groups—North America, Europe, and International. Each of the divisions was charged with reaching explicit performance targets, but functional staff at corporate headquarters controlled spending targets—how R&D dollars were allocated, for instance. Decisions made by divisional and geographic leaders were routinely overridden by functional leaders. Overhead costs began to mount as the divisions added staff to help them create bulletproof cases to challenge corporate decisions.

Decisions stalled while divisions negotiated with functions, each layer weighing in with questions. Functional staffers in the

divisions (financial analysts, for example) often deferred to their higher-ups in corporate rather than their division vice president, since functional leaders were responsible for rewards and promotions. Only the CEO and his executive team had the discretion to resolve disputes. All of these symptoms fed on one another and collectively hampered execution—until a new CEO came in.

The new chief executive chose to focus less on cost control and more on profitable growth by redefining the divisions to focus on consumers. As part of the new organizational model, the CEO designated accountability for profits unambiguously to the divisions and also gave them the authority to draw on functional activities to support their goals (as well as more control of the budget). Corporate functional roles and decision rights were recast to better support the divisions' needs and also to build the cross-divisional links necessary for developing the global capabilities of the business as a whole. For the most part, the functional leaders understood the market realities—and that change entailed some adjustments to the operating model of the business. It helped that the CEO brought them into the organizational redesign process, so that the new model wasn't something imposed on them as much as it was something they engaged in and built together.

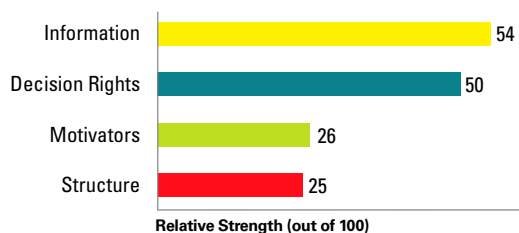
2. Important information about the competitive environment gets to headquarters quickly. On average, 77% of individuals in strong-execution organizations agree with this statement, whereas only 45% of those in weak-execution organizations do.

Headquarters can serve a powerful function in identifying patterns and promulgating best practices throughout business segments and geographic regions. But it can play this coordinating role only if it has accurate and up-to-date market intelligence. Otherwise, it will tend to impose its own agenda and policies rather than defer to operations that are much closer to the customer.

Consider the case of heavy-equipment manufacturer Caterpillar.¹ Today it is a highly successful \$45 billion global company, but a generation ago, Caterpillar's organization was so badly misaligned that its very existence was threatened. Decision rights were hoarded at the top by functional general offices located at headquarters in Peoria, Illinois, while

What Matters Most to Strategy Execution

When a company fails to execute its strategy, the first thing managers often think to do is restructure. But our research shows that the fundamentals of good execution start with clarifying decision rights and making sure information flows where it needs to go. If you get those right, the correct structure and motivators often become obvious.



The 17 Fundamental Traits of Organizational Effectiveness

From our survey research drawn from more than 26,000 people in 31 companies, we have distilled the traits that make organizations effective at implementing strategy. Here they are, in order of importance.

RANK	ORGANIZATION TRAIT	STRENGTH INDEX (OUT OF 100)
1	Everyone has a good idea of the decisions and actions for which he or she is responsible.	81
2	Important information about the competitive environment gets to headquarters quickly.	68
3	Once made, decisions are rarely second-guessed.	58
4	Information flows freely across organizational boundaries.	58
5	Field and line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices.	55
6	Line managers have access to the metrics they need to measure the key drivers of their business.	48
7	Managers up the line get involved in operating decisions.	32
8	Conflicting messages are rarely sent to the market.	32
9	The individual performance-appraisal process differentiates among high, adequate, and low performers.	32
10	The ability to deliver on performance commitments strongly influences career advancement and compensation.	32
11	It is more accurate to describe the culture of this organization as "persuade and cajole" than "command and control."	29
12	The primary role of corporate staff here is to support the business units rather than to audit them.	29
13	Promotions can be lateral moves (from one position to another on the same level in the hierarchy).	29
14	Fast-track employees here can expect promotions more frequently than every three years.	23
15	On average, middle managers here have five or more direct reports.	19
16	If the firm has a bad year, but a particular division has a good year, the division head would still get a bonus.	13
17	Besides pay, many other things motivate individuals to do a good job.	10

BUILDING BLOCKS ■ Decision Rights ■ Information ■ Motivators ■ Structure

much of the information needed to make those decisions resided in the field with sales managers. “It just took a long time to get decisions going up and down the functional silos, and they really weren’t good business decisions; they were more functional decisions,” noted one field executive. Current CEO Jim Owens, then a managing director in Indonesia, told us that such information that did make it to the top had been “whitewashed and varnished several times over along the way.” Cut off from information about the external market, senior executives focused on the organization’s internal workings, overanalyzing issues and second-guessing decisions made at lower levels, costing the company opportunities in fast-moving markets.

Pricing, for example, was based on cost and determined not by market realities but by the pricing general office in Peoria. Sales representatives across the world lost sale after sale to Komatsu, whose competitive pricing consistently beat Caterpillar’s. In 1982, the company posted the first annual loss in its almost-60-year history. In 1983 and 1984, it lost \$1 million a day, seven days a week. By the end of 1984, Caterpillar had lost a billion dollars. By 1988, then-CEO George Schaefer stood atop an entrenched bureaucracy that was, in his words, “telling me what I wanted to hear, not what I needed to know.” So, he convened a task force of “renegade” middle managers and tasked them with charting Caterpillar’s future.

Ironically, the way to ensure that the right information flowed to headquarters was to make sure the right decisions were made much further down the organization. By delegating operational responsibility to the people closer to the action, top executives were free to focus on more global strategic issues. Accordingly, the company reorganized into business units, making each accountable for its own P&L statement. The functional general offices that had been all-powerful ceased to exist, literally overnight. Their talent and expertise, including engineering, pricing, and manufacturing, were parceled out to the new business units, which could now design their own products, develop their own manufacturing processes and schedules, and set their own prices. The move dramatically decentralized decision rights, giving the units control over market decisions. The business unit P&Ls were now measured consistently across the enter-

prise, as return on assets became the universal measure of success. With this accurate, up-to-date, and directly comparable information, senior decision makers at headquarters could make smart strategic choices and trade-offs rather than use outdated sales data to make ineffective, tactical marketing decisions.

Within 18 months, the company was working in the new model. “This was a revolution that became a renaissance,” Owens recalls, “a spectacular transformation of a kind of sluggish company into one that actually has entrepreneurial zeal. And that transition was very quick because it was decisive and it was complete; it was thorough; it was universal, worldwide, all at one time.”

3. Once made, decisions are rarely second-guessed. Whether someone is second-guessing depends on your vantage point. A more senior and broader enterprise perspective can add value to a decision, but managers up the line may not be adding incremental value; instead, they may be stalling progress by redoing their subordinates’ jobs while, in effect, shirking their own. In our research, 71% of respondents in weak-execution companies thought that decisions were being second-guessed, whereas only 45% of those from strong-execution organizations felt that way.

Recently, we worked with a global charitable organization dedicated to alleviating poverty. It had a problem others might envy: It was suffering from the strain brought on by a rapid growth in donations and a corresponding increase in the depth and breadth of its program offerings. As you might expect, this nonprofit was populated with people on a mission who took intense personal ownership of projects. It did not reward the delegation of even the most mundane administrative tasks. Country-level managers, for example, would personally oversee copier repairs. Managers’ inability to delegate led to decision paralysis and a lack of accountability as the organization grew. Second-guessing was an art form. When there was doubt over who was empowered to make a decision, the default was often to have a series of meetings in which no decision was reached. When decisions were finally made, they had generally been vetted by so many parties that no one person could be held accountable. An effort to expedite decision-making through restructuring—by collocating key leaders with subject-matter

About the Data

We tested organizational effectiveness by having people fill out an online diagnostic, a tool comprising 19 questions (17 that describe organizational traits and two that describe outcomes).

To determine which of the 17 traits in our profiler are most strongly associated with excellence in execution, we looked at 31 companies in our database for which we had responses from at least 150 individual (anonymously completed) profiles, for a total of 26,743 responses. Applying regression analysis to each of the 31 data sets, we correlated the 17 traits with our measure of organizational effectiveness, which we defined as an affirmative response to the outcome statement, “Important strategic and operational decisions are quickly translated into action.” Then we ranked the traits in order, according to the number of data sets in which the trait exhibited a significant correlation with our measure of success within a 90% confidence interval. Finally, we indexed the result to a 100-point scale. The top trait—“Everyone has a good idea of the decisions and actions for which he or she is responsible”—exhibited a significant positive correlation with our success indicator in 25 of the 31 data sets, for an index score of 81.

experts in newly established central and regional centers of excellence—became instead another logjam. Key managers still weren't sure of their right to take advantage of these centers, so they didn't.

The nonprofit's management and directors went back to the drawing board. We worked with them to design a decision-making map, a tool to help identify where different types of decisions should be taken, and with it they clarified and enhanced decision rights at all levels of management. All managers were then actively encouraged to delegate standard operational tasks. Once people had a clear idea of what decisions they should and should not be making, holding them accountable for decisions felt fair. What's more, now they could focus their energies on the organization's mission. Clarifying decision rights and responsibilities also improved the organization's ability to track individual achievement, which helped it chart new and appealing career-advancement paths.

4. Information flows freely across organizational boundaries. When information does not flow horizontally across different parts of the company, units behave like silos, forfeiting economies of scale and the transfer of best practices. Moreover, the organization as a whole loses the opportunity to develop a cadre of up-and-coming managers well versed in all aspects of the company's operations. Our research indicates that only 21% of respondents from weak-execution companies thought information flowed freely across organizational boundaries whereas 55% of those from strong-execution firms did. Since scores for even the strong companies are pretty low, though, this is an issue that most companies can work on.

A cautionary tale comes from a business-to-business company whose customer and product teams failed to collaborate in serving a key segment: large, cross-product customers. To manage relationships with important clients, the company had established a customer-focused marketing group, which developed customer outreach programs, innovative pricing models, and tailored promotions and discounts. But this group issued no clear and consistent reports of its initiatives and progress to the product units and had difficulty securing time with the regular cross-unit management to discuss key performance issues. Each product unit communicated and

planned in its own way, and it took tremendous energy for the customer group to understand the units' various priorities and tailor communications to each one. So the units were not aware, and had little faith, that this new division was making constructive inroads into a key customer segment. Conversely (and predictably), the customer team felt the units paid only perfunctory attention to its plans and couldn't get their cooperation on issues critical to multiproduct customers, such as potential trade-offs and volume discounts.

Historically, this lack of collaboration hadn't been a problem because the company had been the dominant player in a high-margin market. But as the market became more competitive, customers began to view the firm as unreliable and, generally, as a difficult supplier, and they became increasingly reluctant to enter into favorable relationships.

Once the issues became clear, though, the solution wasn't terribly complicated, involving little more than getting the groups to talk to one another. The customer division became responsible for issuing regular reports to the product units showing performance against targets, by product and geographic region, and for supplying a supporting root-cause analysis. A standing performance-management meeting was placed on the schedule every quarter, creating a forum for exchanging information face-to-face and discussing outstanding issues. These moves bred the broader organizational trust required for collaboration.

5. Field and line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices. Rational decisions are necessarily bounded by the information available to employees. If managers don't understand what it will cost to capture an incremental dollar in revenue, they will always pursue the incremental revenue. They can hardly be faulted, even if their decision is—in the light of full information—wrong. Our research shows that 61% of individuals in strong-execution organizations agree that field and line employees have the information they need to understand the bottom-line impact of their decisions. This figure plummets to 28% in weak-execution organizations.

We saw this unhealthy dynamic play out at a large, diversified financial-services client,

Second-guessing was an art form: When decisions were finally made, they had generally been vetted by so many parties that no one person could be held accountable.

which had been built through a series of successful mergers of small regional banks. In combining operations, managers had chosen to separate front-office bankers who sold loans from back-office support groups who did risk assessments, placing each in a different reporting relationship and, in many cases, in different locations. Unfortunately, they failed to institute the necessary information and motivation links to ensure smooth operations. As a result, each pursued different, and often competing, goals.

For example, salespeople would routinely enter into highly customized one-off deals with clients that cost the company more than they made in revenues. Sales did not have a clear understanding of the cost and complexity implications of these transactions. Without sufficient information, sales staff believed that the back-end people were sabotaging their deals, while the support groups considered the front-end people to be cowboys. At year's end, when the data were finally reconciled, management would bemoan the sharp increase in operational costs, which often erased the profit from these transactions.

Executives addressed this information misalignment by adopting a "smart customization" approach to sales. They standardized the end-to-end processes used in the majority of deals and allowed for customization only in select circumstances. For these customized deals, they established clear back-office processes and analytical support tools to arm salespeople with accurate information on the cost implications of the proposed transactions. At the same time, they rolled out common reporting standards and tools for both the front- and back-office operations to ensure that each group had access to the same data and metrics when making decisions. Once each side understood the business realities confronted by the other, they cooperated more effectively, acting in the whole company's best interests—and there were no more year-end surprises.

Creating a Transformation Program

The four building blocks that managers can use to improve strategy execution—decision rights, information, structure, and motivators—are inextricably linked. Unclear decision rights not only paralyze decision making but also impede information flow, divorce perfor-

mance from rewards, and prompt workarounds that subvert formal reporting lines. Blocking information results in poor decisions, limited career development, and a reinforcement of structural silos. So what to do about it?

Since each organization is different and faces a unique set of internal and external variables, there is no universal answer to that question. The first step is to identify the sources of the problem. In our work, we often begin by having a company's employees take our profiling survey and consolidating the results. The more people in the organization who take the survey, the better.

Once executives understand their company's areas of weakness, they can take any number of actions. The exhibit, "Mapping Improvements to the Building Blocks: Some Sample Tactics" shows 15 possible steps that can have an impact on performance. (The options listed represent only a sampling of the dozens of choices managers might make.) All of these actions are geared toward strengthening one or more of the 17 traits. For example, if you were to take steps to "clarify and streamline decision making" you could potentially strengthen two traits: "Everyone has a good idea of the decisions and actions for which he or she is responsible," and "Once made, decisions are rarely second-guessed."

You certainly wouldn't want to put 15 initiatives in a single transformation program. Most organizations don't have the managerial capacity or organizational appetite to take on more than five or six at a time. And as we've stressed, you should first take steps to address decision rights and information, and then design the necessary changes to motivators and structure to support the new design.

To help companies understand their shortcomings and construct the improvement program that will have the greatest impact, we have developed an organizational-change simulator. This interactive tool accompanies the profiler, allowing you to try out different elements of a change program virtually, to see which ones will best target your company's particular area of weakness. (For an overview of the simulation process, see the sidebar "Test Drive Your Organization's Transformation.")

To get a sense of the process from beginning to end—from taking the diagnostic profiler, to

To help companies construct an improvement program with the greatest impact, we've developed an organizational-change simulator.

formulating your strategy, to launching your organizational transformation—consider the experience of a leading insurance company we'll call Goodward Insurance. Goodward was a successful company with strong capital reserves and steady revenue and customer growth. Still, its leadership wanted to further enhance execution to deliver on an ambitious five-year strategic agenda that included aggressive targets in customer growth, revenue increases, and cost reduction, which would require a new level of teamwork. While there were pockets of cross-unit collaboration within the company, it was far more common for each unit to focus on its own goals, making it diffi-

cult to spare resources to support another unit's goals. In many cases there was little incentive to do so anyway: Unit A's goals might require the involvement of Unit B to succeed, but Unit B's goals might not include supporting Unit A's effort.

The company had initiated a number of enterprisewide projects over the years, which had been completed on time and on budget, but these often had to be reworked because stakeholder needs hadn't been sufficiently taken into account. After launching a shared-services center, for example, the company had to revisit its operating model and processes when units began hiring shadow staff to focus on priority work that the center wouldn't expedite. The center might decide what technology applications, for instance, to develop on its own rather than set priorities according to what was most important to the organization.

In a similar way, major product launches were hindered by insufficient coordination among departments. The marketing department would develop new coverage options without asking the claims-processing group whether it had the ability to process the claims. Since it didn't, processors had to create expensive manual work-arounds when the new kinds of claims started pouring in. Nor did marketing ask the actuarial department how these products would affect the risk profile and reimbursement expenses of the company, and for some of the new products, costs did indeed increase.

To identify the greatest barriers to building a stronger execution culture, Goodward Insurance gave the diagnostic survey to all of its 7,000-plus employees and compared the organization's scores on the 17 traits with those from strong-execution companies. Numerous previous surveys (employee-satisfaction, among others) had elicited qualitative comments identifying the barriers to execution excellence. But the diagnostic survey gave the company quantifiable data that it could analyze by group and by management level to determine which barriers were most hindering the people actually charged with execution. As it turned out, middle management was far more pessimistic than the top executives in their assessment of the organization's execution ability. Their input became especially critical to the change agenda ultimately adopted.

Mapping Improvements to the Building Blocks: Some Sample Tactics

Companies can take a host of steps to improve their ability to execute strategy. The 15 here are only some of the possible examples. Every one strengthens one or more of the building blocks executives can use to improve their strategy-execution capability: clarifying decision rights, improving information, establishing the right motivators, and restructuring the organization.

- Focus corporate staff on supporting business-unit decision making.
- Clarify and streamline decision making at each operating level.
- Focus headquarters on important strategic questions.
- ■ Create centers of excellence by consolidating similar functions into a single organizational unit.
- ■ Assign process owners to coordinate activities that span organizational functions.
- ■ Establish individual performance measures.
- ■ Improve field-to-headquarters information flow.
- ■ Define and distribute daily operating metrics to the field or line.
- ■ Create cross-functional teams.
- ■ Introduce differentiating performance awards.
- ■ Expand nonmonetary rewards to recognize exceptional performers.
- ■ Increase position tenure.
- ■ Institute lateral moves and rotations.
- ■ Broaden spans of control.
- ■ Decrease layers of management.

BUILDING BLOCKS ■ Decision Rights ■ Information ■ Motivators ■ Structure

Through the survey, Goodward Insurance uncovered impediments to execution in three of the most influential organizational traits:

- **Information did not flow freely across organizational boundaries.** Sharing information was never one of Goodward’s hallmarks, but managers had always dismissed the mounting anecdotal evidence of poor cross-divisional information flow as “some other group’s problem.” The organizational diagnostic data, however, exposed such plausible deniability as an inadequate excuse. In fact, when the CEO reviewed the profiler results with his direct reports, he held up the chart on cross-group information flows and declared, “We’ve been discussing this problem for several years, and yet you always say that it’s so-and-so’s problem, not mine. Sixty-seven

percent of [our] respondents said that they do not think information flows freely across divisions. This is not so-and-so’s problem—it’s our problem. You just don’t get results that low [unless it comes] from everywhere. We are all on the hook for fixing this.”

Contributing to this lack of horizontal information flow was a dearth of lateral promotions. Because Goodward had always promoted up rather than over and up, most middle and senior managers remained within a single group. They were not adequately apprised of the activities of the other groups, nor did they have a network of contacts across the organization.

- **Important information about the competitive environment did not get to headquarters quickly.** The diagnostic data and

Test-Drive Your Organization’s Transformation

You know your organization could perform better. You are faced with dozens of levers you could conceivably pull if you had unlimited time and resources. But you don’t. You operate in the real world.

How, then, do you make the most-educated and cost-efficient decisions about which change initiatives to implement? We’ve developed a way to test the efficacy of specific actions (such as clarifying decision rights, forming cross-functional teams, or expanding nonmonetary rewards) without risking significant amounts of time and money. You can go to www.simulator-orgeffectiveness.com to assemble and try out various five-step organizational-change programs and assess which would be the most effective and efficient in improving execution at your company.

You begin the simulation by selecting one of seven organizational profiles that most resembles the current state of your organization. If you’re not sure, you can take a five-minute diagnostic survey. This online survey automatically generates an organizational profile and baseline execution-effectiveness score. (Although 100 is a perfect score, nobody is perfect; even the most effective companies often score in the 60s and 70s.)

Having established your baseline, you use the simulator to chart a possible course you’d like to take to improve your execution capabilities by selecting five out of a possible 28

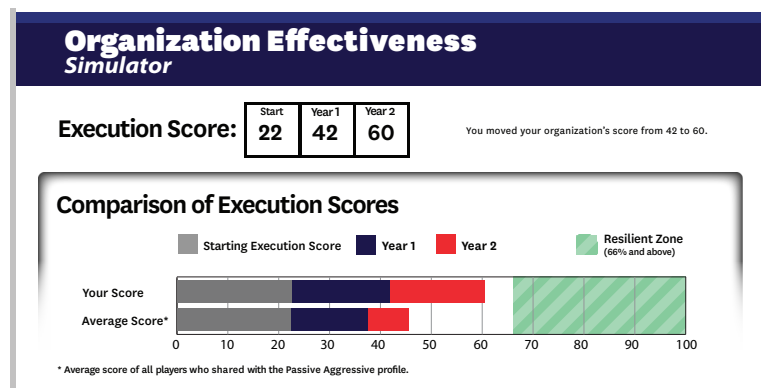
actions. Ideally, these moves should directly address the weakest links in your organizational profile. To help you make the right choices, the simulator offers insights that shed further light on how a proposed action influences particular organizational elements.

Once you have made your selections, the simulator executes the steps you’ve elected and processes them through a web-based engine that evaluates them using empirical relationships identified from 31 companies representing more than 26,000 data observations. It then generates a bar chart indicating how much your organization’s execution score has improved and where it now stands in relation to the highest-performing companies from our research and the scores of other people like you who have used the simulator starting from the same original profile you did. If you wish, you may then advance to the next

round and pick another five actions. What you will see is illustrated below.

The beauty of the simulator is its ability to consider—consequence-free—the impact on execution of endless combinations of possible actions. Each simulation includes only two rounds, but you can run the simulation as many times as you like. The simulator has also been used for team competition within organizations, and we’ve found that it engenders very engaging and productive dialogue among senior executives.

While the simulator cannot capture all of the unique situations an organization might face, it is a useful tool for assessing and building a targeted and effective organization-transformation program. It serves as a vehicle to stimulate thinking about the impact of various changes, saving untold amounts of time and resources in the process.



subsequent surveys and interviews with middle management revealed that the wrong information was moving up the org chart. Mundane day-to-day decisions were escalated to the executive level—the top team had to approve midlevel hiring decisions, for instance, and bonuses of \$1,000—limiting Goodward’s agility in responding to competitors’ moves, customers’ needs, and changes in the broader marketplace. Meanwhile, more important information was so heavily filtered as it moved up the hierarchy that it was all but worthless for rendering key verdicts. Even if lower-level managers knew that a certain project could never work for highly valid reasons, they would not communicate that dim view to the top team. Nonstarters not only started, they kept going. For instance, the company had a project under way to create new incentives for its brokers. Even though this approach had been previously tried without success, no one spoke up in meetings or stopped the project because it was a priority for one of the top-team members.

• **No one had a good idea of the decisions and actions for which he or she was responsible.** The general lack of information flow extended to decision rights, as few managers understood where their authority ended and another’s began. Accountability even for day-to-day decisions was unclear, and managers did not know whom to ask for clarification. Naturally, confusion over decision rights led to second-guessing. Fifty-five percent of respondents felt that decisions were regularly second-guessed at Goodward.

To Goodward’s credit, its top executives immediately responded to the results of the diagnostic by launching a change program targeted at all three problem areas. The program integrated early, often symbolic, changes with longer-term initiatives, in an effort to build momentum and galvanize participation and ownership. Recognizing that a passive-aggressive attitude toward people perceived to be in power solely as a result of their position in the hierarchy was hindering information flow, they took immediate steps to signal their intention to create a more informal and open culture. One symbolic change: the seating at management meetings was rearranged. The top executives used to sit in a separate section, the physical space between them and the rest of the room

fraught with symbolism. Now they intermingled, making themselves more accessible and encouraging people to share information informally. Regular brown-bag lunches were established with members of the C-suite, where people had a chance to discuss the overall culture-change initiative, decision rights, new mechanisms for communicating across the units, and so forth. Seating at these events was highly choreographed to ensure that a mix of units was represented at each table. Icebreaker activities were designed to encourage individuals to learn about other units’ work.

Meanwhile, senior managers commenced the real work of remedying issues relating to information flows and decision rights. They assessed their own informal networks to understand how people making key decisions got their information, and they identified critical gaps. The outcome was a new framework for making important decisions that clearly specifies who owns each decision, who must provide input, who is ultimately accountable for the results, and how results are defined. Other longer-term initiatives include:

- Pushing certain decisions down into the organization to better align decision rights with the best available information. Most hiring and bonus decisions, for instance, have been delegated to immediate managers, so long as they are within preestablished boundaries relating to numbers hired and salary levels. Being clear about who needs what information is encouraging cross-group dialogue.

- Identifying and eliminating duplicative committees.

- Pushing metrics and scorecards down to the group level, so that rather than focus on solving the mystery of *who* caused a problem, management can get right to the root cause of *why* the problem occurred. A well-designed scorecard captures not only outcomes (like sales volume or revenue) but also leading indicators of those outcomes (such as the number of customer calls or completed customer plans). As a result, the focus of management conversations has shifted from trying to explain the past to charting the future—anticipating and preventing problems.

- Making the planning process more inclusive. Groups are explicitly mapping out the ways their initiatives depend on and affect

one another; shared group goals are assigned accordingly.

- Enhancing the middle management career path to emphasize the importance of lateral moves to career advancement.

Goodward Insurance has just embarked on this journey. The insurer has distributed ownership of these initiatives among various groups and management levels so that these efforts don't become silos in themselves. Already, solid improvement in the company's execution is beginning to emerge. The early evidence of success has come from employee-satisfaction surveys: Middle management responses to the questions about levels of cross-unit collaboration and clarity of decision making have improved as much as 20 to 25 percentage points. And high performers are already reaching across boundaries to gain a broader understanding of the full business, even if it doesn't mean a better title right away.

•••

Execution is a notorious and perennial challenge. Even at the companies that are best at it—what we call “resilient organizations”—

just two-thirds of employees agree that important strategic and operational decisions are quickly translated into action. As long as companies continue to attack their execution problems primarily or solely with structural or motivational initiatives, they will continue to fail. As we've seen, they may enjoy short-term results, but they will inevitably slip back into old habits because they won't have addressed the root causes of failure. Such failures can almost always be fixed by ensuring that people truly understand what they are responsible for and who makes which decisions—and then giving them the information they need to fulfill their responsibilities. With these two building blocks in place, structural and motivational elements will follow.

1. The details for this example have been taken from Gary L. Neilson and Bruce A. Pasternack, *Results: Keep What's Good, Fix What's Wrong, and Unlock Great Performance* (Random House, 2005).

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Further Reading

ARTICLE

[Mastering the Management System](#)

by Robert S. Kaplan and David P. Norton

Harvard Business Review

January 2008

Product no. R0801D

It's hard to balance pressing operational concerns with long-term strategic priorities. But balance is critical: World-class processes won't produce success without the right strategic direction, and the best strategy won't get anywhere without strong operations to execute it. To manage both strategy and operations, companies must take five steps: 1) Develop strategy, based on the company's mission and values and its strengths, weaknesses, and competitive environment. 2) Translate the strategy into objectives and initiatives linked to performance metrics. 3) Create an operational plan to accomplish the objectives and initiatives. 4) Put the plan into action, monitoring its effectiveness. 5) Test the strategy by analyzing cost, profitability, and correlations between strategy and performance. Update as necessary.

BOOK CHAPTER

[Build Execution into Strategy](#)

by W. Chan Kim and Renée Mauborgne

Harvard Business School Press

October 2006

Product no. 1635BC

The authors identify an additional lever essential for strategy execution: the alignment of people behind a strategy. Incentives don't in themselves create alignment. You also need a culture of trust and commitment. This chapter, from *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*, shows how to build such a culture, particularly by establishing fair strategy-formulation processes. When people perceive a process as fair, they go beyond the call of duty and take initiative in executing the strategy. To create a fair strategy-formulation process: 1) Involve people in the strategic decisions that affect them, by asking for their input. 2) Explain why final strategic decisions were made. 3) Clearly state the new behaviors you expect from people and what will happen if they fail to fulfill them.

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