

## Where Execution Breaks Down

Over the past five years the authors have surveyed nearly 8,000 managers in more than 250 companies about strategy execution.

The responses paint a remarkably consistent picture.

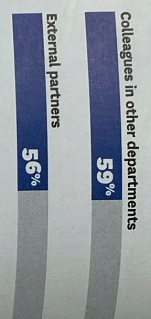
We can rely on people in the chain of command, suggesting that alignment is not a problem.

Share of managers who say they can rely all or most of the time on:



But coordination is a problem: People in other units are not much more reliable than external partners are.

Share who say they can rely all or most of the time on:



Such real-time adjustments require firms to be agile. Yet a lack of agility is a major obstacle to effective execution among the companies we have studied. When asked to name the greatest challenge their companies will face in executing strategy over the next few years, nearly one-third of managers cite difficulties adapting to changing market circumstances. It's not that companies fail to adapt: At all.

Only one manager in 10 saw that as the problem. But most organizations either react so slowly that they can't seize fleeting opportunities or mitigate emerging threats (29%), or react quickly but lose sight of company strategy (24%). Just as managers want more structure in the processes to support coordination, they crave more structure in the processes used to adapt to changing circumstances.

A seemingly easy solution would be to do a better job of resource allocation. Although resource allocation is unquestionably critical to execution, the term itself is misleading. In volatile markets, the allocation of funds, people, and managerial attention is not a onetime decision; it requires ongoing adjustment. According to a study by McKinsey, firms that actively reallocated capital expenditures across business units achieved an average shareholder return 30% higher than the average return of companies that were slow to shift funds.

Instead of focusing on resource allocation, with its connotation of one-off choices, managers should concentrate on the fluid reallocation of funds, people, and attention. We have noticed a pattern

among the companies in our sample: Resources are often trapped in unproductive uses. Fewer than one-third of managers believe that their organizations re-allocate funds to the right places quickly enough to be effective. The reallocation of people is even worse.

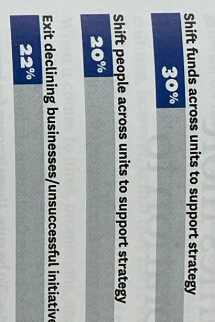
Only 20% of managers say their organizations do a good job of shifting people across units to support strategic priorities. The rest report that their companies rarely shift people across units (47%) or else make shifts in ways that disrupt other units (33%).

Companies also struggle to disinvest. Eight in 10 managers say their companies fail to exit declining businesses or to kill unsuccessful initiatives quickly enough. Failure to exit undermines execution in an obvious way, by wasting resources that could be redeployed. Slow exits impede execution in more insidious ways as well: Top executives devote a disproportionate amount of time and attention to businesses with limited upside and send in talented managers who often burn themselves out trying to save businesses that should have been shut down or sold years earlier. The longer top executives dangle their feet, the more likely they are to lose the confidence of their middle managers, whose ongoing support is critical for execution.

A word of warning: Managers should not invoke agility as an excuse to chase every opportunity that crosses their path. Many companies in our sample lack strategic discipline when deciding which new opportunities to pursue. Half the middle managers we have surveyed believe that they could secure

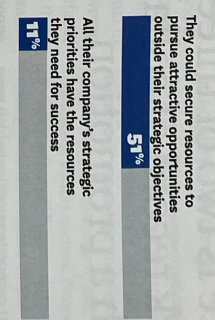
We don't adapt quickly enough to changing market conditions.

Share who say their organizations effectively:



And we invest in too many nonstrategic projects.

Share who say:



significant resources to pursue attractive opportunities that fall outside their strategic objectives. This may sound like good news for any individual manager, but it spells trouble for a company as a whole, leading to the pursuit of more initiatives than resources can support. Only 11% of the managers we have surveyed believe that all their company's strategic priorities have the financial and human resources needed for success. That's a shocking statistic: It means that nine managers in 10 expect some of their organizations' major initiatives to fail for lack of resources. Unless managers screen opportunities against company strategy, they will waste time and effort on peripheral initiatives and deprive the most promising ones of the resources they need to win big.

Agility is critical to execution, but it must fit within strategic boundaries. In other words, agility must be balanced with alignment.

### MYTH 3

#### Communication Equals Understanding

Many executives believe that relentlessly communicating strategy is a key to success. The CEO of one London-based professional services firm met with her management team the first week of every month and began each meeting by reciting the firm's strategy and its key priorities for the year. She was delighted when an employee engagement survey (not ours) revealed that 84% of all staff members agreed with the statement "I am clear on our organization's top priorities." Her efforts seemed to be paying off.

Then her management team took our survey, which asks members to describe the firm's strategy in their own words and to list the top five strategic priorities. Fewer than one-third could name even two. The CEO was dismayed—after all, she discussed those objectives in every management meeting. Unfortunately, she is not alone. Only 55% of the

middle managers we have surveyed can name even one of their company's top five priorities. In other words, when the leaders charged with explaining strategy to the troops are given five chances to list their company's strategic objectives, nearly half fail to get even one right.

Not only are strategic objectives poorly understood, but they often seem unrelated to one another and disconnected from the overall strategy. Just over half of all top team members say they have a clear sense of how major priorities and initiatives fit together. It's pretty dire when half the C-suite can't connect the dots between strategic priorities, but matters are even worse elsewhere. Fewer than one-third of senior executives' direct reports clearly understand the connections between corporate priorities, and the share plummets to 16% for frontline supervisors and team leaders.

Senior executives are often shocked to see how poorly their company's strategy is understood throughout the organization. In their view, they invest huge amounts of time communicating strategy, in an unending stream of e-mails, management meetings, and town hall discussions. But the amount of communication is not the issue. Nearly 90% of middle managers believe that top leaders communicate the strategy frequently enough. How can so much communication yield so little understanding?

Part of the problem is that executives measure communication in terms of inputs (the number of e-mails sent or town halls hosted) rather than by the only metric that actually counts—how well key leaders understand what's communicated. A related problem occurs when executives dilute their core messages with peripheral considerations. The executives at one tech company, for example, went to great pains to present their company's strategy and objectives at the annual executive off-site. But they

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