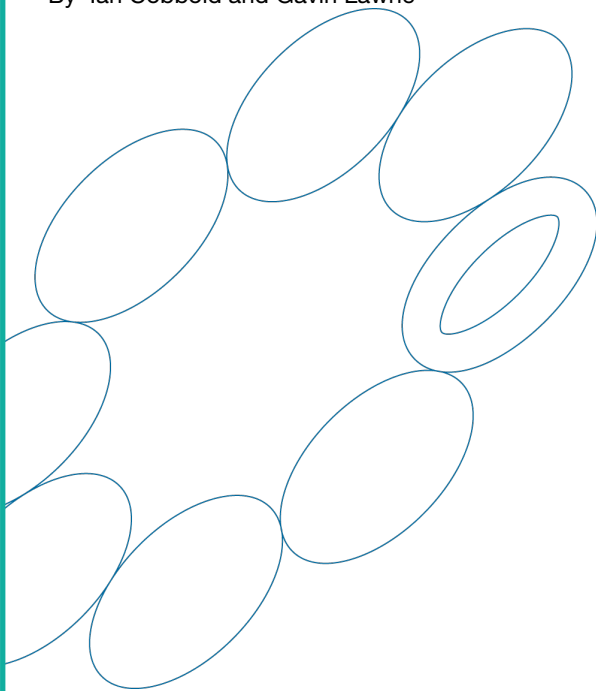


Why do only one third of UK companies realise significant strategic success?

2GC Working Paper

May 2001

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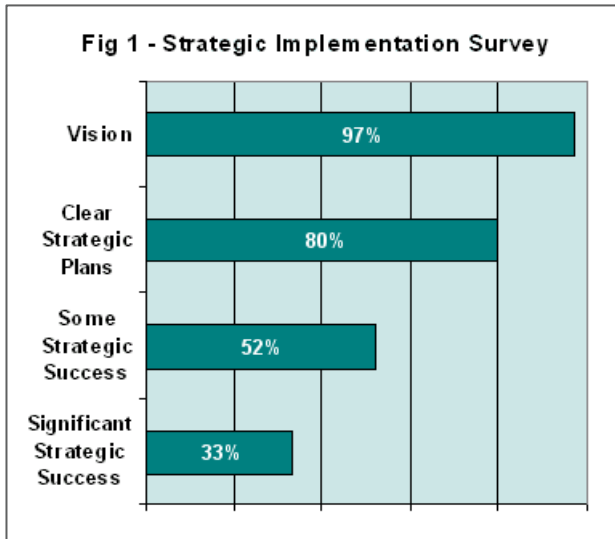
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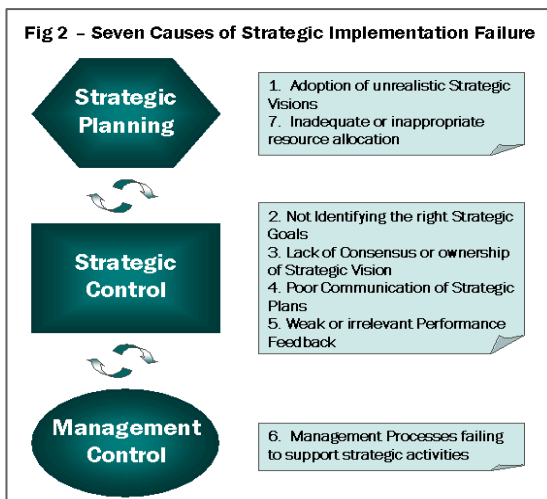
Introduction

In a survey of over 200 companies in the Times 1000, it was found that while almost all reported having a 'strategic vision', only one in three reported achieving 'significant strategic success'. This article explores some of the reasons that might explain why so many companies struggle to achieve their strategic vision. It concludes that for many the answer lies in the quality of the strategic management processes used.



Analysis by 2GC of a 1997 survey of companies in the 'Times 1000' list can be summarised in Figure 1 the 'Strategy Implementation Survey'. The figure shows that many organisations are failing to convert their strategic vision into significant strategic success. Although 97% reported having a strategic vision, only 33% reported achieving 'significant strategic success'. This was not through lack of trying – 80% of organisations in the same survey reported having a 'clear strategic plan' to achieve the vision. Even so, given the poor overall results reported, it is plain that just having a vision and a plan is not enough to ensure success.

The first step towards ensuring success is to understand why current performance is so poor. In the next section we outline seven potential causes of strategic implementation failure. Subsequently we go on to suggest practical steps that can address the problems identified, enabling leaders to improve the implementation of strategy.



Seven causes of strategic implementation failure

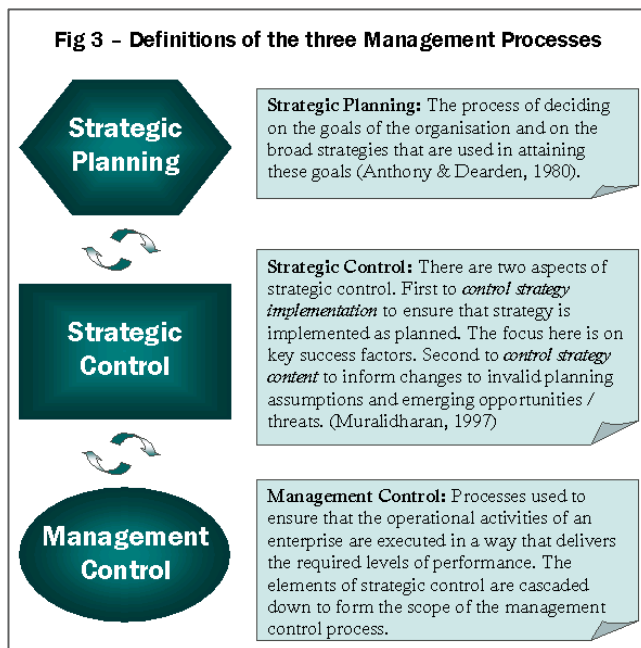
1. Adopting Unrealistic Strategic Visions
2. Not Identifying the right Strategic Goals
3. Lack of top team consensus on or ownership of Strategic Vision and Goals
4. Poor Communication of Strategic Plans
5. Weak or Irrelevant Performance Feedback
6. Management Processes that fail to support strategic implementation activities
7. Inadequate or Inappropriate Resource Allocation

1 Fig 1 Source: Strategic Performance Measurement & Management - Business Intelligence / Renaissance Worldwide 1997

Seven causes of strategic implementation failure

Seven causes of strategic implementation failure have been identified by 2GC (described in more detail in the Appendix). In Figure 2, the seven causes have been grouped into three categories (Strategic Planning, Strategic Control², and Management Control³) based on how they affect the implementation of strategy. These three categories each describe key processes within the overall activity of management within a business, and collectively form the basic elements of the management of strategic implementation.

Strategic Control - The Key Management Process



The three categories identified in earlier have been further described in Figure 3. Strategic Planning activities set the goals and choose the methods of the organisation, but effective control of the implementation of these plans (Strategic control) is the critical category (Muralidharan, 1997): we know from the survey work that most firms have a strategy, it is the successful implementation of the strategy that causes problems. The strategic control processes review and (if need be) adjust the strategy to account for changes to planning assumptions and incorporate new opportunities.

As well as being the most important category, Strategic Control is also the one most prone to failure – four out of the seven failure modes are directly attributable to strategic control failures. A central component of any action to improve strategic success must therefore be a focus on improving the management processes associated with Strategic Control activities within an organisation.

Improving Strategic Control Processes

We have identified three types of improvement:

1. Improving the Articulation of Strategy: This can be achieved initially through building a better 'strategic vision' for the organisation that describes clearly what the leadership expect the organisation to achieve over a specific period of time. This vision can then drive the identification of the most important short and medium term strategic goals for the organisation – i.e. those that need to be achieved in order to achieve the conditions described in the overall vision.
2. Developing Enhanced Strategic Communication and Feedback Tools: Enabling the efficient communication and cascading of strategic goals throughout an organisation.

² Process by which the implementation and content of strategy is monitored

³ Processes used to ensure the organisation's operational activities are performing to the required standards

3. **Aligning Existing Processes to Support Strategic Implementation:** Adapt existing management processes to ensure that they and the corporate behaviours they cause are aligned with the strategy.

In the following section these three improvements are each described in more detail.

1. Improving the Articulation of Strategy

A good starting place to improve the articulation of strategy is to develop and agree to a clear and unambiguous statement of strategic vision. Such a statement (called a Destination Statement by 2GC) comprises a detailed description of how the management team perceives the company, business unit or department at some time in the future, provided their expectations and strategic goals are achieved. Once a destination statement has been agreed, a set of priority strategic objectives can be selected – these by implication describe the core elements of the management team's plan to achieve the vision. Thinking in terms of cause and effect when selecting priority strategic objectives (e.g. activity X causes outcome Y), can help a team validate their plan, and ensure that the vision is realistic. Developing objectives based on causality and then measuring progress in achieving them enables subsequent analysis of the validity of the management teams' cause-and-effect relationships, supporting organisational learning about which activities drive which outcomes. Finally, writing clear statements that describe each priority strategic objective chosen and how these might be measured helps in the communication of these objectives within an organisation, and also acts as a useful memory jogger for the management team themselves.

2. Developing Enhanced Strategic Communication and Feedback Tools

Identifying a set of priority strategic objectives and measures is not, on its own, sufficient to ensure that the strategy will be achieved. The conditions described in the destination statement will only be realised if the organisation changes its behaviour based on those objectives. A core part of the strategic control category is working out how the organisation will be informed about and mobilised to deliver the selected priority strategic objectives – activities that include communication, resource allocation, and project prioritisation. Thus, central to improving strategic communication and feedback is ensuring that a set of processes is available that effectively and efficiently communicate strategic goals within an organisation and report on performance in achieving these goals.

3. Aligning Existing Processes to Support Strategic Implementation

The alignment of existing processes (e.g. budget setting, investment approval, recruitment, training, rewards, NPD, R&D etc.) to support implementation of the strategy chosen is not something that follows automatically from the process of selecting priority strategic objectives, measures and putting in place a performance monitoring and feedback system. However, it is a necessary precursor for consistent support of the behavioural change necessary to realise the shared vision. In effect, such changes are, or should be, side effects of the ongoing work within an organisation to achieve priority strategic objectives: if an effective monitoring and reporting system is in place, areas of difficulty will be quickly highlighted. If mis-aligned processes elsewhere in the organisation are causing these areas of difficulty, the strategic control processes should trigger revisions. The suggestion here is to pre-empt the 'learning delay' required to identify mis-aligned processes, and do work at the outset to ensure that mis-alignments are minimised.

The Strategic BSC is an effective framework for improving Strategic Control activities

2GC Active Management have observed that its approach to Strategic Balanced Scorecard design successfully improves the 'strategic management' capabilities of a management team. In trying to understand the causes of these improvements, it was noticed that 2GC's six-step development process has strong similarities to two of the causes of strategic implementation failure described above: especially in the areas of articulating strategy and communication and feedback.

The 2GC methodology for implementation of Balanced Scorecard at a strategic level is one of the most advanced. Through experience and research 2GC has modified the original methods for developing Balanced Scorecards described by Kaplan & Norton and others, and created what can be thought of as "3rd Generation" Balanced Scorecard. Figure 4 outlines the six-step design and implementation process used to develop "3rd Generation" Balanced Scorecard.

The first three steps strongly parallel the first improvement area discussed earlier, 'Improving the articulation of strategy'.

Figure 4 - Six Steps for Strategic BSC Implementation

1	Create a destination statement	
2	Create and link objectives	'Improving the articulation of strategy'
3	Further describe strategic objectives	
4	Identify relevant measures	'Developing enhanced strategic communication and feedback tools'
5	Create implementation plans	
6	Review on a regular basis	

The second three steps offer a major contribution to the execution of the second area discussed, 'Developing enhanced strategic communication and feedback tools'.

The final improvement area, 'Aligning existing processes to support strategic implementation' is not directly addressed by the Balanced Scorecard development process itself, but 2GC's experience

is that such process alignment is routinely part of the strategic objectives selected by a management team when creating a Strategic Balanced Scorecard of this type – i.e. this improvement area can be considered to be addressed more effectively as a consequence of following the Balanced Scorecard design steps outlined in Figure 4.

Conclusion

This paper has identified seven forms of strategic implementation failure and associated them with three management processes – Strategic Planning, Strategic Control and Management Control. Of these three areas it was established that Strategic Control was the management process to which the most forms of failure could be attributed. It was therefore the area to which most attention should be paid in order to realise significant strategic success.

To improve the management process of Strategic Control, three specific actions were identified:

- Improving the articulation of strategy;
- Developing enhanced strategic communication and feedback tools; and
- Aligning existing processes to support strategic implementation.

Achieving these improvements will help drive greater success at achieving strategic goals: an area of performance that organisations currently report as being weak. To resolve these

difficulties it suggests that working to develop a “3rd Generation” Balanced Scorecard is an efficient and effective way of ensuring that the three improvement activities described are introduced into an organisation. 2GC’s experience is that developing Strategic Balanced Scorecards helps organisations improve the realisation of their strategic vision through improvements to execution of what Muralidharan calls the ‘strategic control activity’. Although these improvements can be achieved through other mechanisms, the Balanced Scorecard offers a contained, comprehensive and complete approach to addressing the Strategic Control issues. Using a Strategic Balanced Scorecard as described here can help organisations more clearly articulate what outcomes they are trying to achieve, and identify more specifically what needs to happen to achieve these outcomes and monitor progress towards achieving it. By undertaking the process of creating a “3rd Generation” Balanced Scorecard and fully utilising the output as a control tool, any organisation will be a long way towards realising strategic success.

References

Muralidharan, R.; ‘Strategic Control for Fast-moving Markets: Updating the Strategy and Monitoring Performance’; Long Range Planning Vol. 30, 64-73; (1997)

Anthony, Robert N. and Dearden, John; ‘Management Control Systems’; Illinois, Richard D. Irwin; (1980)

Useful Web Resources

2GC Performance Management Frequently Asked Questions
(<http://www.2gc.co.uk/resources-faqs.asp>)

2GC Performance Management Presentations
(<http://www.2gc.co.uk/resources-presentations.asp>)

About 2GC

2GC is a research led consultancy expert in addressing the strategic control and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC’s work is the application of the widely acknowledged 3rd Generation Balanced Scorecard approach to strategic implementation, strategy management and performance measurement.

Appendix – 7 reasons why Strategic Implementation Fails

#1 Adopting Unrealistic Strategic Visions & Plans

Strategic Planning

Strategic visions and the strategic plans adopted by management teams to achieve them should be achievable (at least in the minds of the management team responsible). It is foolhardy to expect delivery against an unrealistic plan. An example of this would be if a new Cola brand aimed to be market leader after its first year. This could be achievable, by some measures, if the Cola was to be effectively given away, but doing so would be highly unprofitable. In realistic terms, the combination of the highly competitive market and extremely strong existing brand names of Coca-Cola and Pepsi would make this task unachievable. What is important therefore is having visions and the strategic plans that are ambitious but plausibly achievable. This principle, and the example used above may seem simplistic, but all too often 2GC has observed vision statements that simply describe an 'ultimate aspiration' for an organisation set in the context of unattainable 'stretch targets'. Although such statements may be useful as directional guides, in so far as they are unrealisable they are at best unhelpful, and at worst damaging, foundations on which to build action plans.

#2 Not Identifying the right Strategic Goals

Strategic Control

Organisations often use strategic 'goals' or 'objectives' as a basis for communication. These goals represent the top management team's collective understandings of the milestones to be reached for the organisation to realise its strategic vision. Strategic performance measures are then focused on measuring progress in achieving these goals. Some organisations set strategic goals that are primarily financial in nature (sales, profit, and cost targets etc.), others set goals that describe functional or subjective outcomes (brand share, quality performance, staff satisfaction). Most adopt a mixture of the two. In an ideal world these goals should be directly aligned with the strategic vision, but in 2GC's experience, that is often not the case. Instead, they form an 'alternative' action plan resulting from political in-fights, compromises and lack of shared understanding of what the vision was all about in the first place. This alternative plan is as a result poorly focused on the required strategic outcomes. In some cases, it will be sufficiently misaligned that it triggers conflicting behaviours within the same organisation (e.g. attempts to grow sales by recruiting new sales staff hampered by a central cost reduction campaign).

#3 Lack of top team consensus on or ownership of Strategic Vision and Goals

Strategic Control

An important aspect of delivering a strategic plan is ensuring that those managing the implementation of the plan agree about its content and validity. In addition, there is a need to establish a clear understanding of whom within a management team are responsible for which elements of the plan. Without such consensus and clear ownership of the strategic goals there is a real risk of losing the required focus on changes necessary to drive performance improvement sufficient to deliver the company's strategy.

#4 Poor Communication of Strategic Plans

Strategic Control

One obvious route to failure in achieving strategic goals is poor 'vertical' communication of these goals: If the strategic goals are not effectively communicated within the organisation then it is hardly surprising that goals are not delivered upon. But simply setting and dictating strategic goals through a top-down process is not likely to be very effective either. Strategic goals need to be understood and translated into terms relevant to the people you expect to help achieve them. For instance, 'internal' functions (e.g. Finance, IT, HR, Legal) may find it difficult to relate to purely commercial objectives – there is usually very little they can do to directly affect such outcomes, and what little they can do is often unclear. Agreement on strategic goals for their part of the organisation therefore needs to be based on a common understanding of the corporate goals combined with each function's operational insight identifying how it can best support delivery of the corporate goals. This process of translating throughout an organisational structure top-level goals into relevant and meaningful sub-sets of business unit and functional goals is often called 'cascading'. Although a clear concept, effective goal cascading is a complex but important exercise - if you don't tell people what you are trying to achieve they have little chance of helping you achieving it.

In addition to issues relating to poor 'vertical' communication, there are issues relating to poor 'horizontal' communication. This is a particular concern for medium and large organisations, where SBU's and Divisions usually set their own management agenda. Ensuring that each unit develops a management agenda aligned with the overall aims of the organisation is therefore particularly critical. One potential 'horizontal' communication failure mode is that each unit develops its own interpretation of the top-level strategic plan, with no knowledge of nor regard to how the plan will be interpreted by other units. This results in a fragmented interpretation of the top-level goals across the organisation that impedes achievement of those goals and increases the risk of internal competition as well as other results of business units working at cross-purposes.

#5 - Weak or Irrelevant Performance Feedback

Strategic Control

Managers need appropriate, relevant feedback mechanisms in order to always know and better understand what is happening internally (delivering against the plan) and externally (in the environment). It is clear that correct and timely information is essential to monitor performance; however, providing such information can often prove difficult. It is common for organisations to take months to produce even the most basic activity information. In one organisation that 2GC was in contact with, managers were unable to reliably report how many people worked in the 'HR Function': but despite this information gap the organisation's leaders were nonetheless sure that whatever the number was it was too many! Organisations usually have access to large volumes of information and the means to produce complex reports based on the data. But despite the large volumes of data available, when leaders are given the chance to select what is reported about strategic performance (based on their view of what would be the most useful and relevant information), about half of the information they request is data that is not routinely collected.

As a secondary issue, it is also useful for a feedback system to inform managers about any significant changes in the business environment. Ultimately, such changes may trigger drastic changes to the strategic plans of an organisation. However, the difficulty of implementing a mechanism or process that will inform on the relevant environmental changes should not be underestimated. It is hard to imagine how the managers of mechanical calculator companies

in the early 1960's would have been persuaded of the need to follow the falling cost of electronic systems as a potential fatal threat to their business, particularly so soon after the leaders of IBM had forecast a world market of 4 for the first mainframe computers.

#6 - Management Processes that fail to support strategic implementation activities

Management Control

The general management processes used by an organisation need to support the implementation of the strategic goals set by its leaders. A good example is a reward system: A bank with a strategic goal to offer 'Zero pressure sales services' to customers will find it hard to achieve this goal if the staff reward scheme is based solely on sales targets – the behaviours encouraged by the reward process are likely to conflict with those required to deliver the strategic goal. Similar alignment weaknesses are found in other core processes such as budget setting, and investment appraisal. If strategic plans are to be implemented with any great success then management processes must be adapted or redesigned to ensure they are supportive of the strategic goals set.

#7 - Inadequate or Inappropriate Resource Allocation

Strategic Planning

This final failure mode is concerned with resource allocation and the inherent competition for those resources that exists between SBU's or Divisions within an organisation. This problem takes two forms.

The first case is where the resources available (e.g. cash, people) are constrained such that the organisation does not or cannot provide sufficient resources to meet the whole requirements of the strategic plan. For example, if the strategy of an organisation includes a requirement to purchase a new factory, but insufficient funds are available to do this, then this part of the plan will necessarily fail. Why strategies are agreed and then under resourced is not always clear, but such outcomes appear to be common. Organisations usually have an established mechanism for deciding how to allocate scarce resources (e.g. a Capital Investment approval process) – but it is rare (in 2GC experience) for these processes to be designed to formally consider the strategic goals of the business in their decision making – nor are leaders aware of the potential for such process conflicts to impede delivery of their strategic goals.

The second case arises where there is internal competition for control of key resources within an organisation (e.g. people, key committees, investment projects etc.) between Departments or Divisions. The managers of these components of an organisation may pursue course of action once control has been gained that optimise the organisation's activities to suit their own needs at the expense of the achievement of the strategic goals set for the organisation. Without corrective intervention, such activities can be unhelpful – but again awareness of these risks within the leadership group is often clouded.