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Companies typically realize only about 60% of their strategies' potential value because of defects and breakdowns in planning and execution. By strictly following seven simple rules, you can get a lot more than that.

Turning Great Strategy into Great Performance

by Michael C. Mankins and Richard Steele

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Turning Great Strategy into Great Performance

The Idea in Brief

Most companies' strategies deliver only 63% of their promised financial value. Why? Leaders press for better execution when they really need a sounder strategy. Or they craft a new strategy when execution is the true weak spot.

How to avoid these errors? View strategic planning and execution as inextricably linked—then raise the bar for both simultaneously. Start by applying seven deceptively straightforward rules, including: keeping your strategy simple and concrete, making resource-allocation decisions early in the planning process, and continuously monitoring performance as you roll out your strategic plan.

By following these rules, you reduce the likelihood of performance shortfalls. And even if your strategy still stumbles, you quickly determine whether the fault lies with the strategy itself, your plan for pursuing it, or the execution process. The payoff? You make the *right* midcourse corrections—promptly. And as high-performing companies like Cisco Systems, Dow Chemical, and 3M have discovered, you boost your company's financial performance 60% to 100%.

The Idea in Practice

Seven rules for successful strategy execution:

1. **Keep it simple.** Avoid drawn-out descriptions of lofty goals. Instead, clearly describe what your company will and won't do.

▶ Example:
Executives at European investment-banking giant Barclays Capital stated they wouldn't compete with large U.S. investment banks or in unprofitable equity-market segments. Instead, they'd position Barclays for investors' burgeoning need for fixed income.

2. **Challenge assumptions.** Ensure that the assumptions underlying your long-term strategic plans reflect real market economics and your organization's actual performance relative to rivals'.

▶ Example:
Struggling conglomerate Tyco commissioned cross-functional teams in each business unit to continuously analyze their markets' profitability and their offerings, costs, and price positioning relative to competitors'. Teams met with corporate executives biweekly to discuss their findings. The revamped process generated more realistic plans and contributed to Tyco's dramatic turnaround.

3. **Speak the same language.** Unit leaders and corporate strategy, marketing, and finance teams must agree on a common framework for assessing performance. For example, some high-performing companies use benchmarking to estimate the size of the profit pool available in each market their company serves, the pool's potential growth, and the company's likely portion of that pool, given its market share and profitability. By using the shared approach, executives easily agree on financial projections.

4. **Discuss resource deployments early.** Challenge business units about when they'll need new resources to execute their strategy. By asking questions such as, "How fast can you deploy the new sales force?" and "How quickly will competitors respond?" you create more feasible forecasts and plans.

5. **Identify priorities.** Delivering planned performance requires a few key actions taken at the right time, in the right way. Make strategic priorities explicit, so everyone knows what to focus on.

6. **Continuously monitor performance.** Track real-time results against your plan, resetting planning assumptions and reallocating resources as needed. You'll remedy flaws in your plan *and* its execution—and avoid confusing the two.

7. **Develop execution ability.** No strategy can be better than the people who must implement it. Make selection and development of managers a priority.

▶ Example:
Barclays' top executive team takes responsibility for all hiring. Members vet each others' potential hires and reward talented newcomers for superior execution. And stars aren't penalized if their business enters new markets with lower initial returns.

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Three years ago, the leadership team at a major manufacturer spent months developing a new strategy for its European business. Over the prior half-decade, six new competitors had entered the market, each deploying the latest in low-cost manufacturing technology and slashing prices to gain market share. The performance of the European unit—once the crown jewel of the company's portfolio—had deteriorated to the point that top management was seriously considering divesting it.

To turn around the operation, the unit's leadership team had recommended a bold new "solutions strategy"—one that would leverage the business's installed base to fuel growth in after-market services and equipment financing. The financial forecasts were exciting—the strategy promised to restore the business's industry-leading returns and growth. Impressed, top management quickly approved the plan, agreeing to provide the unit with all the resources it needed to make the turnaround a reality.

Today, however, the unit's performance is nowhere near what its management team had projected. Returns, while better than before, remain well below the company's cost of capital. The revenues and profits that managers had expected from services and financing have not materialized, and the business's cost position still lags behind that of its major competitors.

At the conclusion of a recent half-day review of the business's strategy and performance, the unit's general manager remained steadfast and vowed to press on. "It's all about execution," she declared. "The strategy we're pursuing is the right one. We're just not delivering the numbers. All we need to do is work harder, work smarter."

The parent company's CEO was not so sure. He wondered: Could the unit's lackluster performance have more to do with a mistaken strategy than poor execution? More important, what should he do to get better performance out of the unit? Should he do as the general manager insisted and stay the course—focusing the organization more intensely on

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execution—or should he encourage the leadership team to investigate new strategy options? If execution was the issue, what should he do to help the business improve its game? Or should he just cut his losses and sell the business? He left the operating review frustrated and confused—not at all confident that the business would ever deliver the performance its managers had forecast in its strategic plan.

Talk to almost any CEO, and you're likely to hear similar frustrations. For despite the enormous time and energy that goes into strategy development at most companies, many have little to show for the effort. Our research suggests that companies on average deliver only 63% of the financial performance their strategies promise. Even worse, the causes of this strategy-to-performance gap are all but invisible to top management. Leaders then pull the wrong levers in their attempts to turn around performance—pressing for better execution when they actually need a better strategy, or opting to change direction when they really should focus the organization on execution. The result: wasted energy, lost time, and continued underperformance.

But, as our research also shows, a select group of high-performing companies have managed to close the strategy-to-performance gap through better planning *and* execution. These companies—Barclays, Cisco Systems, Dow Chemical, 3M, and Roche, to name a few—develop realistic plans that are solidly grounded in the underlying economics of their markets and then use the plans to drive execution. Their disciplined planning and execution processes make it far less likely that they will face a shortfall in actual performance. And, if they do fall short, their processes enable them to discern the cause quickly and take corrective action. While these companies' practices are broad in scope—ranging from unique forms of planning to integrated processes for deploying and tracking resources—our experience suggests that they can be applied by any business to help craft great plans and turn them into great performance.

The Strategy-to-Performance Gap

In the fall of 2004, our firm, Marakon Associates, in collaboration with the Economist Intelligence Unit, surveyed senior executives from 197 companies worldwide with sales exceeding $500 million. We wanted to see how successful companies are at translating their strategies into performance. Specifically, how effective are they at meeting the financial projections set forth in their strategic plans? And when they fall short, what are the most common causes, and what actions are most effective in closing the strategy-to-performance gap? Our findings were revealing—and troubling.

While the executives we surveyed compete in very different product markets and geographies, they share many concerns about planning and execution. Virtually all of them struggle to produce the financial performance forecasts in their long-range plans. Furthermore, the processes they use to develop plans and monitor performance make it difficult to discern whether the strategy-to-performance gap stems from poor planning, poor execution, both, or neither. Specifically, we discovered:

Companies rarely track performance against long-term plans. In our experience, less than 15% of companies make it a regular practice to go back and compare the business's results with the performance forecast for each unit in its prior years' strategic plans. As a result, top managers can't easily know whether the projections that underlie their capital-investment and portfolio-strategy decisions are in any way predictive of actual performance. More important, they risk embedding the same disconnect between results and forecasts in their future investment decisions. Indeed, the fact that so few companies routinely monitor actual versus planned performance may help explain why so many companies seem to pour good money after bad—continuing to fund losing strategies rather than searching for new and better options.

Multiyear results rarely meet projections. When companies do track performance relative to projections over a number of years, what commonly emerges is a picture one of our clients recently described as a series of "diagonal venetian blinds," where each year's performance projections, when viewed side by side, resemble venetian blinds hung diagonally. (See the exhibit "The Venetian Blinds of Business.") If things are going reasonably well, the starting point for each year's new "blind" may be a bit higher than the prior year's starting point, but rarely does performance match the prior year's projection. The obvious implication: year after year of underperformance relative to plan.

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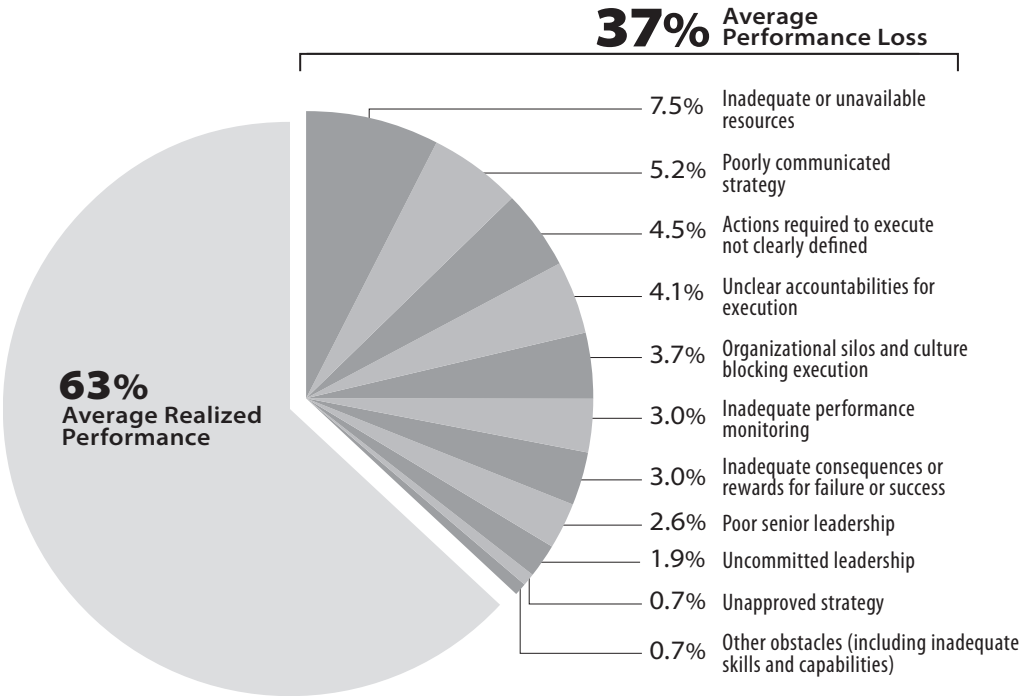
The venetian blinds phenomenon creates a number of related problems. First, because the plan's financial forecasts are unreliable, senior management cannot confidently tie capital approval to strategic planning. Consequently, strategy development and resource allocation become decoupled, and the annual operating plan (or budget) ends up driving the company's long-term investments and strategy. Second, portfolio management gets derailed. Without credible financial forecasts, top management cannot know whether a particular business is worth more to the company and its shareholders than to potential buyers. As a result, businesses that destroy shareholder value stay in the portfolio too long (in the hope that their performance will eventually turn around), and value-creating businesses are starved for capital and other resources. Third, poor financial forecasts complicate communications with the investment community. Indeed, to avoid coming up short at the end of the quarter, the CFO and head of investor relations frequently impose a "contingency" or "safety margin" on top of the forecast produced by consolidating the business-unit plans. Because this top-down contingency is wrong just as often as it is right, poor financial forecasts run the risk of damaging a company's reputation with analysts and investors.

A lot of value is lost in translation. Given the poor quality of financial forecasts in most strategic plans, it is probably not surprising that most companies fail to realize their strategies' potential value. As we've mentioned, our survey indicates that, on average, most strategies deliver only 63% of their potential financial performance. And more than one-third of the executives surveyed placed the figure at less than 50%. Put differently, if management were to realize the full potential of its current strategy, the increase in value could be as much as 60% to 100%!

As illustrated in the exhibit "Where the Performance Goes," the strategy-to-performance gap can be attributed to a combination of factors, such as poorly formulated plans, misapplied resources, breakdowns in communication, and limited accountability for results. To

Where the Performance Goes

This chart shows the average performance loss implied by the importance ratings that managers in our survey gave to specific breakdowns in the planning and execution process.



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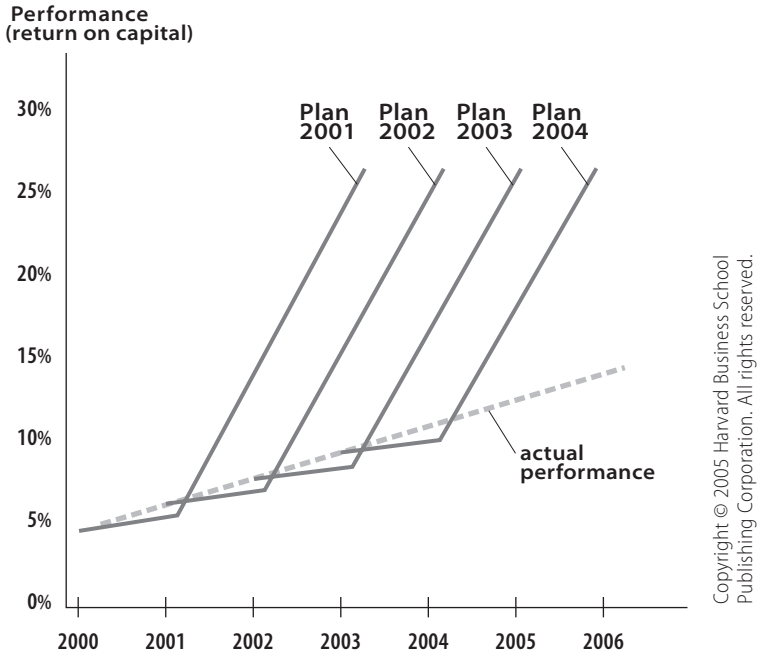
elaborate, management starts with a strategy it believes will generate a certain level of financial performance and value over time (100%, as noted in the exhibit). But, according to the executives we surveyed, the failure to have the right resources in the right place at the right time strips away some 7.5% of the strategy's potential value. Some 5.2% is lost to poor communications, 4.5% to poor action planning, 4.1% to blurred accountabilities, and so on. Of course, these estimates reflect the average experience of the executives we surveyed and may not be representative of every company or every strategy. Nonetheless, they do highlight the issues managers need to focus on as they review their companies' processes for planning and executing strategies.

The Venetian Blinds of Business

This graphic illustrates a dynamic common to many companies. In January 2001, management approves a strategic plan (Plan 2001) that projects modest performance for the first year and a high rate of performance thereafter, as shown in the first solid line. For beating the first year's projection, the unit management is both commended and handsomely rewarded. A new plan is then prepared, projecting uninspiring results for the first year and once again promising a fast rate of performance improvement thereafter, as shown by the second solid line (Plan 2002). This, too, succeeds only partially, so another plan is drawn up, and so on. The actual rate of performance improvement can be seen by joining the start points of each plan (the dotted line).



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What emerges from our survey results is a sequence of events that goes something like this: Strategies are approved but poorly communicated. This, in turn, makes the translation of strategy into specific actions and resource plans all but impossible. Lower levels in the organization don't know what they need to do, when they need to do it, or what resources will be required to deliver the performance senior management expects. Consequently, the expected results never materialize. And because no one is held responsible for the shortfall, the cycle of underperformance gets repeated, often for many years.

Performance bottlenecks are frequently invisible to top management. The processes most companies use to develop plans, allocate resources, and track performance make it difficult for top management to discern whether the strategy-to-performance gap stems from poor planning, poor execution, both, or neither. Because so many plans incorporate overly ambitious projections, companies frequently write off performance shortfalls as "just another hockey-stick forecast." And when plans are realistic and performance falls short, executives have few early-warning signals. They often have no way of knowing whether critical actions were carried out as expected, resources were deployed on schedule, competitors responded as anticipated, and so on. Unfortunately, without clear information on how and why performance is falling short, it is virtually impossible for top management to take appropriate corrective action.

The strategy-to-performance gap fosters a culture of underperformance. In many companies, planning and execution breakdowns are reinforced—even magnified—by an insidious shift in culture. In our experience, this change occurs subtly but quickly, and once it has taken root it is very hard to reverse. First, unrealistic plans create the expectation throughout the organization that plans simply will not be fulfilled. Then, as the expectation becomes experience, it becomes the norm that performance commitments won't be kept. So commitments cease to be binding promises with real consequences. Rather than stretching to ensure that commitments are kept, managers, expecting failure, seek to protect themselves from the eventual fallout. They spend time covering their tracks rather than identifying actions to enhance performance. The organization becomes

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less self-critical and less intellectually honest about its shortcomings. Consequently, it loses its capacity to perform.

Closing the Strategy-to-Performance Gap

As significant as the strategy-to-performance gap is at most companies, management can close it. A number of high-performing companies have found ways to realize more of their strategies' potential. Rather than focus on improving their planning and execution processes separately to close the gap, these companies work both sides of the equation, raising standards for both planning and execution simultaneously and creating clear links between them.

Our research and experience in working with many of these companies suggests they follow seven rules that apply to planning and execution. Living by these rules enables them to objectively assess any performance shortfall and determine whether it stems from the strategy, the plan, the execution, or employees' capabilities. And the same rules that allow them to spot problems early also help them prevent performance shortfalls in the first place. These rules may seem simple—even obvious—but when strictly and collectively observed, they can transform both the quality of a company's strategy and its ability to deliver results.

Rule 1: Keep it simple, make it concrete. At most companies, strategy is a highly abstract concept—often confused with vision or aspiration—and is not something that can be easily communicated or translated into action. But without a clear sense of where the company is headed and why, lower levels in the organization cannot put in place executable plans. In short, the link between strategy and performance can't be drawn because the strategy itself is not sufficiently concrete.

To start off the planning and execution process on the right track, high-performing companies avoid long, drawn-out descriptions of lofty goals and instead stick to clear language describing their course of action. Bob Diamond, CEO of Barclays Capital, one of the fastest-growing and best-performing investment banking operations in Europe, puts it this way: "We've been very clear about what we will and will not do. We knew we weren't going to go head-to-head with U.S. bulge bracket firms. We communicated that we wouldn't compete in this way and that we wouldn't play in unprofitable segments within the equity markets but instead would invest to position ourselves for the euro, the burgeoning need for fixed income, and the end of Glass-Steigel. By ensuring everyone knew the strategy and how it was different, we've been able to spend more time on tasks that are key to executing this strategy."

By being clear about what the strategy is and isn't, companies like Barclays keep everyone headed in the same direction. More important, they safeguard the performance their counterparts lose to ineffective communications; their resource and action planning becomes more effective; and accountabilities are easier to specify.

Rule 2: Debate assumptions, not forecasts. At many companies, a business unit's strategic plan is little more than a negotiated settlement—the result of careful bargaining with the corporate center over performance targets and financial forecasts. Planning, therefore, is largely a political process—with unit management arguing for lower near-term profit projections (to secure higher annual bonuses) and top management pressing for more long-term stretch (to satisfy the board of directors and other external constituents). Not surprisingly, the forecasts that emerge from these negotiations almost always understate what each business unit can deliver in the near term and overstate what can realistically be expected in the long-term—the hockey-stick charts with which CEOs are all too familiar.

Even at companies where the planning process is isolated from the political concerns of performance evaluation and compensation, the approach used to generate financial projections often has built-in biases. Indeed, financial forecasting frequently takes place in complete isolation from the marketing or strategy functions. A business unit's finance function prepares a highly detailed line-item forecast whose short-term assumptions may be realistic, if conservative, but whose long-term assumptions are largely uninformed. For example, revenue forecasts are typically based on crude estimates about average pricing, market growth, and market share. Projections of long-term costs and working capital requirements are based on an assumption about annual productivity gains—expediently tied, perhaps, to some companywide efficiency program. These forecasts are difficult

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for top management to pick apart. Each line item may be completely defensible, but the overall plan and projections embed a clear upward bias—rendering them useless for driving strategy execution.

High-performing companies view planning altogether differently. They want their forecasts to drive the work they actually do. To make this possible, they have to ensure that the assumptions underlying their long-term plans reflect both the real economics of their markets and the performance experience of the company relative to competitors. Tyco CEO Ed Breen, brought in to turn the company around in July 2002, credits a revamped plan-building process for contributing to Tyco's dramatic recovery. When Breen joined the company, Tyco was a labyrinth of 42 business units and several hundred profit centers, built up over many years through countless acquisitions. Few of Tyco's businesses had complete plans, and virtually none had reliable financial forecasts.

To get a grip on the conglomerate's complex operations, Breen assigned cross-functional teams at each unit, drawn from strategy, marketing, and finance, to develop detailed information on the profitability of Tyco's primary markets as well as the product or service offerings, costs, and price positioning relative to the competition. The teams met with corporate executives biweekly during Breen's first six months to review and discuss the findings. These discussions focused on the assumptions that would drive each unit's long-term financial performance, not on the financial forecasts themselves. In fact, once assumptions about market trends were agreed on, it was relatively easy for Tyco's central finance function to prepare externally oriented and internally consistent forecasts for each unit.

Separating the process of building assumptions from that of preparing financial projections helps to ground the business unit–corporate center dialogue in economic reality. Units can't hide behind specious details, and corporate center executives can't push for unrealistic goals. What's more, the fact-based discussion resulting from this kind of approach builds trust between the top team and each unit and removes barriers to fast and effective execution. "When you understand the fundamentals and performance drivers in a detailed way," says Bob Diamond, "you can then step back, and you don't have to manage the details. The team knows which issues it can get on with, which it needs to flag to me, and which issues we really need to work out together."

Rule 3: Use a rigorous framework, speak a common language. To be productive, the dialogue between the corporate center and the business units about market trends and assumptions must be conducted within a rigorous framework. Many of the companies we advise use the concept of profit pools, which draws on the competition theories of Michael Porter and others. In this framework, a business's long-term financial performance is tied to the total profit pool available in each of the markets it serves and its share of each profit pool—which, in turn, is tied to the business's market share and relative profitability versus competitors in each market.

In this approach, the first step is for the corporate center and the unit team to agree on the size and growth of each profit pool. Fiercely competitive markets, such as pulp and paper or commercial airlines, have small (or negative) total profit pools. Less competitive markets, like soft drinks or pharmaceuticals, have large total profit pools. We find it helpful to estimate the size of each profit pool directly—through detailed benchmarking—and then forecast changes in the pool's size and growth. Each business unit then assesses what share of the total profit pool it can realistically capture over time, given its business model and positioning. Competitively advantaged businesses can capture a large share of the profit pool—by gaining or sustaining a high market share, generating above-average profitability, or both. Competitively disadvantaged businesses, by contrast, typically capture a negligible share of the profit pool. Once the unit and the corporate center agree on the likely share of the pool the business will capture over time, the corporate center can easily create the financial projections that will serve as the unit's road map.

In our view, the specific framework a company uses to ground its strategic plans isn't all that important. What is critical is that the framework establish a common language for the dialogue between the corporate center and the units—one that the strategy, marketing, and finance teams all understand and use. Without a rigorous framework to link a busi-

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ness's performance in the product markets with its financial performance over time, it is very difficult for top management to ascertain whether the financial projections that accompany a business unit's strategic plan are reasonable and realistically achievable. As a result, management can't know with confidence whether a performance shortfall stems from poor execution or an unrealistic and ungrounded plan.

Rule 4: Discuss resource deployments early. Companies can create more realistic forecasts and more executable plans if they discuss up front the level and timing of critical resource deployments. At Cisco Systems, for example, a cross-functional team reviews the level and timing of resource deployments early in the planning stage. These teams regularly meet with John Chambers (CEO), Dennis Powell (CFO), Randy Pond (VP of operations), and the other members of Cisco's executive team to discuss their findings and make recommendations. Once agreement is reached on resource allocation and timing at the unit level, those elements are factored into the company's two-year plan. Cisco then monitors each unit's actual resource deployments on a monthly basis (as well as its performance) to make sure things are going according to plan and that the plan is generating the expected results.

Challenging business units about when new resources need to be in place focuses the planning dialogue on what actually needs to happen across the company in order to execute each unit's strategy. Critical questions invariably surface, such as: How long will it take us to change customers' purchase patterns? How fast can we deploy our new sales force? How quickly will competitors respond? These are tough questions. But answering them makes the forecasts and the plans they accompany more feasible.

What's more, an early assessment of resource needs also informs discussions about market trends and drivers, improving the quality of the strategic plan and making it far more executable. In the course of talking about the resources needed to expand in the rapidly growing cable market, for example, Cisco came to realize that additional growth would require more trained engineers to improve existing products and develop new features. So, rather than relying on the functions to provide these resources from the bottom up, corporate management earmarked a specific number of trained engineers to support growth in cable. Cisco's financial-planning organization carefully monitors the engineering head count, the pace of feature development, and revenues generated by the business to make sure the strategy stays on track.

Rule 5: Clearly identify priorities. To deliver any strategy successfully, managers must make thousands of tactical decisions and put them into action. But not all tactics are equally important. In most instances, a few key steps must be taken—at the right time and in the right way—to meet planned performance. Leading companies make these priorities explicit so that each executive has a clear sense of where to direct his or her efforts.

At Textron, a $10 billion multi-industrial conglomerate, each business unit identifies "improvement priorities" that it must act upon to realize the performance outlined in its strategic plan. Each improvement priority is translated into action items with clearly defined accountabilities, timetables, and key performance indicators (KPIs) that allow executives to tell how a unit is delivering on a priority. Improvement priorities and action items cascade to every level at the company—from the management committee (consisting of Textron's top five executives) down to the lowest levels in each of the company's ten business units. Lewis Campbell, Textron's CEO, summarizes the company's approach this way: "Everyone needs to know: 'If I have only one hour to work, here's what I'm going to focus on.' Our goal deployment process makes each individual's accountabilities and priorities clear."

The Swiss pharmaceutical giant Roche goes as far as to turn its business plans into detailed performance contracts that clearly specify the steps needed and the risks that must be managed to achieve the plans. These contracts all include a "delivery agenda" that lists the five to ten critical priorities with the greatest impact on performance. By maintaining a delivery agenda at each level of the company, Chairman and CEO Franz Humer and his leadership team make sure "everyone at Roche understands exactly what we have agreed to do at a strategic level and that our strategy gets translated into clear execution priorities. Our delivery agenda helps us stay the course with the

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strategy decisions we have made so that execution is actually allowed to happen. We cannot control implementation from HQ, but we can agree on the priorities, communicate relentlessly, and hold managers accountable for executing against their commitments."

Rule 6: Continuously monitor performance. Seasoned executives know almost instinctively whether a business has asked for too much, too little, or just enough resources to deliver the goods. They develop this capability over time—essentially through trial and error. High-performing companies use real-time performance tracking to help accelerate this trial-and-error process. They continuously monitor their resource deployment patterns and their results against plan, using continuous feedback to reset planning assumptions and reallocate resources. This real-time information allows management to spot and remedy flaws in the plan and shortfalls in execution—and to avoid confusing one with the other.

At Textron, for example, each KPI is carefully monitored, and regular operating reviews percolate performance shortfalls—or "red light" events—up through the management ranks. This provides CEO Lewis Campbell, CFO Ted French, and the other members of Textron's management committee with the information they need to spot and fix breakdowns in execution.

A similar approach has played an important role in the dramatic revival of Dow Chemical's fortunes. In December 2001, with performance in a free fall, Dow's board of directors asked Bill Stavropoulos (Dow's CEO from 1993 to 1999) to return to the helm. Stavropoulos and Andrew Liveris (the current CEO, then COO) immediately focused Dow's entire top leadership team on execution through a project they called the Performance Improvement Drive. They began by defining clear performance metrics for each of Dow's 79 business units. Performance on these key metrics was tracked against plans on a weekly basis, and the entire leadership team discussed any serious discrepancies first thing every Monday morning. As Liveris told us, the weekly monitoring sessions "forced everyone to live the details of execution" and let "the entire organization know how we were performing."

Continuous monitoring of performance is particularly important in highly volatile industries, where events outside anyone's control can render a plan irrelevant. Under CEO Alan Mulally, Boeing Commercial Airplanes' leadership team holds weekly business performance reviews to track the division's results against its multiyear plan. By tracking the deployment of resources as a leading indicator of whether a plan is being executed effectively, BCA's leadership team can make course corrections each week rather than waiting for quarterly results to roll in.

Furthermore, by proactively monitoring the primary drivers of performance (such as passenger traffic patterns, airline yields and load factors, and new aircraft orders), BCA is better able to develop and deploy effective countermeasures when events throw its plans off course. During the SARS epidemic in late 2002, for example, BCA's leadership team took action to mitigate the adverse consequences of the illness on the business's operating plan within a week of the initial outbreak. The abrupt decline in air traffic to Hong Kong, Singapore, and other Asian business centers signaled that the number of future aircraft deliveries to the region would fall—perhaps precipitously. Accordingly, BCA scaled back its medium-term production plans (delaying the scheduled ramp-up of some programs and accelerating the shutdown of others) and adjusted its multiyear operating plan to reflect the anticipated financial impact.

Rule 7: Reward and develop execution capabilities. No list of rules on this topic would be complete without a reminder that companies have to motivate and develop their staffs; at the end of the day, no process can be better than the people who have to make it work. Unsurprisingly, therefore, nearly all of the companies we studied insisted that the selection and development of management was an essential ingredient in their success. And while improving the capabilities of a company's workforce is no easy task—often taking many years—these capabilities, once built, can drive superior planning and execution for decades.

For Barclays' Bob Diamond, nothing is more important than "ensuring that [the company] hires only A players." In his view, "the hidden costs of bad hiring decisions are enormous, so despite the fact that we are doubling in size, we insist that as a top team we take responsibility for all hiring. The jury of your peers is the toughest judgment, so we vet each others' potential hires and challenge each

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The prize for closing the strategy-to-performance gap is huge—an increase in performance of anywhere from 60% to 100% for most companies.

other to keep raising the bar." It's equally important to make sure that talented hires are rewarded for superior execution. To reinforce its core values of "client," "meritocracy," "team," and "integrity," Barclays Capital has innovative pay schemes that "ring fence" rewards. Stars don't lose out just because the business is entering new markets with lower returns during the growth phase. Says Diamond: "It's so bad for the culture if you don't deliver what you promised to people who have delivered…. You've got to make sure you are consistent and fair, unless you want to lose your most productive people."

Companies that are strong on execution also emphasize development. Soon after he became CEO of 3M, Jim McNerney and his top team spent 18 months hashing out a new leadership model for the company. Challenging debates among members of the top team led to agreement on six "leadership attributes"—namely, the ability to "chart the course," "energize and inspire others," "demonstrate ethics, integrity, and compliance," "deliver results," "raise the bar," and "innovate resourcefully." 3M's leadership agreed that these six attributes were essential for the company to become skilled at execution and known for accountability. Today, the leaders credit this model with helping 3M to sustain and even improve its consistently strong performance.

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The prize for closing the strategy-to-performance gap is huge—an increase in performance of anywhere from 60% to 100% for most companies. But this almost certainly understates the true benefits. Companies that create tight links between their strategies, their plans, and, ultimately, their performance often experience a cultural multiplier effect. Over time, as they turn their strategies into great performance, leaders in these organizations become much more confident in their own capabilities and much more willing to make the stretch commitments that inspire and transform large companies. In turn, individual managers who keep their commitments are rewarded—with faster progression and fatter paychecks—reinforcing the behaviors needed to drive any company forward.

Eventually, a culture of overperformance emerges. Investors start giving management the benefit of the doubt when it comes to bold moves and performance delivery. The result is a performance premium on the company's stock—one that further rewards stretch commitments and performance delivery. Before long, the company's reputation among potential recruits rises, and a virtuous circle is created in which talent begets performance, performance begets rewards, and rewards beget even more talent. In short, closing the strategy-to-performance gap is not only a source of immediate performance improvement but also an important driver of cultural change with a large and lasting impact on the organization's capabilities, strategies, and competitiveness.

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Further Reading

ARTICLES

Why Good Companies Go Bad
by Donald N. Sull
Harvard Business Review
July–August 1999
Product no. 99410

Sull identifies another important cause of strategic underperformance: **active inertia**. Through active inertia, executives cling to strategic formulas that brought success in the past—even though emerging business realities call for new formulas. The strategic frames of the past become blinders; processes harden into routines; relationships become shackles; and values turn into dogmas. Sull offers additional advice for avoiding active inertia. Rather than asking, "What should we do?" ask, "What's hindering us?" You'll focus leaders' attention on the strategic frames, processes, relationships, and values that must change if your company hopes to define a new direction.

Having Trouble with Your Strategy? Then Map It
by Robert S. Kaplan and David P. Norton
Harvard Business Review
September–October 2000
Product no. R00509

A **strategy map**—a Balanced Scorecard tool developed by Robert Kaplan and David Norton—can help you apply the seven rules Mankins and Steele define. The map enables you to graphically depict the cause-and-effect assumptions underlying your company's strategy. In clear, concrete language, it shows the objectives you must achieve to execute your strategy, the performance measures you'll use, and the targets you've set for each measure. Using Mobil North American Marketing and Refining Company as an example, Kaplan and Norton explain how to create your strategy map and develop themes for its four "perspectives": financial, customer, internal processes, and learning and growth. The Mobil division used a strategy map to transform itself from a centrally controlled manufacturer of commodity products to a decentralized, customer-driven organization.

Execution Without Excuses: An Interview with Michael Dell and Kevin Rollins
by Michael Dell, Kevin Rollins, Thomas A. Stewart, and Louise O'Brien
Harvard Business Review
March 2005
Product no. R0503G

This article describes how Dell Computer constantly identifies **strategic priorities**—Mankins's and Steele's rule #5—as new business realities emerge. For example, top executives realized that Dell had a very visible group of employees who'd gotten rich from stock options. But as CEO Kevin Rollins maintains, "You can't build a great company on employees who say, 'If you pay me enough, I'll stay.'" To reignite the company's spirit, Dell implemented an employee survey whose results spurred the creation of the Winning Culture initiative, now a top operating priority. The company also defined the highly motivating Soul of Dell: Focus on the customer, be open and direct in communications, be a good global citizen, have fun in winning. Now people stay at Dell for reasons other than money.

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