Advances in Project Management Series[1]

The challenges of implementing strategy

By Kurt Verweire, PhD

Strategy implementation is a hot topic today. Managers spend billions of dollars on consulting and training in the hope to create brilliant strategies. But all too often brilliant strategies do not translate into brilliant performance. Strategy implementation ranks high on top managers' agendas but is a topic that has not received sufficient attention in the academic world. It seems like academics assume that if a firm has a strategy, it gets implemented automatically. But talk with managers and most will admit that their organization is experiencing significant problems with translating their strategy into concrete activities and results.

Why do so many companies struggle with strategy implementation? And what can be done about it? In this article, I first present five root causes why strategy implementation is so hard. Some of these root causes deal with the quality of the strategy itself, the others deal with the topic of implementation. Then, I present a new model that tackles many of these issues. This model consists of three building blocks and is called the Strategy-Alignment-Commitment model. The article zooms in on each of the three building blocks and provides useful suggestions how to increase the success rate of your strategy implementation programs.

WHY DO STRATEGY IMPLEMENTATION INITIATIVES FAIL?

In my discussions with managers who struggle with strategy implementation, I have discovered that there are five root causes for an unsuccessful strategy implementation:

Too much focus on financials in strategy discussions. Strategy implementation only succeeds if a company has a well-formulated strategy in the first place. In reality, however, few companies have a genuine strategy. According to Michael Porter – one of the most influential writers in the field – managers often rely on a flawed definition of strategy.[2] For example, managers confuse strategy with aspiration. How many times have we heard or read: *"Our strategy is to be #1 or #2 in that particular industry,"* or *"Our strategy is to grow shareholder value by 30% in the next three years."* But those statements are not strategies – they're goals or aspirations. These statements say what the company wants to be or achieve, not *how* it will get there.

[1] *The PMWJ Advances in Project Management series includes articles by authors of program and project management books previously published by Gower in the UK and now by Routledge worldwide. To view project management books published by Routledge publishers, click here. See this month's author profile at the end of this article.*

[2] Knowledge@Wharton (2006) "Michael Porter Asks, and Answers: Why Good Managers Set Bad Strategies," November 1, http://knowledge.wharton.upenn.edu/article.cfm?articleid=1594.

Goals are important, but they do not substitute for strategy. Great strategies provide guidance and coherence to the organization, financial goals, unfortunately, do not!

Functional strategies are no substitute for a business strategy. One of the major reasons why it's difficult to reach consensus on a clear business strategy is that the focus in many organizations is on the development of functional strategies. Companies have a strategy for operations, for sales, for marketing, for HR, and so on. But the more you break strategy up into various functional strategies, the less likely you will have a winning business strategy. There is a great risk for sub-optimization and conflicts among departments over resources and conflicting goals.

Strategy implementation is too fragmented. While companies face significant problems formulating a compelling strategy, the issue of strategy implementation itself also poses some challenges. What actually is strategy implementation? Some management authors see strategy implementation as a performance measurement and management exercise, where you translate strategies into key performance indicators that you cascade further down in the organization. Others see strategy implementation as creating an organizational culture that empowers people to act in line with the strategy. And still others see implementation as strategic project portfolio management. As I will show later, strategy implementation is all of that, and even more. Too often managers address only one item of the whole strategy implementation challenge, and they tackle execution in a way that is too fragmented.

Managers communicate about strategy but forget to translate strategy into action. While strategy implementation is about aligning different activities, it is also about creating commitment throughout the entire organization. Commitment is created when employees see where and how they can make a difference and are stimulated to take action within the boundaries set by the strategy. But it takes time to create an organizational context that stimulates widespread action-taking. All too often, managers do not take the time to create that context.

Strategy implementation requires leadership capabilities. The four points outlined above indicate that the implementation job requires leaders, not just managers.[3] Strategy implementation is not about delegating the bits and pieces of a strategy to the functional managers, so that the marketing manager tackles the marketing issues and the operations manager manages the operational issues. The Chief Implementation Officer should be the business manager, or at least somebody from the business management team. Strategy implementation is difficult because it forces people to change their behaviour. So, it's a job that should not be delegated to lower-level managers.

[3] De Flander, Jeroen (2010) *Strategy Execution Heroes: Business Strategy Implementation and Strategic Management Demystified*, the performance factory, Brussels.

THE STRATEGY-ALIGNMENT-COMMITMENT MODEL

Over the last few years, I've conducted extensive research on how firms turn strategy into results. From my research findings, I've constructed a model shown in Figure 1, to capture the essential elements of what constitutes effective strategy implementation. Although there is no step-by-step formula to turn strategies into great results, I have seen common patterns in how companies implement winning strategies and translate them into great performance.

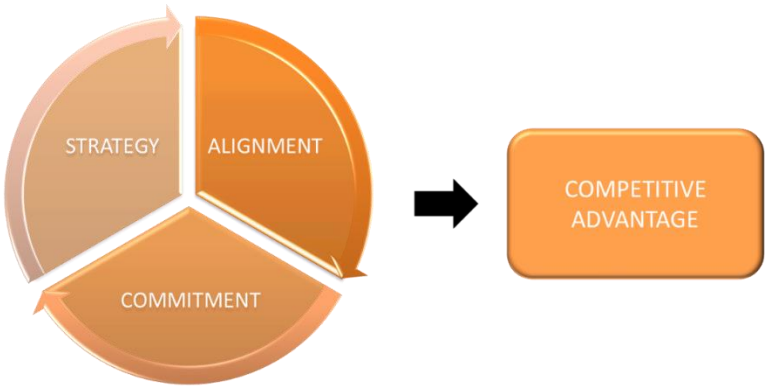

Figure 1: Strategy implementation model

In order to achieve a competitive advantage, firms need a clear, winning *strategy*. A winning strategy makes the choices explicit that the company has made to win in the marketplace. The second component is called *alignment* and defines which activities your company should set up to make the strategy concrete. Successful firms spend time to build up a powerful management infrastructure that facilitates the implementation of the strategy. The last lever to achieve competitive advantage – *commitment* – is often overlooked in the strategic management literature. What is the behaviour that winning companies instil in their organization? We should not forget that strategy implementation takes place within an organizational environment that is shaped by the leaders of the organization. It is that organizational environment that produces the behaviour that you can observe in companies.[4]

DEVELOPING A WINNING BUSINESS STRATEGY

Effective strategy implementation only occurs if the quality of the strategy is high. In the numerous strategy workshops I've done with executive teams, I've learned that 80 percent struggle not only with the implementation but also with the formulation challenge. In the previous section, I already argued that a strategy is different from a goal. A business strategy outlines how to achieve the goals. Only after a firm has developed a business strategy should it develop functional strategies.

[4] Markides, Costas C. (2004) "What Is Strategy and How Do You Know If You Have One?," *Business Strategy Review*, 15 (2), 5-12; Markides, Costas C. (2000) *All The Right Moves*, Harvard Business School Press, Boston, MA.

A business strategy is a coherent, integrated set of choices that addresses four fundamental questions as presented in Figure 2: (1) Who do we serve? (2) What do we provide? (3) What is our value proposition? And (4) What is our operating model?

The answers to the first two questions specify where a company wants to play – they set the firm's *competitive arena*. For example, easyJet and Ryanair have carved out a very specific competitive arena in the European airline industry. Both companies have chosen to provide point-to-point flights on short-haul routes in Europe and the Mediterranean region. easyJet and Ryanair do not fly to the United States or to Asia, nor do they offer cargo or any other services. The motorcycle market provides another example: Ducati has focused on the sport bike market, in which its customers are 'racing aficionados' who seek extreme performance and top functionality. Harley-Davidson, on the other hand, is strong in the cruiser and touring bike market, and its customers are the 'easy riders,' who associate the motorcycle with a particular lifestyle.

The questions 'What is our value proposition' and 'What is our operating model' force a company to specify how it can win in its chosen competitive arena. Answers to these questions describe the *competitive theme*, to both customers and employees. Customers are interested in a good value proposition, while employees need to understand what the company's operating model is. The *Strategy Implementation* book (Verweire, 2014) provides some interesting frameworks and exercises to help you to make the necessary choices here.

Figure 2: Vlerick Strategy Formulation Framework

Answering these questions implies that managers can articulate who not to serve, and what not to provide. Furthermore, it's important to define what is not your value proposition – where are you happy to follow the competition – and what is not your operating model. The

essence of strategy is choosing what not to do. A proper strategy sets boundaries for what activities the organization does and does not perform. I have the feeling that most managers opt for being mediocre everywhere rather than being the best somewhere.

It is not only important to make clear choices for each of the four questions, but it's crucial that the answers form a coherent whole. For example, IKEA's target market *('whom do we serve')* is young, primarily white-collar, not wealthy, and likely to have children. These customers can buy a wide range of well-designed, functional home furnishing products *('what do we provide')*. IKEA attracts customers by providing low-priced but stylish products. Its customers are treated to a fun experience as they wander through a visually exciting store. They can take the item home or have it delivered the same day, because IKEA carries an extensive inventory at each store *('what is our value proposition')*. IKEA is able to meet its customers' needs profitably because the company benefits from economies of scale and efficiencies of replication *('what is our operating model')*.[5] Although much of its low-cost position comes from having the customers assemble the furniture themselves, IKEA offers a number of extra services that competitors do not offer. In-store childcare and extended hours *('what is our value proposition')* are perfectly aligned with the needs of its target segment. In summary, coherence is essential to achieve a competitive advantage.

IMPLEMENTING STRATEGY THROUGH ALIGNMENT

Once a clear strategy is defined, a company needs to take actions in support of that strategy. An organization can be seen as interconnected sets of processes – and processes are a collection of tasks and activities that together transform inputs into outputs. Within organizations, inputs and outputs can be materials, information, and people.[6] I have identified five major sets of processes shown in Figure 3 that managers must master to make strategy work. These are the five substantive levers you must pull to make strategy happen, and they constitute our Strategy Implementation Framework.

[5] Hambrick, Donald C., and Fredrickson, James W. (2001) "Are You Sure You Have A Strategy?" *The Academy of Management Executive*, 15 (4) , 48-59.

[6] Garvin, David A. (1998) "The Processes of Organization and Management," *Sloan Management Review*, Summer, 33-50.

Figure 3: Vlerick Strategy Formulation Framework (De Cnudde et al., 2004)[7]

Direction and goal setting processes include those processes that translate the strategy into clear departmental goals, targets and action plans.

Operational processes are the processes that create, produce, and deliver the products and services that the company provides; they generate the revenues for the organization. Michael Porter calls them the primary activities.

Support processes help improve the effectiveness and efficiency of the operational processes. They do not produce output for external customers, but are necessary for running the business. Support activities include workforce planning and resource allocation, information technology support, and the definition of rules and methods in order to facilitate internal communication.

Evaluation and control processes ensure that the organization is performing as planned. They detect perturbations, initiate corrective action, and restore the organization to its previous equilibrium. Audit, risk management and management control are examples of evaluation and control processes.

Organizational behaviour processes affect the form, substance, and character of operational processes by shaping how they are carried out. These processes direct motives, influence, and attitudes.

Alignment means that an organization takes actions in line with its competitive theme, as defined by its strategy. Table 1 illustrates that when organizations choose different competitive themes, they should also emphasize different sets of actions. In other words, the management

[7] De Cnudde, Philippe, Hindryckx, Bernard, Bauwens, Mario, Carrette, Bernard, and Verweire, Kurt (2004) "Introducing Maturity Alignment: Basic Concepts" *in* Verweire, Kurt, and Van den Berghe, Lutgart A.A. (Eds.) *Integrated Performance Management: A Guide to Strategy Implementation*, Sage Publications Ltd., London.

infrastructure for building an operational excellence organization is very different from building a product leadership or customer intimacy organization.

	Operational excellence	**Product leadership**	**Customer intimacy**
Competitive theme	Best price Best access ('are we fast, easy, and painless?')	Best product	Best service Best connectivity (relationship orientation)
Direction and goal setting	Efficiency through process thinking Zero-defect service	Best product through continuous product innovation Clear innovation strategy: where to place our bets?	Understanding the broader problem Having expertise about the customers' business Customers carefully selected
Operational processes	The operations department drives the company Attention paid to process speed and quality	R&D is key: idea management is important Marketing is also key: educate people with a missionary zeal Get engineers, designers, and marketers systematically together	Demonstrate expertise and experience Strengthen the relationship with your key customers Build loyalty: focus on customer retention
Support processes	Highly automated processes Information systems increase control and coordination and streamline tasks World-class supply chain management	Clear innovation governance process Systematic process for allocating resources to innovation programs Knowledge sharing and networks	Systematic collection of customer and market information (through Customer Relationship Management)
Evaluation and control processes	Rigid, centralized control Detailed measures on various aspects of the process Setting higher thresholds	Innovation performance measures Control, learning, and experimentation	Detailed measures about account penetration and loyalty Lifetime value of the customer
Organizational behaviour processes	Centralized structure Organization structured around core processes Culture of continuous improvement	Fluid organization structure Stimulate diversity, tolerate mavericks Low levels of formalization Entrepreneurial culture	Decentralized organization Employee retention Go the extra mile for customer who deserve it

Table 1: The power of alignment

In my book Strategy Implementation (Verweire, 2014), I've built toolkits that calculate the level of alignment for each of the three models and I have found significant correlations between the level of alignment and financial performance. Companies that have set up a powerful management infrastructure have higher sales growth and higher margins. I found significant correlations in my three databases – the operational excellence, the product leadership, and the customer intimacy database. So alignment matters!

IMPLEMENTING STRATEGY THROUGH COMMITMENT

While the concept of strategic alignment is well known in the strategic management literature, the concept of commitment is a rather neglected aspect of strategy implementation.

Nevertheless, if managers want to implement a strategy successfully, they must also create an appropriate organizational environment that facilitates the implementation of that strategy.

One of the key lessons of my research is that firms can be classified not only according to their competitive theme and their operating model – operational excellence, customer intimacy, product leadership, or none-of-these-three – but also by their *management maturity* level. The management maturity is the extent to which operational and management processes are set up and managed so that managers and employees are committed to making strategy work. The concept of 'maturity' was borrowed from the various Capability and Maturity Models (CMM) that are applied to management processes such as software development, HR, process management, strategic management and innovation.

I have identified four levels of maturity for strategy implementation: (1) the entrepreneurial organization, (2) the structured organization, (3) the connected organization, and (4) the committed organization. The four maturity levels present four different stages of organizational development. Organizations always start as entrepreneurial organizations, but they can advance over time to the next level and become structured organizations. Some organizations move on to Level 3 and become connected. A minority even make it to the last level – the level of the committed organization. The higher the maturity level, the more organizations build a powerful context for strategy implementation.

In the entrepreneurial phase, the emphasis is on creating both a product and a market. There is no clear strategy and there are no clear goals. Attention is paid to operational issues, but this leads to short-termism and often a lack of strategic insights. Do not bother managers of entrepreneurial organizations with advanced planning and control systems. In such an organization, formal planning is minimal or even non-existent. Entrepreneurial organizations are very flexible and agile, and can be successful if an enthusiastic crew is in place to help grow the company. My research has shown that about 40 percent of firms can be classified as 'entrepreneurial.'

When firms reach a particular stage – let's say the company has grown to 50 or 100 employees – this entrepreneurial mindset can become a liability rather than an asset. In that case, managers start to pay more attention to managing the company more professionally. In this stage, the company has grown large enough to require functional managers. The organization is no longer a collection of individuals but a *collection of departments*. The company introduces strategic planning, separates and structures the core activities and gradually builds supporting activities. The operational budget is the main *control and evaluation* tool. Financial performance data are collected on a regular basis. Adding structure to an organization is not necessarily a bad thing, but some organizations grow into rigid bureaucracies that lack flexibility and suffer from a silo mentality. In those over-structured organizations, the enemy is no longer the competition, but the people from the sales department, or the employees of the back office. 40 percent of companies qualify as structured –and sometimes over-structured – organizations.

Firms can tackle this challenge by moving to the next maturity level. In a connected organization a company starts to think and act strategically. Business managers are increasingly aware that success is achieved not only when departments perform well but when they perform well *together*. The organization is no longer a collection of departments: the managers connect the departments around a competitive theme. Such firms build integration mechanisms to link the operational and management activities of the various departments. Managers make clear strategic choices and discuss how this strategy impacts the rest of the organization, e.g., in performance management, and in training and selection. This creates a positive organizational climate, in which managers from different levels take action and are committed to delivering results. The output is what counts. (In bureaucratic organizations, it is the input that counts.)

Some firms take the next step to reach the final maturity level. But my research has shown this is only a minority of companies – only around 2 percent of companies – would become 'committed.' The organization is no longer a connection of departments, but a *connection of individuals*. This is a truly exceptional organization. Bound together by a strong set of values, there is a drive to continuously perform better throughout the entire organization. In a committed organization, responsibilities and authorities are assigned to the lowest hierarchical levels. All employees are closely involved in monitoring the results and are encouraged to provide suggestions for improving performance. The employees work closely together in teams and 'delegating' is an important leadership attribute. Leaders and employees are engaged in a continuous dialogue founded on a team-based culture.

In 2006 I conducted a research project to empirically test whether management maturity and performance are correlated. In that research project, I examined the financial results of a large sample of Belgian insurance companies and investigated what drove the performance of Belgian insurance companies. The study showed that management maturity was positively correlated to the profitability of the insurance companies.[8]

ALIGNMENT AND COMMITMENT AS DRIVERS OF SUCCESS

My research has shown that alignment and commitment are correlated. Companies with high levels of alignment also have a more mature management infrastructure. Maturity helps a company to achieve higher levels of alignment.

[8] Verweire, Kurt, Roelandt, Peter, De Grande, Jonathan, and Van den Berghe, Lutgart (2006) "What Drives Performance in the Belgian Insurance Industry?", *Research Report*, Vlerick Business School, Gent.

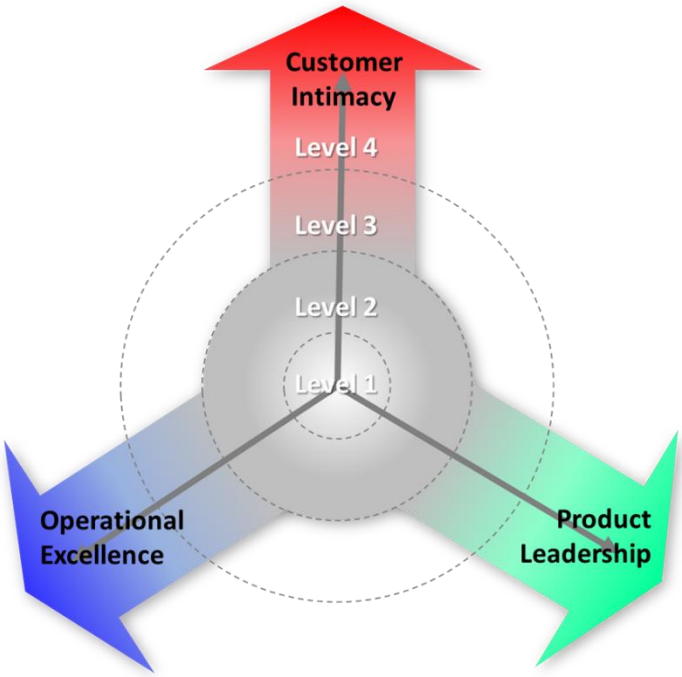

Figure 4: Linking alignment with commitment

Figure 4 shows that the true product leaders, customer intimacy firms and operational excellence organizations are at least connected or committed. Entrepreneurial firms or structured firms often have not made clear choices with regard to their value proposition and operating model. Entrepreneurial firms do not see the need to make these choices, they are too much occupied with solving operational issues, or they have not yet specified their competitive arena. Structured organizations find it difficult to make these choices because they are too inward-focused. They're working on professionalizing and structuring their organization, but they often forget to take the customer's perspective into consideration.

CONCLUSION

Strategy implementation is an important but challenging topic for managers today. In this article, I have explained why this is the case. I have listed five major root causes why firms struggle. Some of the root causes deal with the quality of the strategy, others deal with the quality of the implementation efforts. A final one deals with the quality of the leaders, a topic that we have not tackled in great detail here.

Despite decades of management publications and consulting help, firms still struggle with defining a clear and winning strategy. This is caused partly by the lack of clarity as to what constitutes a genuine strategy, and partly because the essence of strategy is choice; and many managers hate to make choices.

In this article, I have elaborated on the implementation challenge. I have argued that strategy implementation is about creating alignment and commitment. Both concepts are powerful notions that can help companies to get better results, even in today's turbulent times.

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Professor Kurt Verweire obtained his PhD at Erasmus University Rotterdam in 1999. He is Associate Professor Strategic Management and Partner at Vlerick Business School. He is also Programme Director of the MBA-FSI programme, a general management programme that is entirely focused on the financial services industry. His research interests include formulating and implementing winning business strategies, performance management and change management, and corporate strategy. Current research projects address how firms have to position themselves in the market, and how to create alignment and commitment within the organisation. Many of his research projects deal with financial services organisations.

Prof Verweire is the author of the book *Strategy Implementation* published by Routledge in 2014.