

» Why Strategies Fail to be Executed

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Several studies claim that strategies 'fail' at a rate of 70 to 90%, but why is this? There are two main reasons. Firstly, they are wrongly formulated due to a lack of realism and reliance on rosy predictions and best-case scenarios. Secondly, strategies can fail due to poor execution, which is not a fault of the strategy itself, but a weakness in how it has been put into practice.

Execution in theory...

Management theory and practice often separates strategy formulation (the plan) from strategy execution (putting the plan into action). One reason for this is that we like to think of strategy as a conceptual task that can be 'accomplished' quite rationally and put into practice fairly easily. However, strategy development and execution is far from straightforward, which is why Performance Measurement Systems (PMS) such as the Balanced Scorecard have become fundamental tools for many businesses as a means to execute strategy, while also making a substantial contribution to the achievement of an organisation's goals.

A PMS is a set of interrelated objectives, targets and indicators, with a supporting information infrastructure that enables data to be collected, analysed and communicated.

By developing a corporate PMS, which is cascaded through the organisation at all levels, you can efficiently and unambiguously implement the organisation's strategy. The main ingredients for success are a strong drive from the top, a consistent cascading process, and a good infrastructure. However, is it really this simple in practice?

... and in practice

Research carried out by Cranfield's Centre for Business Performance shows that a PMS can help execute strategy, drive positive behaviours, and support decision-making processes. At the same time, PMSs have been found to create perverse behaviours, and have no impact on strategic decisions. The reasons for these conflicting findings are many and, importantly, have little to do with technical aspects. Three of the most critical factors for success are summarised below.

1. Get buy-in from top management

The use of performance information may be scarce because the PMS sits at too low a level within the organisation. Often senior managers do not consider the PMS as something that relates to them and view the task of handling data and performance indicators as something appropriate for someone below them to deal with.

2. Clarify purpose of PMS

There is always the danger that the more we use targets and indicators to control and monitor performance, the more likely it will be that individuals manipulate processes to meet them. Such negative consequences could be reduced if the PMS is also used to promote learning and improvement.

3. Link PMS to strategic objectives

The role of PMS in strategy execution and reformulation can be greatly enhanced by linking targets and indicators to the main strategic objectives (as opposed to purely operational ones) and by considering them during strategic reviews. This point is particularly relevant when organisations go through periods of great change or transformations. In these situations, if the PMS is not connected to strategy, the organisation will progressively experience 'strategic dissonance': top management will set a new long-term direction, but employees will keep being measured and rewarded according to the old criteria, thus going through the same established routines.

“Separating strategy formulation with execution does not work and can be harmful.”



Formulation and execution...

Strategy execution is a mix of what is conceived by the top management team (a 'deliberate strategy') and a series of day-to-day events and decisions made in a changing and often turbulent environment (an 'emergent strategy'). Separating strategy formulation with execution does not work and can be harmful. A PMS can help execute and reformulate strategy and promote alignment in behaviour, but only when conditions are right in an organisation. Ownership and buy-in need to be ensured, particularly at top and middle management levels. Without leadership or management support, any performance measurement related effort will be in vain, as it will be perceived as irrelevant or bureaucratic.

Sufficient competences and skills must be developed at all levels of an organisation: good analysts that can provide robust and relevant data and managers that can translate it into information and use it.

The roles of performance indicators and the PMS as a whole need to be defined from the outset. If employees perceive the PMS as a control tool, they will either oppose or play the system (or both).

Both strategic and operational levels need to be considered along with financial and non-financial indicators to provide a comprehensive view of what and how the organisation will achieve its key objectives. IMF

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