LEADERSHIP PULSE

March, 2005

Leadership Pulse Survey Results

Leaders Talk About Executing Strategy

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This research is not possible without the help of many people who volunteer every two months to run the process and to participate in our joint learning effort. Thank you to all the executives who continue to respond to the Leadership Pulse research surveys, to everyone who continues to support the project, to the team at eePulse for donating the technology and their time for this research, and to the Executive Education group at the Ross School of Business, University of Michigan.

Leaders Talk about Executing Strategy

Theresa M Welbourne, Ph.D.

Since Larry Bossidy published his book on strategic execution, there has been a lot of buzz on the subject. There is no doubt that the topic of "doing" strategy deserves much attention because a great strategy in name only does not automatically lead to superb results. Given the tumultuous business environment in which we are all struggling today, being able to execute on your strategy creates strong competitive advantage.

Therefore, given all of the interest in the topic of execution and "doing," the April Leadership Pulse study focused on the topic of implementing with a specific interest in minimizing obstacles that get in the way of execution. Or put another way, we focused on a firm's offensive strategy in order to provide strategic thinkers a structured way to consider what they can do early on to make sure their strategies are not derailed.

The Sample

The research done via the Leadership Pulse comes from a large sample of executives (over 4,000 to date) who have agreed to participate in short Pulse Surveys conducted every two months. We gather data on topics of strategic importance to leaders and then provide results to those who participate in this University of Michigan study. Our goal it so learn from data, create a dialogue around the subjects we study, and help leaders continually learn and bring value to their organizations.

In the April study, a total of 308 executives participated in the research. Of those who responded, 47% were in C-core jobs (e.g. CEO, CFO, CIO, etc.), and 18% were VP level while 16% were at the Director level. The remainder is in senior manager or manager-level positions. The industries they come from include the full range studied, with 18% from manufacturing, 3% from construction, 1% in mining, 11% in services (other than consulting), and 5% in health care (to name a few). A total of 21% of the firms reported annual revenues over $250m per year, while 43% are earning less than $5m per year in revenue. Thus, both smaller and larger firms are represented in this particular study.

Degree of Change in Strategy and Tactics

The first thing that we did in the study was ask respondents to describe the state of their business strategies. Using two dimensions, newness of strategy and stability of tactics used to implement strategy, we learned that only 7% of the firms studied are using the same strategy and tactics that they had been using in the prior year. A total of 36% of the population reported implementing a new strategy, with 25% saying they had both a new strategy and were using new tactics to implement their strategy. Lastly, a total of 57% (the largest percent of the population) had the same strategy but were rolling it out via new tactics. A total of 82% of the firms in total said they were using new tactics to either support their current or new strategy.

	Same Strategy	**New Strategy**
Same Tactics	7%	11%
New Tactics	57%	25%

Figure 1: Respondents' Strategies for 2005

In addition to asking the respondents to report the type of strategy they were using in 2005 (in terms of newness), we asked them to rate their probability of success in executing their strategy. Below is a plot of that data, showing the average percentage rating per category. As can be seen, the people most confident in execution are those employing the same strategy from 2005 with the same tactics (80%). We title this group the "repeat performers." Although this group reports the highest probability of success, a quick look at Figure 1 shows that this group consists of the smallest number of firms (only 7% of the sample). Estimates of success go down as new tactics are employed and as new strategies are implemented (note lowest probability of success with new strategy and same tactics).

	Same Strategy	**New Strategy**
Same Tactics	80% ***Repeat Performers***	73% ***Direction Change***
New Tactics	77% ***New Tools***	75% ***Brave New World***

Figure 2: Percent Reporting Probability of Success Per Strategy Choice

What's Getting in the Way of Execution

We asked respondents to rate 15 items in terms of the degree to which each might get in the way of executing the strategy. Below is a summary of the overall results. The graph plots the percent of people who reported that the particular variable would get in the way of execution of their 2005 strategy (reported either a 4 or 5 on the 1 to 5 scale).

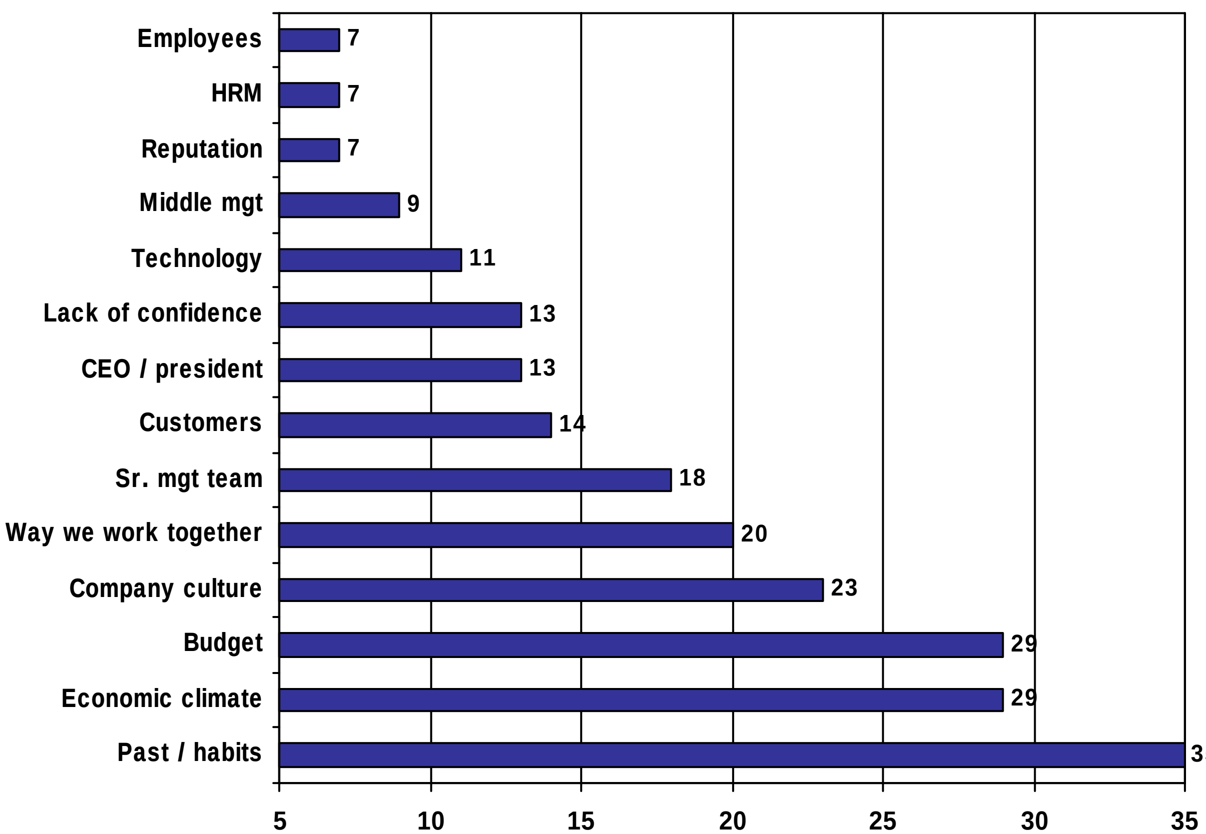

Figure 3: Percent Agreeing Variable Likely to Derail Strategy

As you can see from reviewing the graph, the #1 barrier is the company's past and habits (with 35% of respondents thinking their past and habits will likely derail strategy). Second in importance are financial factors, with both budget and economic climate being mentioned by 29% of the respondents. Next, you see two variables that are functions of the company's habits and past – company culture and the way the employees work together.

Bundling the Barriers for Deeper Analysis

In order to better understand the barriers to successfully executing strategy, we next conducted a factor analysis of the 15 items. Factor analysis is a statistical method that allows us to “bundle’ the variables. Then, with an overall score for each bundle, we can do deeper analysis of the findings.

The factor analysis indicated that the 15 items could be grouped into three “buckets.” The first is what I will label the external environment, and that factor encompasses customers, the economy, and the organization’s reputation in the external environment. The second factor is leadership, which includes the following: senior management, company culture, and the way people in the firm work together, the CEO, the company’s past or habits, and policies. The last factor is labeled process and includes employees, technology, and middle management. You will notice that a few items fell out of the analysis, and that is due to the fact that they did not clearly “group” with any of the other items.

By examining these factors, we learned which of the three potential barriers to strategic execution were most problematic for each type of the 4 strategies we posed in Figure 2. Below you will find the average score for each factor and for each of the firms in the 4 strategy types.

Barrier	Repeat Performers	Direction Change	New Tools	Brave New World
External Factors	2.44	2.40	2.34	2.44
Leadership	2.50	2.74	2.46	2.17
Process	2.0	2.44	2.32	2.08

Figure 4: Average score for each factor (1 to 5 rating).

Highlighted in grey you see the highest scoring barrier per strategy type. For repeat performers, direction change, and new tools firms, the biggest perceived barrier to executing their strategy is leadership. Only for the “brave new world” firms do you see that leadership is not #1, but it is #2. In this case, one might guess that the firms are changing both strategy and tactics due to the fact that the external environment is forcing such dramatic change on their firms.

Below is a sampling of comments from the Brave New World sample. Their comments about the specific barriers may help bring clarity to the type of external factors that these firms are facing in terms of their execution.

> “Government regulation and funding policies for health care.
>
> Board level interference.
>
> Timing and partners follow through. The unknown.

> We are new to the industry - an industry that does not easily recognize that those outside bring new, valuable ideas. Also, we have been told that we may be too sophisticated for this new industry. Therefore, we must use caution in all of our communications.
>
> Limited time constraints and getting bogged down in the routines. Staying the course to shift. Letting go of some customers who really are no longer a fit for our services.
>
> For us, changing business strategy and tactics will be a very expensive proposition. Cash flow will be a problem for the first two quarters of the calendar year.
>
> Capital investment exceeds expectations.
> Can't put together the right business deal with alliance partners."

Even in this group, where the highest scoring barrier is coded as external factors, a quick scan of the comments by respondents in that group indicate that leadership-related issues arise as a key concern.

Leadership: At the Core of a Great Offensive Strategy

If leadership is defined as a high risk barrier to executing strategy, then leadership has to be the target of your offensive strategy. Let me go back to the idea of an offensive strategy for a moment. In order to win, two strategies are deployed. The defensive strategy is the one we all know best; you rally the company to respond to problems that arise. But the offensive strategy is one that is less used in business, and it's one that, when well done, will provide a company with competitive advantage in our ever-changing business environment. A good offensive strategy requires anticipation of barriers and creating a proactive way to maneuver around the problem.

This month's Leadership Pulse research targets where the offensive strategy should be focused – on leadership. And comments from the executives responding to this survey, in addition to data from other Leadership Pulse surveys, combine to suggest ways in which you can successfully increase your chances of executing your own business strategies.

We asked the survey respondents to tell us in their experience, what is the most important thing that they have seen that will assure successful execution of strategy. All of their comments hovered around the subject of alignment. They suggested creating a clear strategy, adding a specific plan, communicating to people what the plan is, rewarding employees for executing on the plan, and then implementing, and continuing to communicate to employees.

The logic of alignment is appealing, and many firms have spent considerable dollars achieving alignment. But even with high quality alignment tools, why do most strategic plans not achieve their desired results? Why do most firms run into significant problems with execution? I would suggest it's because there is no offensive strategy; leaders do not plan for the things that may derail their strategy; they do not expect things to change.

The Myth of Alignment

We have created an expectation in business that if you create a plan, and you communicate it well to the "do-ers" and worker bees, and you develop good marketing materials for your clients, then you can execute and win. But what we do not do is anticipate that things will change. Alignment takes years to accomplish, and by the time you get all your structures aligned, your employees rewarded for the new strategy, and your customers educated in your new process, the world changes, and you need to realign. But if you have to start all over again, the pain often is unbearable.

Great companies excel at realignment. Not only do great management teams communicate down but they listen to what employees and customers have to say about the business environment, and they use that information to craft and recraft their strategy.

The #1 barrier to strategic execution was reported by the survey respondents to be their company's past and habits. The path to success is not just "breaking" from the past. If you simply move the current strategy from one path to another path, you create new habits and new barriers to change.

The key to long-term success and being competitive in today's economy is developing an agile work force that starts with the senior leadership team. You need leaders who listen and who learn to respond to the ever-changing environment. In other words, success is a function of continual realignment and taking advantage of new opportunities while solving new problems.

Habits: The Challenge

The new habit that every firm should be challenged to acquire is the habit of real-time listening. If you listen to customers, listen to employees, listen to investors, listen to suppliers, and listen to every other person that "touches" your company, you will have a built-in offensive strategy. You will know what's going on before your competition understands.

Help Along the Path

If you are not already part of the Leadership Pulse study, we invite you to become a participant. Our goal is to expand leadership knowledge and theory by listening to the executives who are part of the study. You can sign up for the process and receive free reports by going to the following link:

www.umbs.leadership.eepulse.com.