



## **LINKING EXECUTION WITH STRATEGY IN SUPPORT FUNCTIONS**

by Robert Angel

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Robert Angel is president of The Gilford Group Limited, a Toronto-based consulting firm that specializes in customer, marketing and performance strategies, and that works at the intersection of marketing, finance, organizational development and technology. He can be reached at bob.angel@gilfordgrp.com.

*Have support functions dropped the ball on creating value for the organization? This is a vital question for Finance, Marketing, Technology, and People functions seeking deeper recognition at the organization's strategy table. To contribute more value, the challenge is to move from efficient execution into rethinking the value that execution generates – by striking a better balance with strategy.*

The practice of “strategy” has had a volatile history over the past quarter century. Once the discipline of choice for newly minted MBAs, strategy lost some ground in the 1980s when market unpredictability raised questions about the value of strategic planning five to ten years out.

More recently, strategy has regained some of its lustre in addressing these same questions by providing a point of reference in the midst of the twists and turns of rapid market change. Companies must foster innovation because cost cutting is no longer a competitive advantage – but differentiating customer experience is.

The challenge is getting strategy to deliver. Despite heroic efforts in strategic planning and performance tracking, there is still widespread dissatisfaction with operating results. Part of the problem is the chronic disconnect between strategic objectives and execution value.

This applies across the organization but especially in support functions – Finance, Marketing, Technology, and People – many of whom are struggling to find their role in setting strategy and guiding its execution.

### **The strategy disconnect**

Creating really good strategy is not a trivial task. Moreover, it can be all for nothing if the execution is flawed. The big question is what produces better results, good strategy poorly executed or poor strategy well executed? In practice, this is hard to determine because the boundaries between strategy and execution can be quite hard to identify.

To illustrate, the sidebar, “Blame the Strategy,” recounts how a technology platform business prided itself on its strategic-thinking capabilities. The manager of the business tried to protect margins and a commanding share in a specialized but rapidly commoditizing market by becoming a value-added service rather than a product business. He never foresaw that his decision to acquire his largest software partner would drive away his other partners and his customers.

## Blame the Strategy

A certain technology platform business provided a proprietary platform for software solution providers with specialized analytical software for financial institutions. Its manager had built a commanding market share by creating new uses for its parent company's hardware technology. As the business matured, margins were being eroded by increasing commoditization and a dominant market position was in jeopardy.

The answer was to purchase the largest partner and shift to being a service provider. Solutions selling made sense in a business of helping customers make risk-based decisions with large paybacks. The manager also saw an opportunity to link with some existing parent company applications to offer a more comprehensive, cost effective core solution.

Integration of the new software proved to be quite difficult, delaying launch of the integrated solution. Moreover, the other software partners now saw a competitor rather than a partner, and opened their platforms to other hardware vendors. Manager's fears were realized as significant market share was lost. Eventually, the parent company closed the business down rather than continuing to invest.

This decision was accompanied by much finger-pointing by parent-company integration staff who sought to distance themselves from the original acquisition decision and any accountability for it. They blamed the strategy for not having foreseen that other software partners would perceive a conflict of interest and that customers would perceive mixed marketing messages.

The staff had a valid point. There were flaws in the strategy. But did this mean that the strategy was entirely the problem? It could be argued that the strategy had not been adequately put into practice. Had the manager anticipated market response to the acquisition and integration, he might still have proceeded with the plan but implemented it differently.

Did he make a major error in strategy – or was it really more about poor execution? Could the failed strategy actually have worked if it had been implemented better? In the circumstances, he had to make some kind of strategic move, but would any alternative strategy have worked any better given an apparent lack of execution awareness?

This example is a good illustration of too much strategy and too little execution. However, all too frequently, the opposite applies. Bad operations can drive out discussions about good strategy according to Robert S. Kaplan and David P. Norton, who wrote about this topic in the January 2008 issue of Harvard Business Review. Companies limp along, they write, making or closely missing their numbers each quarter but never examining how to modify their strategy to generate better growth opportunities or how to break the pattern of short-term financial shortfalls.

As Kaplan and Norton observe, there is a pervasive failure to balance the tension between strategy and execution. This is really disappointing, considering that the better matching of actions to strategy was the original reason Kaplan and Norton popularized balanced scorecards in the 1990s. With more than 60 percent of large and medium-sized organizations in North America having adopted scorecard-type frameworks, we might have expected better. Have some of the strategic benefits of creating strategy maps and scorecards been nullified by execution – especially by the laborious mechanics of on-going data collection and reporting?

## Four Components of Execution

1. Strategy – vision, innovation, brand and competitive advantage, marketing plans, strategy maps, customer needs and segments, value delivery, financing, risk management, etc.
2. Culture – translation of vision into knowledge and learning, customer-centricity, leadership, people buy-in, accountability, urgency, etc.
3. Operations Performance – value chains, quality, program management, partnerships, selling, etc.
4. Support Function Performance – people, back office processes, financial reporting and scorecards, forecasting, market positioning, information technology, etc.

## From strategy to execution

According to Peter Drucker, creating and serving customers profitably is the central purpose of most organizations. Carrying out, or executing, this purpose can be categorized as having four components (see the panel on the right). Strategy and Culture provide the foundation, while Operations and Support functions translate the strategy and culture foundation into action.

Execution of strategy has received considerable attention as a management discipline, as has operations with methodologies like professional project management, supply chain management, and lean Six Sigma quality and waste management.

However, performance is often underwhelming. Research I conducted in early 2007, in conjunction with CAmagazine (the magazine of the Canadian Institute of Chartered Accountants), indicates that 65 percent of large, medium and small Canadian firms are neutral when asked if satisfied with performance management effectiveness (based on responses from 2,000 firms). Only 17 percent are very satisfied.

Why are so many organizations seeing such mediocre results when Strategy and Operations are subject to so much scientific management? Without absolving Strategy and Operations from responsibility for performance dissatisfaction, it is time to look more closely at execution in both the Culture and Support functions, which are still at much more formative stages of management development.

## Execution in support functions

To say that culture and support functions – Finance, Marketing, Technology, and People – are at formative stages is not to dismiss the advances made in a range of methodologies, for example, customer relationship management, talent management, communications and data technology, and balanced scorecards. Nor is it to ignore efforts to keep back-office processes running cost effectively. It is instead to highlight a growing concern about the value of support-function execution to the business.

Take Marketing as a case in point. An increasing number of CEOs are on record as describing Marketing as overly transactional; they say they are looking elsewhere for strategic decision support.

Not surprisingly, chief marketing officers are voicing concern about marketing's diminishing

influence in strategic decisions.

Significantly, CIOs, CFOs, and HR executives are expressing similar concerns for similar reasons. The sample of quotes in the side panel illustrates this. It is clear that support-function contribution and value are starting to be recognized as a widespread and serious management issue.

### The Role of the Support Function Today

*"While many CFOs may aspire to play a more strategic role, many say they struggle in practice."* (Economist Intelligence Unit study for KPMG, September 2006)

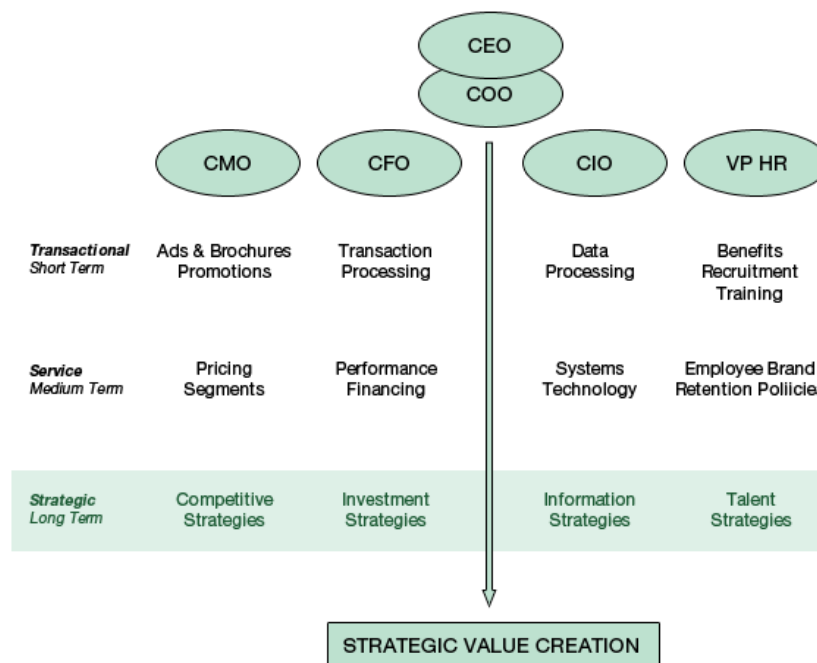
*"I'm going to criticize marketing as a discipline because we are now at the bottom of the rung of the most innovative parts of the business organization."* (AMA Innovation Roundtable panelist, October 2006)

*"The CIO's influence is waning."* (InformationWeek, November 2007)

*"Our research confirms the idea that HR's influence is declining."* (McKinsey, January 2008)

What is causing this epidemic of support-group concern? Is it perhaps a risk-averse approach to day-to-day activities that are optimized for the benefit of the specific function, making the organization increasingly inward looking? Certainly, traditional performance measures such as achieving volume targets and reducing costs to avoid being uncompetitive may be essential for business survival. But these same measures are today just the price of being in business and no longer a competitive advantage. The evidence suggests many support functions are cutting costs without looking beyond their own functions, to all of the implications for business value.

### Supporting the Customer Facing Organization



This narrow approach makes the function highly transactional. The accompanying diagram shows that value creation has three levels of execution, of which the transaction is only the first level. The other two, service execution and strategy execution, both promise higher rewards but also involve higher risks. They require that support functions share the risks of customer-focused performance targets.

Value-based business cases are more likely to be built on continuous improvement, innovation, service or product differentiation, or creating new customers. Indeed, in leading organizations, performance metrics are becoming more performance oriented, for example, for the growth of new customers, time to market, likelihood to recommend the company to prospective customers, streamlining procedures without reducing value, or reducing waste.

When internal objectives outweigh customers' objectives, innovation and competitive advantage are early casualties. Are the support functions being left behind on such measures?

Customers should be at the heart of execution value for all parts of the organization. This means not just external customers – and there may be several levels of external customers if the organization is working through intermediaries to reach the end customer as many industries do. Examples of such companies include insurance or consumer products. For support groups, "customer" also refers to the organization's customer-facing departments who are in effect their primary customers.

## **A culture of knowledge and learning**

The style of the organization makes a big difference. It is more difficult for a hierarchical organization to undertake cross-functional execution collaboration. Risk-based and cost-control oriented, hierarchical organizations tend to develop a compartmentalized mindset. A sure sign of such an organization is one which sees strategy as the job of management, to be handed down for staff to implement. The outcome may be a degree of detachment across the organization that can be fatal.

In contrast, a knowledge and learning organization is better equipped to support the customer as the driving force. Innovation focused and adaptable, it collaborates with other parts of the organization on growing or upgrading the business. The knowledge and learning organization is further described in a previous article, "Putting an Innovation Culture into Practice" (Ivey Business Journal, January/February 2006).

Three topics especially are suggested to be examined for execution improvement. Firstly, how does each support function continually renovate its transactional execution? Does it do this in the context of business growth and value, not just cost reduction? For example, does it continuously improve the customer experience and remove wasteful practices, both of which are typically competitive differentiators? If they are not differentiators, perhaps a case can be made for outsourcing the related transactional processes.

Secondly, does the support function look at its services execution for how much design and development value it provides? This is where the organization can foster a culture of innovation, increasingly a survival strategy in a highly competitive low cost global market. My 2007 performance research shows plenty of scope for improvement. For instance, only 60 percent of CFOs surveyed are significantly involved in their organization's strategic planning. Even more noteworthy, only 38 percent are deeply involved in innovation planning. The performance role of CFOs can be viewed as indicative of other support functions' roles as well.

The third topic is strategy execution. Many CFOs, CIOs, CMOs and HR executives may argue

that they are already involved in strategy, both in respect of their own functions and the overall organization. However, it seems that the involvement can often be somewhat superficial. The performance research indicates that 23 percent of CFOs surveyed only provide strategic planning input when asked. Even when the CFO is involved, performance-related practices were reported to be frequently quite basic.

Even when the support function is developing a collaborative approach, it is important that the changes extend beyond the person in charge, involving staff more deeply. My performance management research study indicates that many CFOs play an active performance-management role. But often their staff does not. This indicates that the functional role may be changing faster than the department is. Lack of involvement in strategic thinking can alienate staff, cutting off the organization from an important part of its knowledge base.

To address this, it is important to encourage better compatibility between objectives and actions. Bringing individual and function goals into better alignment helps reinforce cross-functional collaboration and improve customer-facing processes.

For example, in an IT department of a consumer services firm, senior staff members are creating eighteen-month, self-directed action plans complete with metrics that get acted on, measured, and regularly updated. The purpose is to raise satisfaction ratings from their internal customers. Marketing staff in another consumer services firm are using individual plans to speed up execution of their annual business-development objectives.

In summary, an organization in which the CEO relies mainly on Operations for help in creating value is one in need of a much more collaborative culture. To rectify this, support functions – Marketing, Finance, IT, and HR particularly – must take the initiative in restoring their strategic place in the organization by re-examining their value in execution.

In knowledge and learning organization support functions, execution will likely emerge as a discipline in its own right. Marketing, Finance, Technology and HR will collaborate more readily, both with each other and with their Operations customers – to make execution much more strategic.

The alternative may be finding out the hard way that execution definitely becomes strategic when you get it wrong.

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### **About the Author**

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Robert Angel is president of The Gilford Group Limited, a Toronto-based consulting firm that specializes in customer, marketing and performance strategies, and that works at the intersection of marketing, finance, organizational development and technology. He can be reached at [bob.angel@gilfordgrp.com](mailto:bob.angel@gilfordgrp.com).

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