Operational Alignment: Bridging the Gap between Strategy and Execution

By Jonathan D. Becher, President and CEO of Pilot Software

When I meet people, I like to ask them what business books they have been reading because it gives me an unusual insight into what's happening across a broad slice of organizations. Based on what I've heard in the last few months, we're in the midst of a fundamental business shift. Gone are the weighty tomes that instruct companies to optimize their supply chains, leverage just-in-time manufacturing, or outsource business processes. In their place are books like "The Strategy-Focused Organization," "Good to Great," and "Execution: The Discipline of Getting Things Done."

Many of these books have a common theme: doing more with less is not a sustainable advantage in today's global economy. Increasingly, organizations are recognizing that they must strategically change the rules. They have to change their business model, design new product offerings, or cultivate new channels. In short, they must move from focusing on efficiency to focusing on effectiveness.

But strategy by itself isn't enough. We've all seen the results of a formal strategy session – 50 page briefing books and PowerPoint presentations filled with missions and visions, key messages, and positioning statements – you probably have one of these in your drawer right now. So then what? After the inevitable all-hands meeting, most employees go back to doing what they've always done. For strategy to be effective, it has to influence the employees charged with executing on the day-to-day tactics.

Unfortunately, in most organizations there is a gap between strategy and execution. Most employees don't understand the organizational strategy and, more importantly, don't know how it should affect what they do. In other words, strategy doesn't influence execution. When employees learn something fundamental during their job – about pricing, competitors, or features – there's no mechanism for that to incrementally influence the strategy. After all, a good strategy is dynamic, not static. Without successfully bridging the gap between strategy and execution, organizations are unlikely to achieve their objectives.

Operational Alignment

The gap between strategy and execution can be bridged with operational alignment. Operational alignment increases the effectiveness of an organization by ensuring that all stakeholders are working towards common objectives and by increasing transparency so that all stakeholders know how their efforts affect everyone in the organization. An alignment-centric organization motivates their employees with common strategic objectives, manages operational programs that support these objective, monitors progress towards incremental milestones and key performance indicators, and measures operational performance to identify both problems and areas for growth.

Common reasons for the gap between strategy and execution

- Employees don't know how strategy should impact what they do day-to-day.
- Existing systems don't empower employees to make decisions independently.
- There is no mechanism for sharing best practices across the company; similarly, processes must constantly be re-invented.
- There is no way for insights gained from tactics to affect the strategy.

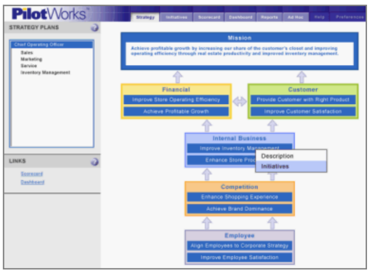
The 4Ms of Operational Alignment

Motivate – communicate organizational objectives in a way that is relevant and actionable to everyone.

Manage – empower individual ownership of initiatives that support strategic objectives.

Monitor – pro-actively track progress towards objectives and alert stakeholders to unexpected outcomes.

Measure – capture KPIs explicitly linked back to objectives and allow arbitrary exploration of related metrics.



Sample Strategy Plan

1. Motivate

Organizations often have a grandiose vision statement that declares what the organization is trying to achieve over long term. However, this vision provides little motivation to most employees and fails to influence what they do on a daily basis. Without motivation or influence, an organization has an army of employees operating with disparate agendas and doing little to effectively advance organizational objectives.

Often people shrug off strategy as "just words" and therefore spend little time determining the best way to articulate their organization's particular strategic objectives. However, it is important to ensure not only that the words accurately convey the organization's intention, but also that they do so in a way that is relevant and meaningful to every stakeholder. Even the most aligned organization can become misaligned over time if people are unintentionally working towards different goals. Pathways and strategy plans help people piece together the entire puzzle of how an organization seeks to achieve its vision.

Pathways are useful for representing the long-term goals that an organization must achieve to realize its vision. They provide a high-level roadmap for the organization, illustrating a systematic approach and change in focus over time. Strategy plans communicate and explain organizational mission – and the supporting objectives critical to achieving it. They show the relationship between various strategic objectives and tell the story of how, together, they enable the organization to achieve its overall mission – a step toward the company's grandiose vision. Both pathways and strategy plans can be used for strategic planning by individual groups long before the organization begins to execute on the objectives.

An alignment-centric organization resists the temptation to attach indicators of success or failure to pathways and strategy plans, as doing so automatically diverts attention away from the strategy itself. Rather than assimilating the strategic direction, people tend to get stuck in the details of the results. Instead, to make the organization's goals meaningful for everyone, they should be translated into relevant strategic and operational targets for functional departments and business units. This helps permeate strategy throughout day-to-day execution and promotes ownership and commitment at all levels of the organization. Having communicated mission and strategy to all stakeholders, organizations can then begin to manage, monitor and measure performance.

CASE STUDY
Pilot Fashions
How one company bridged the gap between strategy and execution

Pilot Fashions' vision is to be one of the top three specialty chains for women's clothing and accessories in the United States. Describing such a lofty goal that is potentially so far off in the future — truly earning the BHAG (big hairy audacious goal) …

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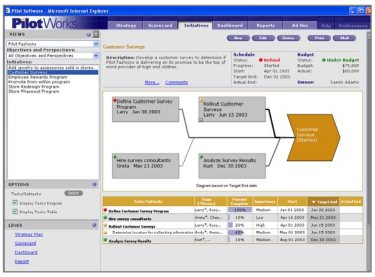
2. Manage

The next step for the alignment-focused organization is to empower employees with tools to help them manage their execution toward the company's objectives. By making it easier for employees to obtain the information they seek, learn from colleagues and implement well-defined processes, organizations can benefit from employees' increased effectiveness in contributing to organizational objectives.



Sample Initiatives

Every organization has core processes fundamental to its operations that provide guidelines for critical initiatives that the company undertakes to achieve its objectives. For example, a product launch process outlining the steps a company usually takes when releasing new products – including supporting documentation, stakeholders involved and key deliverables – helps the marketing department be more effective in the product launch process. Processes serve as basic templates for initiatives, a.k.a. operational programs, which contain the specifics of how an organization plans to achieve its objectives. An initiative should include the high-level tasks critical to its success, interdependencies between these tasks, budget, owners, and an indication of progress.

An alignment-focused organization goes beyond simple project management and articulates a clear link between operational processes and the objectives impacted by a given initiative. In doing so, they empower employees with the tools they need to work independently and make decisions that further organizational objectives. What's more, the interrelationship between processes and initiatives helps organizations identify the true source of issues. Failures in individual initiatives suggest one-time events that can be overcome; repeated breakdowns in initiatives based on a common process suggest a more endemic problem.

Processes and initiatives can also serve as a forum for sharing best practices among different groups. By leveraging experiences from one group to affect how other groups tackle similar problems, execution influences strategy and organizations are more likely to reach their objectives.

An alignment-centric organization goes beyond traditional metrics focused on end results – so-called lagging indicators – to include forward looking measures that are the drivers of future performance.

3. Monitor

Once the alignment-focused organization has articulated its strategy and begun execution, it must monitor progress on a regular basis. To do this effectively requires the organization to systematically track implementation progress and alert stakeholders not only to issues, problems and failures, but bright spots and successes as well. Stakeholders can then react quickly to problems, identify where things are broken and correct issues in a timely manner. Conversely, monitoring helps stakeholders identify what is working particularly well in one area and propagate these methods to other groups, contributing to more effective advancement of its goals across the organization.

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In an alignment-centric organization, scorecards provide casual users who often have limited time, an effective means for gauging performance by integrating operational and financial information with resource allocation data to provide a true account of overall progress toward the fulfilling the strategy.

Sample Scorecard

In order to monitor progress, organizations must translate strategy into quantifiable terms. While every organization already has a plethora of metrics, key performance indicators (KPIs) are performance measures explicitly linked to a strategic objective. Even soft, or intangible, objectives can be monitored with KPIs. For example, a seemingly intangible objective such as "improving employee satisfaction" can be quantified based on changes in involuntary employee turnover, using the results of quarterly employee surveys, or even by the percentage of employees that bother to take these surveys.

An alignment-centric organization goes beyond traditional metrics focused on end results – so-called lagging indicators – to include forward looking measures that are the drivers of future performance. These leading indicators are typically operational in nature, and are the levers managers use to determine whether they are likely to reach their desired goals. Just relying on lagging indicators such as revenue, costs and market share, is like driving looking in the rear view mirror. Leading indicators such as employee morale, brand recognition, and sales force readiness provide a pro-active steering wheel for the future.

While the terms are often used interchangeably, scorecards typically provide a high-level overview of ongoing progress towards objectives, while dashboards provide a more quantitative view of specific metrics. In an alignment-centric organization, scorecards provide casual users who often have limited time, an effective means for gauging performance by integrating operational and financial information with resource allocation data to provide a true account of overall progress toward the fulfilling the strategy. Dashboards, on the other hand, are typically used to display arbitrary metrics across multiple dimensions of performance and become truly valuable when they are interactive and allow for drilldown into areas of interest.

4. Measure

Using dashboards and scorecards, stakeholders can identify problems – an important first step in solving them. Once identified, the ability to drill down into issues, measure performance in more detail, and conduct root cause analysis is essential to providing a better understanding of how problems might be resolved. An alignment-centric organization recognizes that casual and power users have different analysis needs. For casual users, a simple interface to review published reports enables them to review the problem at hand or identify issues that might cause concern later on. Power users want the flexibility to slice and dice performance information to get to the heart of issues. They need to be able to drill down on metrics from high to lower levels of detail.

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An alignment-centric organization does not just simply analyze the past; its power users need forecasting and what-if type analysis to project future performance and to manipulate related key performance indicators to determine potential outcomes. These analyses allow for testing of assumptions made in devising the strategy and identify measures or targets that might be contributing to dysfunctional decision-making. Using these tools, organizations can identify issues and causes of concern and adapt appropriately to changing business conditions.

Motivate, Manage, Monitor and Measure: Tying the Pieces Together

The biggest impediment to an organization's success is not a well-defined strategy or well-honed execution; it's the fact that these two are usually not in synch. Organizations must bridge the gap between strategy and execution by striving for operational alignment. An alignment-centric organization resists the temptation to just measure all of its activities and, instead, focuses on motivating all stakeholders toward common strategic objectives, managing key operational programs that support these objectives, and pro-actively monitoring progress. By providing a shared frame of reference for all employees, the alignment-centric organization empowers them to effectively contribute to organizational objectives, encourages functional and individual accountability, and increases transparency across different business units. Only by ensuring alignment of day-to-day operations with its overall strategy and long-term vision can an organization hope to effectively execute on it strategy and avoid being a cautionary case study in the next round of business books.

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How one company bridged the gap between strategy and execution

CASE STUDY
Pilot Fashions

Full story ▶

Motivate

Pilot Fashions' vision is to be one of the top three specialty chains for women's clothing and accessories in the United States. Describing such a lofty goal that is potentially so far off in the future — truly earning the BHAG (big hairy audacious goal) label often applied to vision statements — Pilot Fashions' vision provides little motivation to individual contributors busy trying to accomplish their day-to-day activities. Employees need more than a long-term destination; they need significant milestones along the way to let them know whether they are making progress in the right direction.

To make the vision more accessible, Pilot Fashions decided to break it into smaller steps that depict the path from the organization's current position to the ultimate destination outlined in its vision. Pilot Fashions uses the term 'pathways' to describe these steps, which are as follows:
1) *Launch* a flagship New York City store that epitomizes style and quality
2) *Scale* operations throughout the Northeast, leveraging early experiences
3) *Expand* across the US by focusing on achieving operational efficiencies

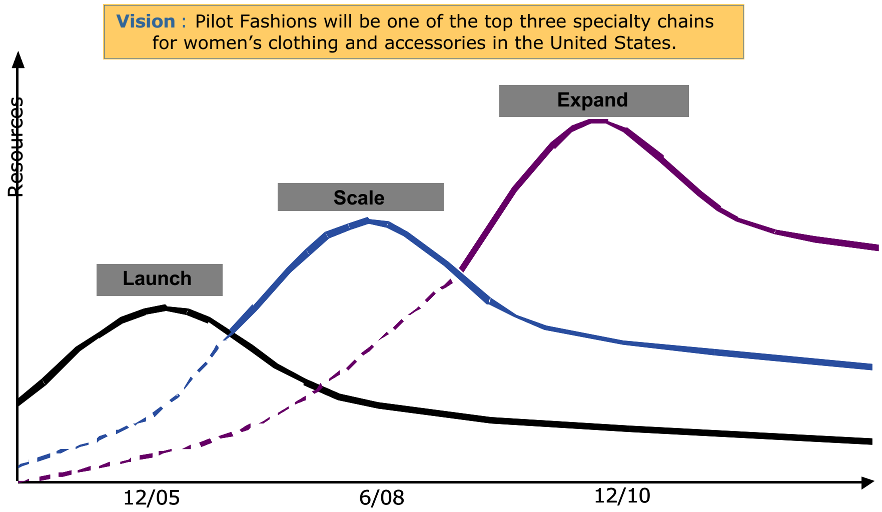

Figure 1: Pathway diagram showing progress to the vision

As shown in Figure 1, the concept of pathways goes beyond simply naming a milestone (the first is Launch) and showing when the organization expects to hit the peak of that pathway (December 2005 for pathway one). The pathways are not strictly sequential and do not have a discrete beginning or end; each pathway is always active with the vertical axis providing the relative prioritization between them. For example, in December 2005, the organization is expecting to expend roughly three times the resources on pathway one (Launch) as it does on pathway two (Scale). Pathway two in turn warrants twice as much attention as pathway three.

* Pilot Fashions is a fictitious retailer based on Pilot's aggregate client experiences

Pathways provide a context that guides the organization's operational decisions. Since the first pathway is focused on establishing the brand in New York, the company will limit initial advertising and PR efforts to local media only, while taking into account that it does not plan to expand nationally until pathway three. This might well lead Pilot Fashions to the conclusion that they should work with a regional PR firm that provides a good compromise between the higher prices commanded by national firms whose reach is not yet needed with the high level of attention from local boutique firms that may not scale throughout the Northeast.

Well-defined pathways help companies appropriately focus their resources, rather than falling into the trap of trying to tackle everything at once. For example, although operational efficiency seems like a desirable goal and is a common basis for a strategy*, Pilot Fashions' pathways reinforce that customer intimacy is a preferable approach and that the organization should initially focus on building relationships and achieving momentum within its market. Only once it has successfully established itself — and determined what works and what doesn't — should Pilot Fashions turn its attention to achieving operational efficiencies. From the diagram we see that this shift in focus is slated to happen in early 2008, as pathway three surpasses pathway one in priority.

While pathways provide good insight into the major milestones towards the vision and provide relative emphasis between them, they lack sufficient details on the specific objectives of the organization and do not differentiate between different points of view. Pilot Fashions wanted a simple strategic plan that outlined the organization's primary high-level objectives over the next 24 months. Since that timeframe would be dominated by pathways one and two, they decided to omit pathway three objectives for now and include them in an updated strategy plan at some point in the future. They also felt that their strategy plan had to speak to different audiences, both internal and external.

Given their customer-centric strategy, Pilot Fashions started with two strategic objectives from the customer perspective: "Be a destination store for high-quality, stylish accessories" and "Be a trusted advisor for fashion." Since these are external objectives, Pilot Fashions' customers must believe the company has achieved these in order for the organization to accomplish its mission. To reach these customer objectives, however, the organization must also consider objectives from the internal perspectives of employees and processes. For example, to ensure that customers view Pilot Fashions as a trusted advisor, they must first succeed at "Create a culture that encourages and rewards customer intimacy" and "Ensure 100% in-stock merchandise while minimizing overstock."

While all four of the above objectives could apply to either pathway one or two, some strategic objectives apply only to a specific pathway. For example, "Cross-pollinate best practices from individual stores throughout the chain" only applies when there is more than one store, which does not occur until pathway two.

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* From "Discipline of Market Leaders", the three styles of strategy are product-centric, customer intimacy, and operational excellence.

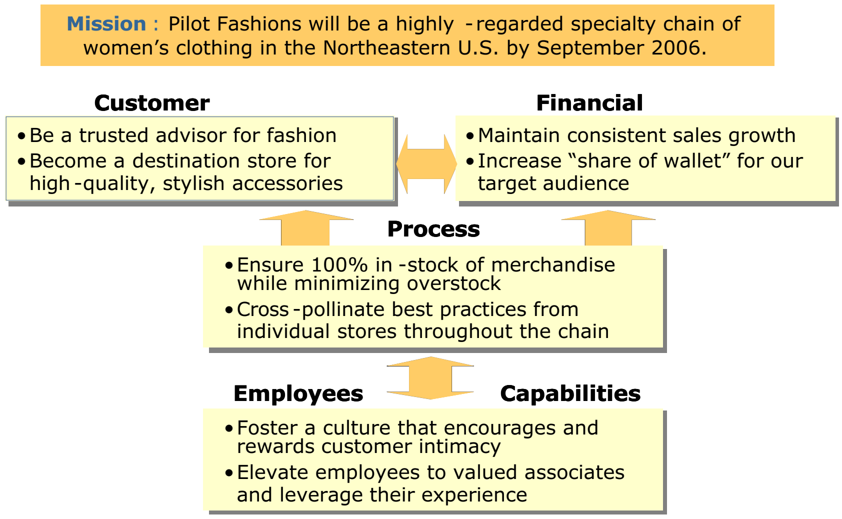

Figure 2: Strategy plan showing strategic objectives to accomplish mission

Pilot Fashions developed the strategy plan shown in Figure 2 to provide more detailed, concrete motivation to its employees. This strategy plan goes beyond simply listing a mission statement and several strategic objectives; it clearly depicts that employees are an essential component of the strategy. Unless all employees immerse themselves in the customers' needs and share their experience with other employees, Pilot Fashions is unlikely to become a highly regarded women's clothing chain. Moreover, at Pilot Fashions the strategy plan is not just wallpaper. Each strategic objective is linked to both a detailed description of why that objective is crucial to the organization and a collaborative portal that allows employees to have unfettered discussions about each objective.

Manage

Early on, Pilot Fashions recognized that merely motivating employees with an understanding of the strategy and why certain objectives are strategic would not be enough to ensure success. It needed to answer the question of *how*. For example, there are many ways to accomplish the objective "Increase share of wallet for our target audience," including raising prices of individual items, inducing customers to buy more expensive items, stocking stores with a broader range of items, encouraging customers to buy more on each visit, or enticing customers to visit more frequently. Without specifying which of these approaches it will take, the organization could find itself diluting its efforts or even working at cross purposes.

To prevent this potential confusion, Pilot Fashions set up several initiatives for each strategic objective. Each initiative itself includes the high-level tasks critical to its success, interdependencies between those tasks, a budget, owner, and indication of progress. Employees prioritize their time by focusing on tasks that are high priority and behind schedule (shown with a red indicator and a thick line in Figure 3). Pilot Fashions management can quickly tell whether the company is likely to reach any particular objective by checking the overall status of related initiatives.

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As pathway two increased in importance, Pilot Fashions recognized that many of its initiatives contained similar structures but varied unnecessarily depending on who in the organization created them. In addition, new initiatives had no way of benefiting from knowledge gained through the success or failure of similar previous initiatives. To remedy this situation, Pilot Fashions interviewed its operational managers to uncover their best practices and formalized these into a collection of standard processes such as new employee training, store location selection, advertising campaign management, and a new product launch.

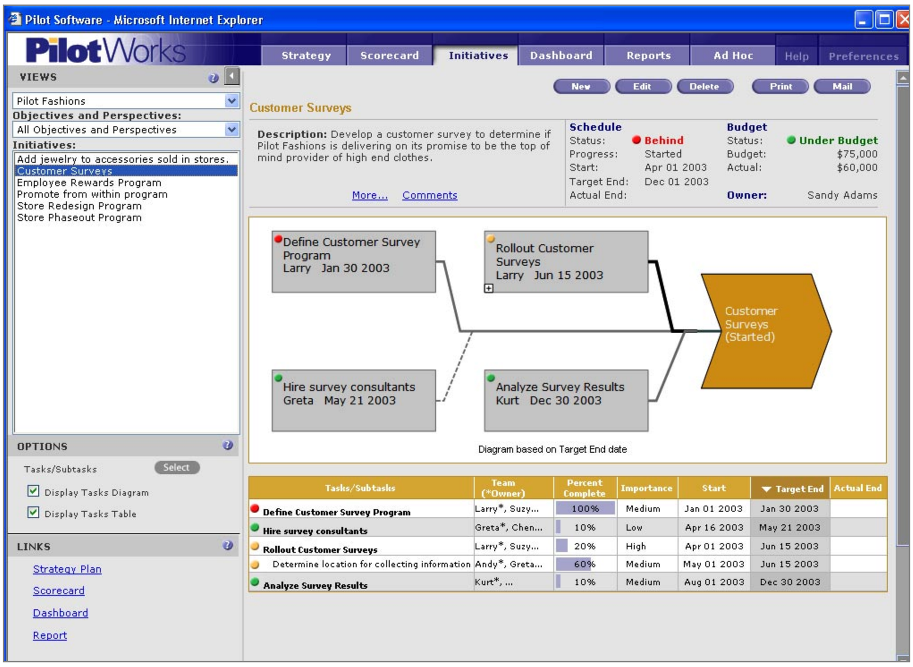

Figure 3: Initiative showing schedule and budget status, and the interrelationships among tasks

For example, a Pilot Fashions marketing manager launching a new clothing line could use the instituted product launch process as a foundation for building the launch initiative, tailoring it to the parameters of the launch at hand. If the organization found that sales for the new line were disappointing, simple analysis of the various tasks for each of the initiatives could shed light on the root cause of success or failure. The low sales may be explained, for example, by insufficient research prior to selection of the new line; ill-timed promotions; or lack of sales force training on how to sell the new line. Understanding these issues helps the company create scaleable, replicable processes that provide a strong foundation for ongoing future execution — which will be particularly important as the company moves to a process-focused strategy in pathway three.

Monitor

With an environment that describes the strategy, why specific objectives are strategic, and how the organization intends to reach those goals, Pilot Fashions decided to provide its employees with a high-level status of progress toward objectives. It understood that many of its objectives, such as “Foster a culture that encourages and rewards customer intimacy,” would be difficult to quantify as there weren’t obvious

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ways to measure these objectives with the data in their financial or operational systems. Yet, these seemingly "soft" objectives were the most critical to monitor early on, as the company's success in meeting these would be instrumental to their success in achieving many other objectives.

For example, a key differentiator for Pilot Fashions is the personal relationship its employees have built with customers. Realizing the value of this asset in achieving its mission, Pilot Fashions spends significant time training employees to provide outstanding, personalized customer service. This fosters customer loyalty and regular, repeat customer visits. Due to the training investment in each employee and the value it derives from ongoing, established employee relationships with customers, minimizing employee turnover is critical to Pilot Fashions. Therefore, employee morale and employee satisfaction are critical leading indicators that the company must track regularly. If employee morale and satisfaction decline, it can lead to turnover, which in turn weakens relationships with customers — all of which ultimately negatively impacts company revenues. By tracking employee morale and satisfaction through regular surveys, Pilot Fashions can head off potential issues before they can cause significant damage and negatively affect revenues. In this case, employee satisfaction and morale are leading indicators of company revenue, itself a lagging indicator of success.

Figure 4: A corporate scorecard providing status for strategic objectives

Armed with this knowledge, Pilot Fashions decided to deploy scorecards that displayed the status of their strategic objectives (see Figure 4), rather than information about specific measures or key performance indicators. These status indicators could be the blend of many elements, including leading and lagging metrics, subjective measures of progress, and budget or schedule progress from related initiatives. Remembering its successful experience when originally deploying its strategy plan, Pilot Fashions included a link from each objective to the collaborative portal, allowing individual employees to ask questions of each other or suggest ways of helping transform red objectives to green.

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Rather than relying on a single corporate scorecard, Pilot Fashions allowed different departments, such as sales, merchandising, and customer service, to create their own versions that, while reflecting only their own world view, were explicitly linked back to strategy. These cascading scorecards typically contained a subset of the corporate strategic objectives plus a few new supporting objectives that applied only to that department. Even though some objectives were shared among multiple scorecards, the status indicator might vary. For example, the objective “Cross-pollinate best practices” requires different behaviors for each department. Early on at Pilot Fashions, the merchandisers at headquarters collaborated on determining the best assortments for each store, using information gathered from test products to guide the assortment mix for subsequent items. However, the store managers did not initially share information with each other about successful layouts or end cap allocation for promotional items. This meant that the objective was green on the merchandising scorecard (effective collaboration), red on the store manager scorecard (no sharing), and yellow at the corporate level (blend of merchandising, store manager, and other scorecards).

While green/yellow/red status indicators for objectives provided enough information for most employees, Pilot Fashions found that some operational managers wanted to drill down into key areas of performance related to strategic objectives. These managers wanted quantitative information about trends and deviation from the norm. Others wanted to be able to benchmark their own performance, either internally (e.g., one store vs. a region) or externally (e.g., entire chain vs. similar chains). Over time, operational managers created a variety of role-specific dashboards that allowed them to monitor the KPIs most important to them. For example, the director of inventory management created a dashboard displaying a list of the top 10 out-of-stock items for both the last week and month, a bar graph of inventory turns by week over the last year, a pie chart showing the relative contribution of each store, and an exceptions list of items whose actual stocking position varied the most from forecasted.

Measure

Of course, like most companies, Pilot Fashions had a small number of power users who were interested in more sophisticated analysis to help determine the root cause of trends or exceptions. However, unlike traditional ad hoc analysis that is a little like looking for a needle in a haystack, they discovered that starting with strategic objectives guided them toward the right analysis to perform and dramatically reduced the amount of data they had to consider. For example, if Pilot Fashions finds that sales are lower at specific stores, it might first check whether customer satisfaction, a leading indicator of sales, is also low in those same stores. If satisfaction is also low, Pilot Fashions might then check leading indicators — employee training, product availability, promotional activity, etc. — to identify the culprits of low customer satisfaction. Once Pilot Fashions understands the root cause of the problem, it can take active steps to turn around customer satisfaction.

More Information

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