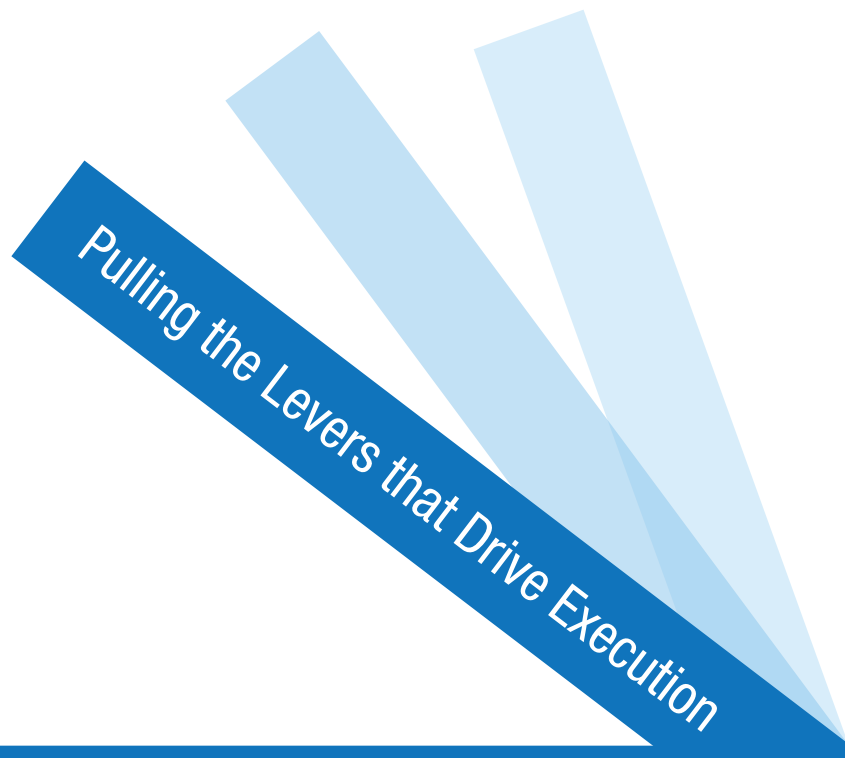


# Return on ~~Strategy~~ *execution*



Erik Berggren & Lars Dalgaard

# RETURN ON EXECUTION

This manifesto is an abstract from our forthcoming book, Return on Execution, which is focused on exploring how return on execution (RoX) is the ultimate business difference maker. Why write a book on **Return on Execution?** The answer is straight-forward. In today's economic environment, the ability to execute is what separates the winners from the losers. Organizations that will prosper need to turn strategies into returns. Although the egos in the executive suite may not like the fact that bottom line results are far more dependent on execution (85% vs. 15%)<sup>1</sup> than on strategic plans, it is reality. The measurable gap between strategy and execution when reduced by even a small percentage goes right to the bottom line turning shareholders into satisfied investors and executives into winners.

In Jack Welch's book Winning, he states "*In real life, strategy is actually very straightforward. You pick a general direction and implement like hell*"<sup>2</sup>. While Welch's quote oversimplifies business reality, it is only through improved execution that you will drive real change in results. We have carefully studied what really drives execution and introduce our concept of measuring your Return on Execution (RoX), as defined in its simplest form, it is much like any ROI calculation you're familiar with.

$$\frac{\text{Net gain from improved execution}}{\text{Net execution investment}} = \text{Return on Execution (RoX)}$$

We provide the roadmap to execute better than your competition. Our approach appears to be making a tangible impact in increased productivity, perhaps by as much as 3%, which we project could potentially contribute the equivalent of 1% of revenues to a company's bottom line. In this book we're sharing our point of view, validated by research from hundreds of companies, where we study how and why they outperform their competition

<sup>1</sup> Huselid, Becker & Beatty, The Workforce Scorecard, Harvard Business School Press, 2005

<sup>2</sup> Jack Welch – Winning – 2005 page 165 Harper Collins ISBN 0-06-075-394-3

## **Execution is the name of the game**

If we told you that defining your strategy only accounts for 15% of your financial performance as it relates to your competition, the next question would be “What is the real difference maker?”. The answer is execution. It’s been validated over and over again - those who execute better win.

In today’s world, it’s very hard to have any sustained competitive advantage from superior strategies alone. It’s easy to copy a competitor’s strategy, but much more challenging to keep pace with a competitor’s high performing execution. Improved business performance is not just about leadership and management discipline; it is heavily dependent on execution.

### ***In good times, in bad times...***

Successful teams execute better than the competition no matter what the macro-economic conditions. When we started the research that supports this book, the economy was booming. While we were writing the text, we began to pass through what is now viewed as the worst recession since the Great Depression. Obviously, you can’t dictate economic conditions, but you can manage the execution of business to optimize bottom line results, in good times or bad.

For those of you who follow sports, there is a common theme between business and team sports. Your business strategy’s desired outcome for a new fiscal year is probably not much different than that of a sports franchise – beat the competition. In business, today’s difficult economic conditions can put strategy through unexpected hoops. In sports, it may be injuries or other unexpected variables that create the unplanned challenges. Both entities are equally driven by individual and team performance, a fact that is more often underestimated in business than in sports. The more management understands the current performance levels of its talent and their ability to address day to day business conditions, the greater the opportunity for effective execution.

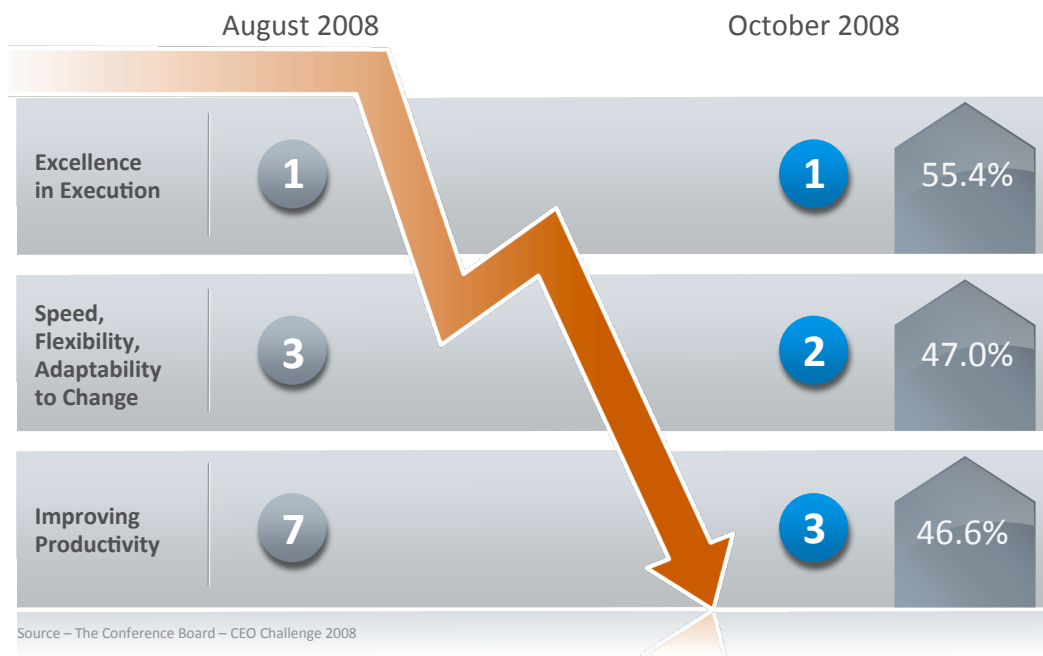
In sports, the strategy from one game to the next will change based on the recent performance of the individuals and how they match up with the competition. In business, using the example of strategic sales situations, the sales manager needs to make sure he has the right team, performing the right action in order to beat the competition. The manager who understands how to maximize return on execution depends on an awareness of the strengths of team’s talent in order to execute different “game plans.” The greater the manager’s insight into the performance capability of the individuals and the team, the more likely there will be consistent and quality outcomes. There is a frequently used sports cliché that states “*the manager can only put the players on the field, but the players have to execute*”. The reality is that management and talent are in the game together and each needs to be aligned, engaged and motivated to gain expected outcomes.

## So what is Execution

Today's global economic conditions are presenting unprecedented challenges to achieving excellence in execution. The Conference Board continues to see "Excellence in Execution" as the #1 priority in the board room with "Improving Productivity" rapidly moving to #3. How does business achieve excellence in execution, adapt to change and improve productivity? The chart below reflects the shift in CEO perceptions during the rapid decline of financial markets in a recent quarter. In this short period of time, one can easily see the deepening awareness of the need to improve productivity, likely with down-sized resource pools. To achieve the desired return on execution, the right levers need to be pulled.

### Top CEO Concerns

Execution is the Agenda after the Market Crash



How do we get the right people to do take the rights actions, at the right time with the planned results? General H. Norman Schwarzkopf stated *"The truth of the matter is that you always know the right thing to do. The hard part is doing it."*<sup>3</sup>

Do you know how much of your operating expense is comprised of your labor cost? It's estimated to be on an average of 70%.<sup>4</sup> Of course, the average varies within industries and business size, but few industries have any bigger expense item than their workforce. And, with contractors seldom being paid through the regular payroll mechanism, this percentage is even higher in some cases.

<sup>3</sup> <http://www.charleston.af.mil/news/story.asp?id=123163598> Charleston Airforce Base, D'Antoni, Lt. Col.

<sup>4</sup> Getting There, SF Research and Knowledge Infusion Whitepaper, 2006

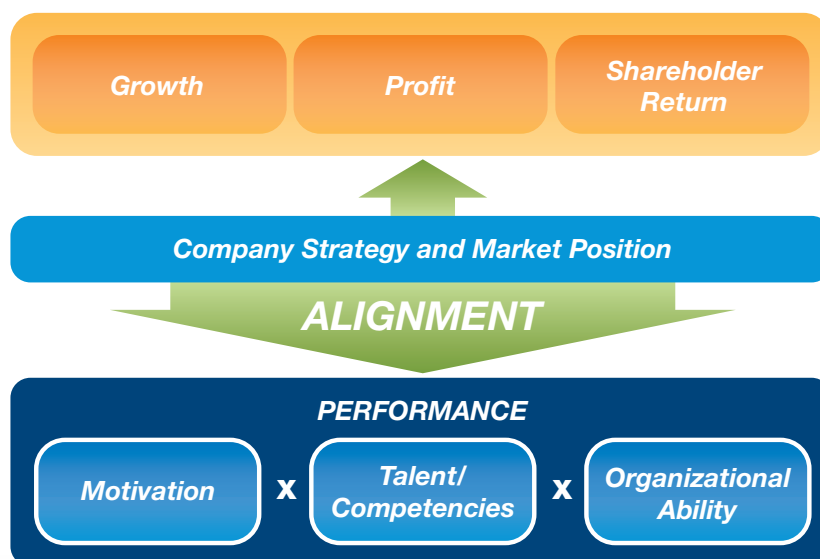
The blind spot and active ingredient in executing your strategy is your talent. With the estimated 70% of operating expense invested in a typical corporate workforce, the effective alignment of talent or the lack there of will make a huge difference. When talent can and will walk away from your business to go work for a competitor, or just go lay on the beach, there is much at risk.

We are not the first to state that human capital is a key to bottom line return. Companies have been paying lip service to the idea that “people are our greatest asset” for years. In today’s business environment, companies need more than lip service to succeed. People drive not only value creation within an organization, but also cost. More and more of a company’s value is based on intangibles generated by talent. From intellectual property to customer satisfaction, 80% of a company’s valuation is now intangible.<sup>5</sup> It is no longer possible to look at a balance sheet and tally up a company’s assets to estimate its value. Infrastructure, plant operations, cash and other capital assets no longer represent the comprehensive view of the health of a company. In the 21<sup>st</sup> century’s knowledge based service economy, the impact of human capital is ever more critical to success.

With the workforce comprising the lion’s share of your expense budget, therein also resides the active ingredient that executes your strategy: talent, the key to improving RoX. The sustained competitive difference maker is high performing talent executing in alignment with business strategy. Business results are simply a function of “*Strategy X Execution*”

## What are the levers that drive RoX?

The two primary levers for RoX are business alignment and people performance. It is about making sure that your strategy is understood, and the priority for action exists at all levels of the business. This understanding needs to map to an increasing willingness and capacity to produce results no matter where one resides within the organization.



<sup>5</sup> Comparing Price to Book ratio for S&P 500 companies over time. 1980 20% intangible value, 1990 45% intangible value. 2000 85% intangible value, 2005 80% intangible value, SF Research 2006.

So let's revisit the definition of Return on Execution (RoX) and break it down to the main levers you can pull. If we measure our return on the top line, we would get this equation.

$$\frac{\text{Revenue} \times (\text{Alignment Improvement} + \text{Workforce Performance Improvement})}{\text{Net execution investment}} = \text{Return on Execution (RoX)}$$

This equation summarizes the overall structure for our research and our book. We'll discuss what you can achieve, and perhaps more importantly, how to achieve it. We'll devote one section on each of the three main components of this simple yet powerful equation.

## LEVER #1 Business Alignment or Doing the Right Things

A company needs to make sure it has the **business aligned** around its strategy. It has been estimated that up to 95% of people don't know what their job is.<sup>6</sup> Simply put, when people keep working hard on whatever they think is important the chances are it is not the work and not the work needed to get the desired outcomes. An article titled "Turning Great Strategy into Great Performance"<sup>7</sup> indicates that 37% of a strategy's potential is lost due to poor alignment. RoX is about removing the barriers that separate promised strategic value from its goal.

Business alignment is more than town hall meetings, coffee talks, webinars or pep talks. It is about building an organization that is accountable, transparent, agile and capable of rapid change in desired business direction. The basic pillars of alignment are designed to support the critical need to have the right talent working on the stuff that matters most. In simple terms they are effective and rapid communication of strategy, so there is clear line of sight up and down the organization; executional transparency, so the entire organization has the means to know who is executing what; and the enablement of collaboration, so talent awareness is optimally directed to drive execution.

Managers should be focused on directing their team and aligning them around the overall goals that need to be achieved. Alignment around strategy should replace the traditional alignment around hierarchy. Fail to explain "the why," and you're doomed to manage activity with a non-engaged talent pool with limited interest in doing something for no clear purpose.

<sup>6</sup> The Balanced Scorecard: Measures that Drive Performance, Kaplan and Norton, HBR 1992

<sup>7</sup> Turning Great Strategy into Great Performance, Mankins and Steele, HBR 2005

Even environments that on first impression might be considered to be driven by top down directives, like the U.S. Marines, always participate in clear briefings on the overall objectives and purpose of any mission. When a leader shares detailed decision processes with the people on the front line, they engage. Manage activity, and you're stuck with uncaring robots that do nothing but dissatisfy your customers and waste opportunities to get ahead of the competition.

In a recent interview with Jeffrey Pfeffer (Pfeffer, 2007) he states *"Doing the right thing is important, which is where strategy comes in. But doing that thing well—execution—is what sets companies apart. After all, every football play is designed to go for a huge gain. The reason it doesn't is because of execution—people drop balls, miss blocks, go to the wrong place... success depends on execution—on the ability to get things done."* Business execution is about getting the team to a level of success that defeats the competition.

What we mean by alignment around strategy and not hierarchy is that the distribution of direction, guidance and collaboration is all focused on getting the right things done. If you're dependent on strict hierarchical communication how do you really get simple functional departments to innovate and solve customer needs across silos?

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Sure there are structural means that are needed to make sure you achieve effective functional alignment across your organization, but it is a manager's daily responsibility to energize, motivate and excite their teams and, more importantly, each individual. In the end, your company's performance level and its ability to execute is dependent on individuals making the right daily decisions. When people care and are incited to create value for your customers and shareholders execution happens.

If people feel that whatever they do makes little or no difference, its game over - mediocre execution, at best. To get your workforce to care and act, they need to be incited to perform consistent with desired outcomes. Failing to align individuals so they have a clear line of sight of their role and its connection to the overall strategy is a killer mistake. If you don't see how your job makes any difference or don't feel that the business cares, why should you?

Two people with the same job back in the Middle Ages in France, were asked *"What are you doing?"* The first grumpy guy stated *"I am just carrying rocks"* while his colleague said proudly *"I am building a castle."* The later worker may have fully understood that even in his lifetime the job would not be finished, but he felt engaged and motivated.

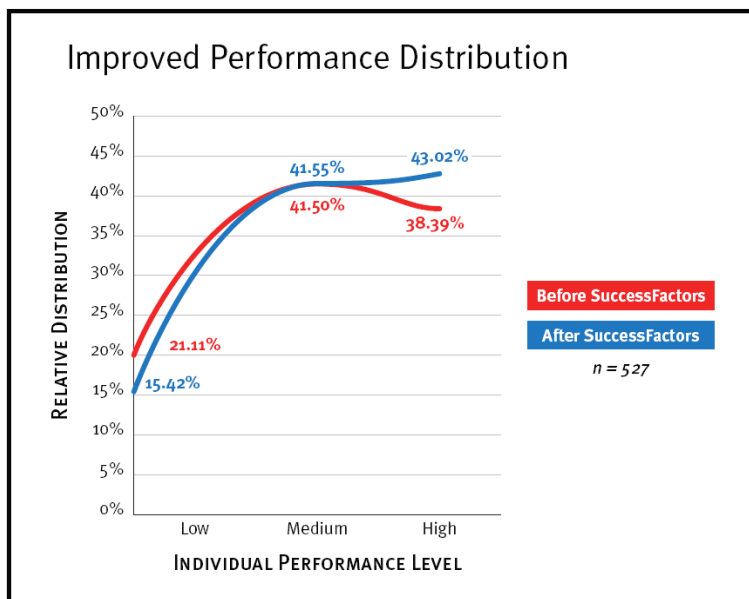
The bottom line is, if you care about what you do and get recognized for your contribution real execution happens. What do you think the grumpy guy would do if he discovered that the rocks were out of shape or the wrong size? A disengaged person will probably do nothing, passing the buck to someone else at a higher cost, at a later stage in the castle building process. While the engaged, excited person would likely act and try to find the source of error and deal with it.

The practical implementation of team collaboration is reflected in Japanese management's concept of Kaizen deployed at Toyota. Kaizen was designed to stop production processes should any problem occur. The process was developed to empower the individual and the team to deal with issues before their costs escalated further down the line. This culture incited each individual to feel that quality was their responsibility, no matter their role in the execution of production, no matter the source.

A truly aligned organization is set up to execute. They know where they are running and why.

## LEVER #2 People Performance – Making the Most of What You’ve Got

We’ve seen that the customers who use our business execution software are outperforming their competitors both in terms of revenue growth and bottom line results. Why? To get even deeper insight into this, we contracted a highly-respected Global Top 3 management consulting firm to conduct specific research on how companies are using our technology to manage their business and drive results. The consulting firm interviewed and analyzed data from over 500 businesses. What

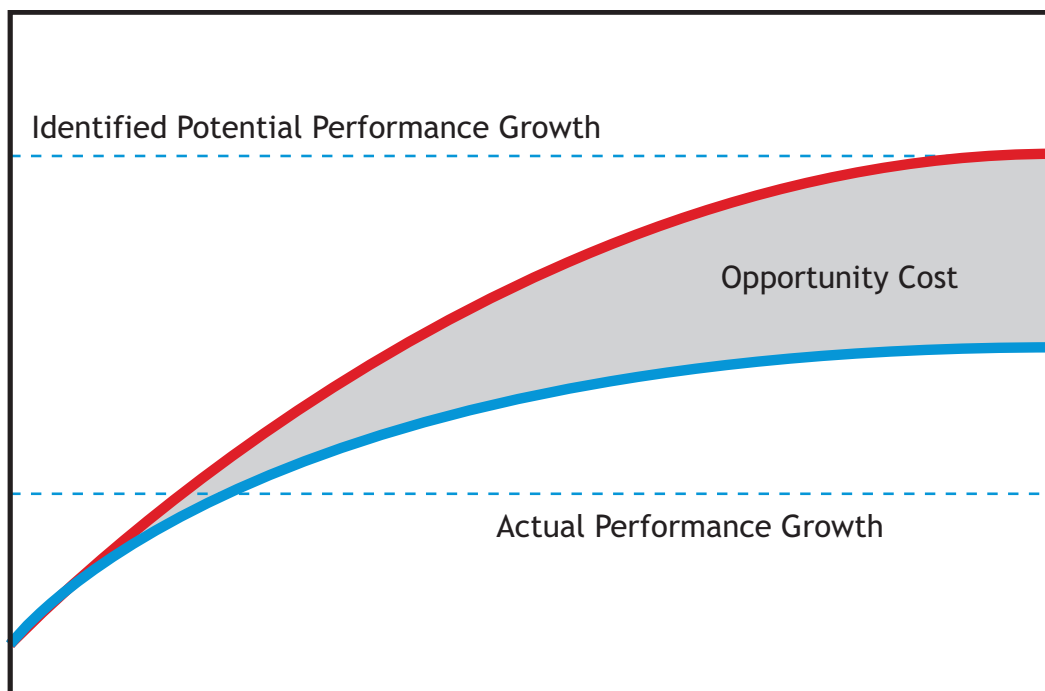


they discovered is that by implementing business execution software, the companies were significantly better able to execute their strategies, improve productivity and drive RoX. The data shows that these customers are doing it right, and outperforming their competition through a commitment to execution that aligns business and drive people performance.

PERFORMANCE AND TALENT MANAGEMENT SOFTWARE GREATLY IMPROVED COMPANIES' PERFORMANCE DISTRIBUTION BY REDUCING THE PERCENTAGE OF LOW PERFORMERS, AND INCREASING THE PERCENTAGE OF HIGH PERFORMERS.

The research<sup>8</sup> shows a shift in the curve of relative performance distribution. The typical business that leverages business execution technology reduced its percentage of low performers and increased the percentage of high performers. In essence, they are moving mountains by developing their low and mid performers to reach their potential, or managing them out of the business and replacing them with individuals that contribute more. Assuming high performers at a 2x productivity factor, medium at 1x and low performers at .5x, a company of 10,000 employees that has deployed business execution software would yield a productivity improvement factor of 5.4%. Even a fraction of productivity gain has significant potential for bottom line results. These companies are better able to steer the business in the desired strategic direction by making informed decisions at all levels of the business. They have visibility into the level of employee engagement, data supporting spend relative to performance, and they have enhanced ability to act ahead of the competition. Legacy practices such as compensation decisions without insight into an individual's performance assessment can be avoided. The right talent can be retained and aligned to outperform the competition.

The ideal aligned, engaged and motivated individual will have little to no gap between their actual and potential performance curves. In some cases, an exceptional employee may even exceed expectations, working above their assessed potential curve. Unfortunately, this is rarely the case. Usually the performance curve is well below the potential curve (see the figure below). Multiply the gap between the two curves and across the entire organization's human capital pool and you begin to gain insight into how performance can drive a company's business execution positively or negatively.



There is clearly opportunity cost at risk when performance does not match potential. Multiply the cost of one individual over several years, then multiply that cost across your workforce. The dollar amount “left on the table” can be staggering. Clearly, the elimination of the gap reflected in these two curves is paramount to ensuring that your people are creating maximum value for your organization. Within this gap lies a great opportunity for impact. If you could close even a small percentage of that separation there would be real productivity gained and resulting business execution. Improved performance when aligned with business direction has significant bottom line value.

***Improved performance when aligned with business direction has significant bottom line value.***

We realize that people are not static. An Individual’s preferences and motivation as well as the business strategy are constantly shifting. The company’s ability to measure, maintain visibility and manage this change better than the competition drives RoX. When business faces a major event, such as a corporate downsizing, a merger, an acquisition or reorganization, the fastest path to renewed business execution is a talent pool aligned with the new strategy. In tough economic times, when salaries, bonuses, commissions etc are negatively impacted, it is ever more critical that great people are fully engaged and recognized for the right contributions.

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## Investing in Ability to Execute

Imagine standing on stage at an annual shareholder's meeting and sharing *"we just realized that the biggest expense item on our P&L – our talent has not been effectively managed. Actually, we have little insight into what all these people do, but we are committed to doing it better."* A shareholder in attendance might remind the executive team of the common definition of insanity *"doing the same thing over and over again and expecting different results."* If in all other areas of the business there is visibility, quality controls and supporting infrastructure, how can it be that the business has not made the same commitment to optimizing its huge investment in its talent?

***the common definition of insanity "doing the same thing over and over again and expecting different results."***

We all understand that a manager's focus on maintaining the "old boy's clubs" or "politics as usual" is investing energy in the wrong places, but how can we change the culture? When managers have the structure and tools in hand to assess performance and turn potential into action, it is hard to hold on to the way it's been done before. By aligning individuals across the organization with the strategy and providing increased visibility, accountability and reward for the right performance, manager's can lead. The stronger performers will excel and the sub-performers will not have anywhere to hide.

The strategic advantage that consistent, trustworthy data provides a business around the quality, actions and level of talent engagement is big time! Not only does the data provide competitive value today, but it acts somewhat as a crystal ball into the future. Anticipating where you have performance gaps and a lack of alignment gives you an opportunity to address those issues before they are implicitly shown in weaker than necessary results; leading indicators as to where you might lose your best people if you don't manage it.

In a market place where skilled talent is in high demand, business needs to find more and more creative ways to retain and attract a shrinking talent pool. Companies that begin to understand the rich value of strategic data gained from investment in business execution tools will find it much easier to be creative with their high performing talent, putting the right people in the right place and executing.

***The stronger performers will excel and the sub-performers will not have anywhere to hide.***

Business execution software is designed to break down the silos between the multi-layers of an organization. The software provides the "one to one" and "one to many" connections needed to maintain transparency throughout the organization. If nothing else, "doing the same thing over and over again" will be a thing of the past.

## Do it!

Our Return on Execution book explains why and how RoX will make the difference within your business. We provide practical examples and research supported data describing how it is working for those companies who have already taken the plunge. The bottom line is that execution matters more than anything else in achieving your desired results and making a difference. When it comes to business execution, it's not a matter of what, but rather who executes your strategy. The critical driver for performance lies in your ability to put the right talent in the right positions, while aligning the workforce around your strategy.

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## **Alignment x Performance = Execution!**

### **Those companies that “get it” have the following characteristics:**

- They are committed to process and technology that provides visibility and alignment of strategy and talent.
- They invest in their ability to execute through effective management of their human capital.
- They understand that no matter what their starting point, they can always drive bottom line improvement. Even incremental improvements will have real financial impact as the result of increased productivity and competitiveness.
- They see legendary results.

In the forthcoming book, we'll discuss in detail groundbreaking research that will help you understand how to manage execution, no matter at what level, or at what starting point. By starting with developing a workforce that's agile and aligned around what matters, driving real performance from the workforce, execution become the business culture.

Yes, there are structural changes that will be needed to consistently drive value from the workforce. But leadership and managerial action directed and aligned by business execution solutions will be key to driving improved Return on Execution.