

WHY DO CEOS FAIL WHILE TRANSLATING STRATEGY INTO ACTION?

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***Abstract:** CEOs, corporate heads of strategy or shareholders are often connected with creating strategies that determine firms' future. Many of them are brilliant strategic thinkers. Sadly, most of them are terrible at understanding how to put that thinking into a strategy process that awakes the whole organization. The biggest challenge is not formulation but rather implementation. Therefore, why do CEOs only talk about strategies and create strategy frameworks instead of turning them into action?*

***Keywords:** Strategy, strategy execution, implementation, CEOs, strategy frameworks*

1. Introduction

Strategy execution has always been one of the more difficult problems in business. Creating a brilliant strategy is nothing compared to executing it successfully. It has always been much easier to create a strategy document than to get employees to abide by it. [2] The most important challenge for CEOs and strategists has always been implementation of strategies in a company – not its formulation. However, many of firm's leaders have often faced a lot of obstacles while translating strategies into action. The main purpose of this article is to define key factors influencing the right implementation of strategies into action to help firms' leaders to make necessary changes in the process of successful execution and to determine if strategic frameworks/models can be helpful in overcoming the potential factors of failure.

2. Extremes of strategy execution

Strategy execution has for too long lurched between two extremes. One camp, called “strategic engineering”, envisions strategy execution as an engineering exercise, and view employees as cogs in a machine well-oiled by computers. In this view, the role of the senior executive team is to clearly articulate the strategy and specific objectives, to “cascade” those objectives throughout the organization, and to create process flows, performance measures, and automated reporting vehicles to ensure alignment and compliance down the organization chart. Strategy engineers often talk of maps, scorecards, and flow charts, as if the only real problem for organizations is to clearly describe what needs to be done by employees. The notion that those employees might have a better idea is seldom considered.

The other extreme, called “strategic anarchy”, encourages executives to simply get out of the way of their employees' entrepreneurial and innovative energies. “Command and control” organizational structures are a relic of the past, according to this perspective. People know best how to do their own jobs, and it is those at the front line who interface with customers, after all.

Neither extreme, of course, is very useful for organizations attempting to perform well in difficult and changing business environments. The engineering approach neglects the fact that front-line employees do have to innovate and improvise much of the time, as any strategy,

process, or metric won't always correspond with what it takes to be successful in the real world. The strategic anarchists ignore the need for organizations to move in a consistent, planned direction. Obviously right answer to effective strategy execution lies somewhere in the middle. [2]

3. Factors of failure

Failure while putting strategy into action can be caused by many factors. Among the most interesting belong:

Ø *Isolation from the workforce*

First limitation factor in CEO's being able to create and follow through great strategy is their isolation from their own workforce. Information is idealized as it passes each management level resulting in good strategy being based on questionable data and ideals. Not so many CEO's spend time with staff at all levels and most importantly listen without passing judgement. However, can this "method" help to build a more dynamic business with less need for radical change?

Ø *Difficulties while connecting strategic choices*

A good strategy is the product of the creative combination of two disparate logics but CEOs and strategists are seldom conditioned to become skilled at the requisite creative combination. The two most fundamental strategic choices are deciding *where to play* and *how to win*. These two decisions – in what areas will the company compete, and on what basis will it do so – are the critical one-two punch to generate strategic advantage. However, they cannot be considered independently or sequentially. In a great strategy, your where-to-play and how-to-win choices fit together and reinforce one another.

For example, operating only in your home country market may seem to be a perfectly fine where-to-play choice and winning on the basis of technological superiority a perfectly fine how-to-win choice, but their combination almost always produces a bad strategy – because of global economies of scale in R&D, some competitor will globalize and blow out the geographically narrow national player. These choices do not fit or reinforce.

The trouble is, CEOs do not usually get to the top by integrating different logics in that way. More often they rise by pushing a single logic. They like to analyze a problem and come up with a single, sufficient answer, like how to globalize or get costs under control or introduce a new product, rather than trying to look for answers to two questions that fit together elegantly.

Meanwhile, corporate strategists and strategy consultants get ahead by demonstrating mastery of all sorts of conceptual tools for analyzing where-to-play (five forces, profit maps, etc.) or how-to-win (experience curve, value chain, VIRO, etc.). However, there as yet is no analytical tool for combining a given where-to-play choice with a congenial how-to-win choice or vice versa. That takes creative insight. But the majority of people who seek to become corporate strategists or strategy consultants do so because they are much more comfortable with analysis than what they perceive as guesswork. So they tend to become expert at strategic analysis, not strategy. That is why CEOs and strategists so seldom produce good strategies. Strategy is a creative act and the way to produce good strategy is go beyond basic analysis to creatively integrate your choices concerning where you play and how you propose to win. [6]

Furthermore, a good strategy goes beyond where-to-play and how-to-win choice. It includes “when”, too. A strategy for profits today/next year may not help a company succeed in the long term.

Ø *Listening to consultants instead of thinking*

Over the years strategy consultants try to adjust their advices and recommendations according to what they believe their client is willing and able to do. Even when they are creative enough to create a strategy that fits the firm completely, they still set up their recommendations to what they think the client’s abilities to understand are.

Ø *Planning and execution are independent*

Strategy formulation and implementation are separate, distinguishable parts of the strategic management process. Logically, implementation follows formulation; one cannot implement something until that something exists. But formulation and implementation are also interdependent, part of an overall process of planning-executing-adapting. This interdependence suggests that overlap between planners and “doers” improves the probability of execution success. Not involving those responsible for execution in the planning process threatens knowledge transfer, commitment to sought-after outcomes, and the entire implementation process.

Ø *Time*

The successful implementation of strategy takes more time than its formulation. This can challenge managers’ attention to execution details. The longer time frame can also detract from managers’ attention to strategic goals. Controls must be set to provide feedback and keep management abreast of external “shocks” and changes. The process of execution must be dynamic and adaptive, responding to unanticipated events. This imperative challenges managers responsible for execution.

Ø *Other execution-related problems*

They include responsibility and accountability for execution activities and decisions that are not clear; poor knowledge sharing among key functions or divisions; dysfunctional incentives; inadequate coordination; poor or vague strategy; and not having guidelines or a model to shape execution activities and decisions. [4]

Ø *Indirect factors*

- Politics: Elections provide an opportune time to consider the effects government decisions have on business strategies.
- Unexpected economy swings, economic growth rate.
- Recent technological development, research, modernization, investments.

4. Can strategy frameworks help in overcoming potential factors of failure?

Starting in the early 1980s, several frameworks and models have been developed which are largely conceptual and/or descriptive. Many of them are useful for formulating business strategies. However, are they helpful in overcoming possible factors of failure?

The five-forces framework (Porter, 1980) organizes and gives meaning to the numerous measures and characteristics of industries. The generic strategy framework (Porter, 1980) reveals the fundamental approaches to gaining competitive advantage. The value-chain framework (Porter, 1985) allows us to analyze the firm’s activities and sources of competitive

advantages. The generic building blocks framework (Hill & Jones, 2001) defines the basic dimensions along which a firm can outperform its competitors. The SWOT analysis framework is widely used to assess strategic situations. The VRIO framework (Barney, 2002) tells us under what conditions a firm’s resources can enable it to gain and sustain a competitive advantage. And there are many more.

Some of the frameworks mentioned above, along with numerous ones not mentioned, can be useful in strategy execution – in putting the strategy into action. In particular, the value chain and VRIO frameworks get us thinking about the activities and resources needed to execute the strategy. But on the whole, the frameworks are most useful in strategy formulation. As we move into execution, the standard frameworks leave us with a fragmented and incomplete understanding of how the firm’s strategy should be translated into action.

Barney (2002) defines a firm’s strategy as its theory of how to compete. The strategist’s task is to formulate a theory of how to compete then put it to the test through execution. Porter (1996) has characterized the firm’s strategy as the totality of its activities and not just a few critical or key ones. [8]

According to the Hrebiniak model of strategy execution (see Figure 1), effective execution is impossible if strategies are flawed. Figure 1 begins with corporate strategy, which is concerned with the entire organization and focuses on areas such as portfolio management, diversification, and resource allocations across the businesses or operating units that make up the total enterprise. At the business level, strategy focuses on products, services, and how to compete in a given industry or market segment. However, the picture of strategy execution is not yet complete because the creation of strategy, objectives, structure, accountabilities, and coordinating mechanism is not sufficient to ensure that individuals will embrace the goals of the organization. [4]

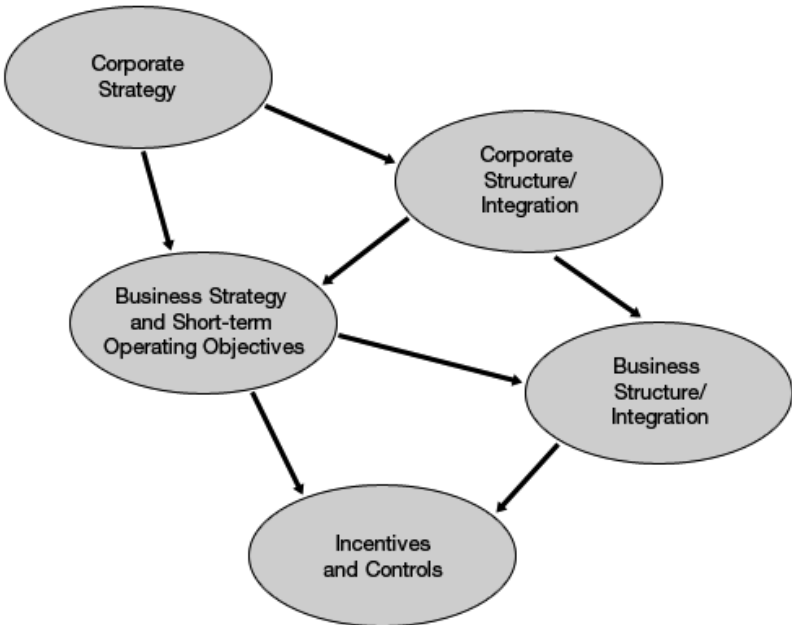


Fig. 1: Hrebiniak’s implementing strategy - key decision and actions [4]

In large part, the difficulty of framing strategy execution is inherent in the phenomena. The firm's theory of how to compete is a simplified abstraction from the complexity of any real business situation. In each real competitive situation, the firm's particular characteristics and history, the circumstances in the industry, and the details of each competitor, present unique challenges and opportunities. The strategy frameworks allow us to abstract from all of that detail and capture the essential elements of competition. But as we move toward execution, the detail becomes more important. The details of the firm's products and services, its activities and resources, its people, and nearly everything else about the firm, are the ingredients of execution. Clearly, getting the details right is enormously important to effective strategy execution. And frameworks for thinking about this problem, overcoming potential factors of failure, for helping to get the details right, are enormously beneficial. [8]

5. Conclusion

Successful implementation of a strategy requires an involvement of whole organization. CEOs are generally open to the idea of the strategy process and they are aware of the fact that the execution is critical to success. It is mostly the implementation that creates obstructions. There are several obstacles that can harm the successful implementation. However, using the right methods, frameworks or timing may reduce or minimize them.

It is obvious that the execution of strategy is not nearly as clear and understood as the formulation of strategy. CEOs have generally more information about strategy planning and making than making strategy work. Any process, including the strategy implementation using different strategy frameworks or models, needs to be structured clearly and must be managed well. Making the necessary changes in the implementation process is the final step to strategic success.

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