

Operational Alignment: Bridging the Gap Between Strategy and Execution

Many businesses fail to achieve strategic objectives because they do not successfully connect operations with goals. Effective communication among all stakeholders is critical in bypassing this fatal chasm.

WHEN I MEET PEOPLE, I LIKE TO ASK THEM WHICH BUSINESS books they have been reading because it gives me insight into what's happening across a broad spectrum of organizations. Based on what I've heard in the past year, 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 titles like "The Strategy-Focused Organization" and "Good to Great."

Many of today's popular business books have a common theme: Doing more with less is not a sustainable advantage in today's global economy. Organizations are altering their business model, designing new products, and cultivating new channels to prepare for the future. But correcting an out-of-date strategy isn't enough to stay competitive. We've all seen the results of formal strategy sessions: 50-page briefing books filled with missions and visions, key messages, and positioning statements. You probably have one in your drawer right now. After the inevitable all-hands meeting to announce a strategy change, most employees go back to doing what they've always done.

As businesses shift plans with the improving economy, they must eliminate the gap between strategy and execution. Employees must understand the organizational strategy and, more important, how it should affect what they do. And the company should have a mechanism for adjusting that strategy if an employee discovers something fundamental about pricing, competitors, or product features.

To bridge the gap between strategy and employees' day-to-day execution of that strategy, a company's executives must succeed in four areas. They must motivate employees toward the strategic objectives by communicating those goals in a way that is relevant to all. They must manage operational programs in a way that empowers individuals to take ownership of the strategic objectives. They must proactively monitor the company's progress toward incremental milestones and alert stakeholders to unexpected outcomes. And they must measure operational performance in a way that clearly identifies both problems and areas for growth. When an organization has achieved these four goals, it has achieved operational alignment, and it is in a strong position to adapt to the changing world of business.

by Jonathan D. Becher

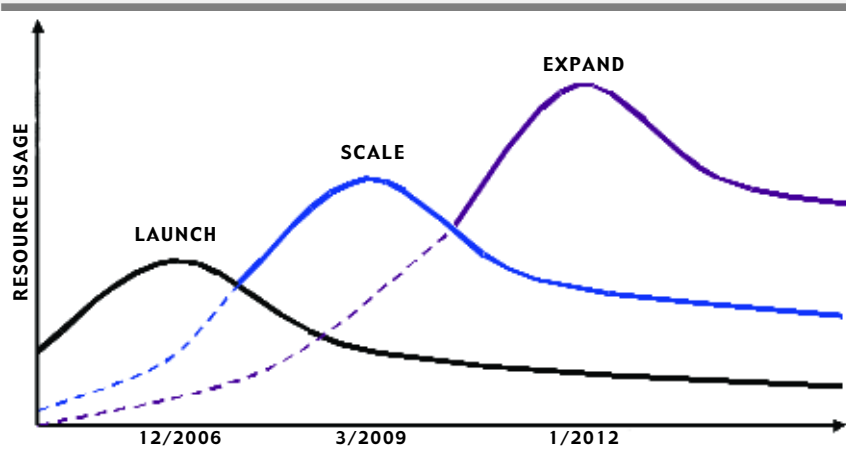


Jonathan D. Becher is CEO and president of Pilot Software. He has 15 years of operational expertise managing and growing technology companies.



Exhibit 1

Pathways Show How Priorities Shift Over Time



Motivation

Corporate leaders often shrug off strategy as “just words” and spend little time articulating their organization’s objectives. However, it is critical to ensure not only that the words accurately convey the company’s intentions, but also that they do so in a way that is meaningful to every stakeholder. Executives who need help communicating corporate goals should consider using two tools: pathways and strategy plans. These tools can help people at all levels piece together the puzzle of how an organization seeks to achieve its vision.

To demonstrate their motivational power, I’ll describe the alignment effort in a hypothetical company that is based on a composite of all of Pilot Software’s client experiences. Pilot Fashions is a small-town clothing retailer with high expectations. Its vision is to become

one of the United States’ top three specialty chains for women’s clothing and accessories. But hearing that management has set such a lofty goal, which will take many years to achieve, provides little motivation for individuals who are busy trying to accomplish day-to-day tasks.

Executives make the vision more accessible by separating movement toward it into three major steps: launching a flagship New York City store that epitomizes style and quality; scaling operations throughout the Northeast, leveraging early experiences; and expanding across the United States by focusing on achieving operational efficiencies. Then they plot the resource-allocation “pathway” that they envision for each step. Exhibit 1 shows the result, a high-level road map that illustrates how employees’ focus should change over time.

The concept of pathways extends beyond simply naming milestones (launch, scale, and expand) and attaching dates to those goals. Pathways do not have to be strictly sequential or have a discrete beginning and end. They show how the company will prioritize among its complementary goals — and so how it will distribute resources among the milestones it has identified. For example, exhibit 1 shows that Pilot Fashions expects in December 2006 to expend roughly three times the resources on pathway one (launch) as it does on pathway two (scale). And pathway three will not become the company’s primary focus until early 2010.

In addition to giving employees a more tangible way to visualize corporate goals, pathways can guide the organization’s operational decision-making. Since Pilot Fashions’ first pathway is focused on establishing the brand in New York, the company will limit 2006 advertising and PR efforts to local media outlets. Employees can clearly see that national expansion will not become their top priority for a few more years but that growth throughout the Northeast will be their focus by late 2007. Thus, they might choose a regional PR firm to promote their New York City store in 2006, seeking a compromise between the higher prices commanded by national firms and a local boutique firm which wouldn’t be able to carry them beyond the “launch” pathway’s goals. Well-defined pathways help companies focus their resources and avoid the trap of tackling too many objectives at once.

While pathways provide insight into a company’s priorities, they lack detail about how the organization expects to reach its objectives. A strategy plan can enhance a company’s pathways diagram by providing employees with more specific direction. Strategy plans show the relationships between various strategic objectives and demonstrate how the objectives will enable the organization to achieve its overall mission. After completing the pathways diagram, Pilot Fashions managers develop a simple strategy plan that describes how the organization will move toward its vision over the next 48 months. Since that time frame will be dominated by pathways one and two, management omits pathway three objectives, with an expectation that they will be included in an updated strategy plan in the future.

Executives determine that the organization should focus on customer intimacy in order to build relationships and achieve the market momentum necessary to attain the goals of the “launch” and “scale” pathways. This customer-centric orientation gives Pilot Fashions a starting

point for its strategy plan. It focuses on two strategic objectives from the customer perspective: to become a destination store for stylish accessories and to be a trusted adviser for fashion.

Because these are external objectives, Pilot Fashions' customers must believe the company has achieved them for the organization to accomplish its mission. However, to reach the customer objectives, the organization must also consider its goals from the internal perspectives of employees and processes. For example, to ensure that customers view Pilot Fashions as a trusted adviser, senior managers must create a culture that rewards employees for customer intimacy and ensure that stores always have key merchandise in stock.

Exhibit 2 shows Pilot Fashions' strategy plan. It goes beyond simply listing a mission statement and a few goals; it clearly depicts how employees support the strategy. Unless all workers immerse themselves in customers' needs and share their experience with others in the company, Pilot Fashions is unlikely to become a highly regarded women's clothing chain. To ensure it gets this message out, the company takes its strategy plan a step further; it creates a collaborative intranet portal that describes in detail why each objective is crucial to the organization and allows employees to have unfettered discussions about each objective.

Management

An organization that is appropriately focused on aligning employees with strategy should resist the temptation to attach indicators of success or failure to its pathways and strategy plans. Doing so would automatically divert attention away from the strategy itself, so that people would get stuck in the details of the results rather than absorbing the overall strategic direction. However, for the organization's objectives to be tangible to everyone, they need to be translated into relevant strategic and operational goals for functional departments and business units.

Early on, Pilot Fashions recognizes that helping employees understand the strategy and why certain objectives are strategic is not enough to ensure success. The company also needs to answer questions of how. For example, there are many ways it can accomplish the goal of increasing its market share. It can raise prices on individual products, inducing customers to buy items that are more expensive. It can stock stores with a broader range of items, encouraging customers to buy more on each visit. Or it can entice customers to visit its stores more frequently. If corporate management doesn't specify which approach it wants to take, employees' efforts could be diluted, or different groups could even work at cross-purposes.

To provide direction, Pilot Fashions' senior managers set up initiatives to support the objectives in the company's strategy plan. Each initiative is an operational program that contains the specifics of how the organization plans to achieve its objectives. An initiative's description, as created by senior management, includes the high-level tasks critical to the project's success, interdependencies between those tasks, a budget, an owner, and a timeline. At the same time, the company implements a software system, tied in to its strategy plan portal, that enables it to share information on these initiatives with employees. This empowers them to manage their own role in executing the company's objectives.

One initiative the company undertakes is a customer survey program that judges its progress toward the goal of becoming a destination for stylish accessories. Exhibit 3, on page 14, illustrates the software's interface for this initiative. Such a dynamic status-reporting tool helps employees prioritize their time by focusing them on tasks that are high-priority and behind schedule. In addition, the software enables Pilot Fashions managers to quickly see whether the company is likely to reach a particular objective by checking on the status of its related initiatives.

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Exhibit 2

Strategy Plan Clarifies Corporate Objectives

MISSION: PILOT FASHIONS WILL BE HIGHLY REGARDED SPECIALTY CHAIN OF WOMEN'S CLOTHING IN THE NORTHEASTERN UNITED STATES BY MARCH 2009.



An intangible goal such as improving employee satisfaction can be quantified using the results of employee surveys or even the percentage of employees who bother to take each survey.

Every organization has a set of core processes that are fundamental to its operations and provide guidance for the initiatives the company undertakes to achieve its objectives. A marketing department may, for instance, have a detailed product-launch process that outlines the steps it usually takes when releasing new products, such as creating documentation, getting stakeholders involved, and defining key deliverables. But when establishing the initiatives that support its strategy plan, an alignment-focused organization must go beyond simple project management of processes it has already established. It must articulate a clear link between operational processes and the objectives that each initiative impacts. Making this connection empowers employees to work independently yet still make decisions that further corporate objectives.

Monitoring and Measuring

Once an alignment-focused organization has articulated its strategy and defined the initiatives that will lead to that strategy's execution, it must consider how it will monitor progress on a regular basis. It needs to systematically track its performance and alert stakeholders not only to problems and failures, but also to bright spots and successes. Stakeholders can then react quickly to problems, identify where things are broken, and take corrective action in a timely manner. They can also rapidly recognize what is working particularly well and propagate successful practices to other groups, which contributes to more effective advancement of the organization's goals.

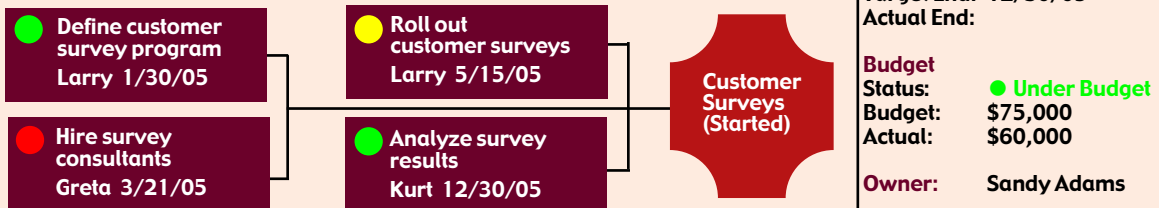
Before they can monitor progress, organizations must translate strategy into quantifiable terms. Key performance indicators (KPIs) are performance measures explicitly linked to strategic objectives. Even soft, or intangible, objectives can be monitored with KPIs. For example, a seemingly intangible goal such as improving employee satisfaction can be quantified based on changes in involuntary employee turnover, the results of quarterly employee surveys, or even the percentage of employees who bother to take each survey. An alignment-centric organization moves beyond traditional metrics that focus on end results to consider forward-looking measures that are the drivers of future performance. These so-called leading indicators are typically operational in nature; for example, they may include employee morale, brand recognition, and sales-force readiness. They are the gauges by which managers determine whether they are likely to reach their desired goals.

Exhibit 3

The Right Interface Makes Tracking Initiatives' Progress Easy

Initiative: Customer survey

DESCRIPTION: DEVELOP A CUSTOMER SURVEY TO DETERMINE WHETHER PILOT FASHIONS IS DELIVERING ON ITS PROMISE TO BE THE TOP-OF-MIND PROVIDER OF HIGH-END CLOTHES



Tasks/ Subtasks	Team (Owner*)	Proportion Complete	Importance	Start	Target End	Actual End
Define customer survey program	Larry*, Sandy...	100%	Medium	Jan 1 2005	Jan 30 2005	Jan 30 2005
Determine location for information	Andy*, Greta...	60%	Medium	Feb 1 2005	Mar 15 2005	
Hire survey consultants	Greta*, Chen...	0%	Low	Feb 1 2005	Mar 21 2005	
Roll out customer surveys	Larry*, Sandy...	10%	High	Feb 15 2005	May 15 2005	
Analyze survey results	Kurt*, Larry...	0%	High	Aug 1 2005	Dec 30 2005	

The biggest impediment to organizations' success is not that they lack a well-defined strategy or well-honed execution; it's the fact that these two are usually not in sync.

After they've chosen metrics, organizations need to find an efficient way to monitor them. Scorecards and dashboards are two popular methods. Although the terms are often used interchangeably, there are differences. Scorecards provide a high-level overview of progress toward goals, while dashboards offer a more quantitative look at specific metrics. In an alignment-centric organization, casual users gain a true account of corporate progress toward strategy by looking at scorecards that integrate operational and financial information with resource-allocation data. The interface is simple and easy to use. In contrast, dashboards typically display arbitrary metrics across multiple dimensions of performance. They are built for power users who need to slice and dice the data, drill down into areas of interest, and develop what-if scenarios for use in forecasting. Dashboards' analyses can benefit the organization as a whole because they allow for testing of the assumptions made in devising the strategy and identification of measures or targets that might contribute to dysfunctional decision-making.

When Pilot Fashions prepares to implement performance monitoring, it decides to give employees a high-level status report of progress toward corporate objectives. Doing so is challenging. Many of its objectives — such as “foster a culture that encourages and rewards customer intimacy” — are difficult to quantify because there aren't obvious ways to measure success using the data in the company's financial and operational systems. Yet these soft objectives are crucial. All of the goals in the company's strategy plan are closely interconnected, so reaching the soft objectives is key to achieving the other goals, including revenue growth.

For example, the personal relationship employees build with customers is a key differentiator for Pilot Fashions. The company expends substantial resources training employees to provide personalized customer service, which fosters customer loyalty. Due to the training investment in each employee and the value the organization derives from ongoing, established employee relationships with customers, minimizing employee turnover is critical. Therefore, employee morale and employee satisfaction are leading indicators that the company must track regularly. By monitoring employee attitudes through surveys, Pilot Fashions can head off problems before they cause significant damage and negatively affect financial performance.

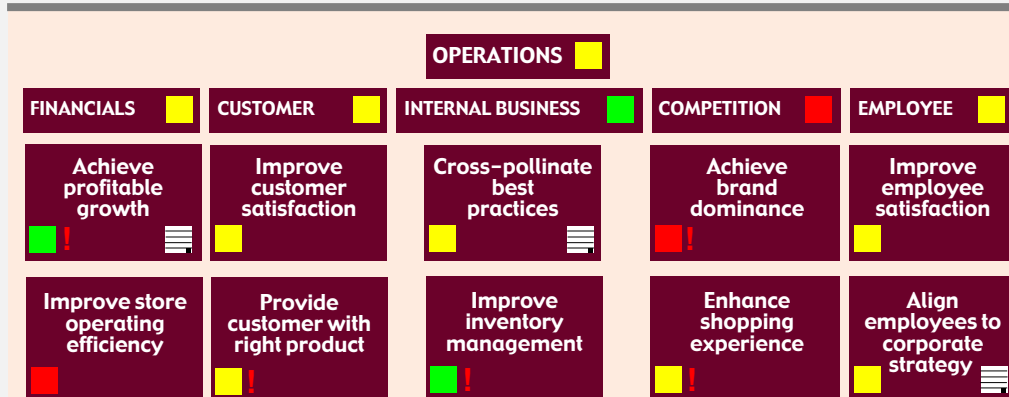
Armed with a deep understanding of its KPIs, Pilot Fashions deploys scorecarding software that indicates the company's progress toward strategic objectives (see exhibit 4). It selects status indicators that blend leading and lagging metrics, subjective measures of progress, and gauges of action on corporate initiatives. The company allows different departments (such as sales, merchandising, and customer service) to create their own scorecard. Each of these departmental scorecards reflects the worldview of the group that creates it, but all explicitly link back to corporate strategy. For the most part, they contain a subset of the company's strategic objectives, plus a few supporting objectives that apply only to their department.

Because each department's scorecard represents its own progress toward goals, the status indicators for the same objective may read differently on different groups' scorecards. For example, the objective “cross-pollinate best practices” requires different behaviors for each function. The merchandisers at Pilot Fashions headquarters routinely collaborate to determine the best assortment of products for each store, but the store managers don't ever share information about successful layouts or end cap allocation for promotional items. Therefore, the “cross-pollinate” objective shows up green on the merchandisers' scorecard (effective collaboration), red on the store managers' scorecard (no sharing), and yellow at the corporate level (blend of merchandising, store management, and other scorecards).

The scorecard software's green/yellow/red status indicators provide enough information about corporate objectives for most employees, but many operational managers want to be able to drill down into the details of specific areas of performance. Some want quantitative information about trends and deviation from the norm. Others want to be able to benchmark their performance, either internally (e.g., one store vs. a region) or externally (e.g., entire chain vs. similar chains). Over time, Pilot Fashions' operational managers create a variety of role-specific dashboards that enable them to monitor the KPIs that are most important to them. For example, the director of inventory management creates a dashboard displaying a list of the top 10 out-of-stock items for both the previous week and the previous month, a bar graph of inventory turns by week over the past 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 forecast.

Of course, like most companies, Pilot Fashions has a small number of power users who are interested in more sophisticated analysis to help determine the root cause of trends or exceptions.

Corporate Scorecard Provides High-Level View of Performance



These employees soon learn that starting with strategic objectives guides them toward the analysis they should be performing and dramatically reduces the amount of data they have to consider. For example, if the organization finds that sales are lower at specific stores, it might investigate whether customer satisfaction, a leading indicator of sales, is 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 the poor customer satisfaction showings. Once the company understands the root cause of the problem, it can take active steps to turn around customer satisfaction.

Tying the Pieces Together

The biggest impediment to organizations' success is not that they lack a well-defined strategy or well-honed execution; it's the fact that these two are usually not in sync. Organizations must bridge the gap between strategy and execution by striving for operational alignment. As they motivate stakeholders toward strategic objectives, manage initiatives that support those objectives, and regularly monitor and measure their progress, companies should formally encourage communication throughout the organization. Information and best practices that come to light through alignment-focused initiatives and dashboard users' performance analyses should be leveraged to improve operations companywide and to influence strategy when appropriate.

At Pilot Fashions, management encourages communication among individual employees by setting up links within the scorecard software that take users to the collaborative portal that was established as part of the strategy plan. Users of the scorecard software can easily ask questions of one another and share ideas on ways lagging departments or stores might transform red status indicators to green.

The company also establishes a process for formal sharing of corporate best practices. Once organizational alignment is well under way, executives realize that many of the initiatives undertaken by different departments are similar in structure but vary unnecessarily in their details. In addition, new initiatives have no way of benefiting from knowledge gained through the success or failure of similar previous initiatives. To remedy this situation, Pilot Fashions interviews its operational managers to uncover their best practices. Then executives formalize these into a collection of standard corporate processes in areas such as new-employee training, store location selection, advertising campaign management, and new-product launches.

Now a Pilot Fashions marketing manager launching a new clothing line can use the instituted product-launch process as a foundation for building the launch initiative but tailor it to the parameters of the product at hand. If the new line were to produce disappointing sales figures, a simple analysis of the tasks associated with this and previous launch initiatives could shed light on the root cause of success or failure. Perhaps the low sales would be explained by insufficient research prior to selection of the new line or by a lack of sales-force training on how to sell the new line.

Sharing such information helps a company create scalable, replicable processes that build a strong foundation for future execution. 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 properly aligning day-to-day operations with its overall strategy and long-term vision can a company hope to effectively execute on its goals and avoid the role of cautionary case study in the next round of business books. 