The Challenge of Strategy Implementation

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A recent commercial for a major computer company's e-business consulting practice showed a CEO, in a state of high excitement, expostulating about a thick book he held in his hands. "Here it is," he exclaimed, "it cost $2 million. The best strategy ever! Now the question is, 'is it implementable?'" We then watch his face fall as, one by one, his executives consider the question and reply "No."

Numerous studies have noted the very weak relationship of strategy formulation to strategy execution. *Fortune* Magazine stated that "Less than 10% of strategies effectively formulated are effectively executed." Companies large and small worldwide spend billions of dollars each year on strategy formulation. A search of the World Wide Web using Google™ took less than 1/3 of a second to return more than 1.3 million hits on strategy consulting, ranging from the "Big 6" firms to boutique firms specializing in strategy. Interestingly, a similar search for strategy implementation consulting returned less than 500,000 hits. Even allowing for overlap this is a significant disconnect.

If *Fortune* is correct, only one of ten companies that do an effective job of formulating strategy are doing equally effective jobs of implementing it. For the rest, presumably, the well-crafted strategy is lost in the press of day-to-day tactical concerns or is left to languish in a report on the CEO's bookshelf.

Yet very few people would deny that, in today's fast-moving fast-changing business world, strategy, with its long-range perspective, is critical. By analogy, if the guidance system on an airplane or ocean liner is not programmed to reach its destination, then it cannot keep the plane or ship on course in rough or stormy weather. For any company today, strategy provides, or should provide, that overall trip plan against which management can true up in difficult times.

Why is it seemingly so difficult to execute strategy? The answer, I believe, lies in the way the nature of business has changed in the past 30 years. For the first three-quarters of the 20th Century, strategy was not seen as difficult to formulate or difficult to execute. As recently as 1981, when Jack Welch took over as Chairman and CEO of GE he was able to formulate a strategy as simple as "be number 1 or number 2 in every business we are in or don't be in that business," and was able to execute that strategy with legendary results. Yet 1981 was the beginning of one of the most remarkable shifts in the history of business, the shift from value based in tangible assets to value based in intangible assets.

Baruch Lev of the Brookings Institution (www.brook.edu) has made an extensive study of this shift. Lev's and Brookings' data indicate that in 1982, 62% of the market value (measured by market capitalization) of companies could be attributed to tangible assets, and only 38% to intangibles. Ten years later Brookings' analysis of S&P 500 companies showed that the relationship had

been reversed: in 1992 it was 32% tangible to 68% intangible. A follow-up study in 1998 showed that, with the rise of the knowledge-based economy, the ratio had further shifted to 85% intangible to 15% tangible.

This could be said to be a shift to a world where value is based in service, in selling solutions rather than in objects or hard assets. But why would this shift have had such an effect on strategy implementation? The answer is deceptively simple – the rules of management have changed. Management of a company whose value-creating mechanisms are based largely on intangibles is a whole different ballgame than when those mechanisms are based on tangible assets.

Peter Drucker is said to have remarked that “if you can’t measure it, you can’t manage it.” Yet the measurement of intangibles is, by its nature, a tricky business. Tangible assets are measurable directly. If it costs $100 to manufacture an item and the cost of sales is $25, and you sell it for $200, then every item sold puts $75 on the gross profit line of the spreadsheet. If the (tangible) assets of a company are worth $5,000,000 and the liabilities of the company are $4,000,000, then the net worth of the company is $1,000,000. Simple.

But intangible assets are, well, *intangible*. Like electrons in a cloud chamber they cannot be measured directly, but only by the tracks they leave. If we invest $1,000,000 in a CRM system, the measures for the ROI from that system are things like customer satisfaction, repeat business, customer retention, new business acquisition, etc. To be sure, the ultimate measure is increased revenue. But in order to determine how much of the increased revenue is attributable to the CRM system, we must look at second, third, and even fourth-order effects. Furthermore, much of the case for ROI will be made inferentially rather than by direct observation as in the case of tangible asset ROI.

And it gets worse: In almost every case the use of an intangible asset for value creation will require the initiation of at least one other intangible asset as well. The CRM system will require a training program and the creation, actively or passively of a culture or climate that promotes using the system. This will require leadership (another intangible asset), and possibly process reengineeriing.

Just as tangible assets had to be integrated with the company’s overall strategy (GE would rightly have rejected out of hand a suggestion that they go into the business of making automobiles), intangible assets must be integrated as well. The problem is that intangible assets reside in people’s thinking and the value-creating power of these assets lies in people’s ability to put them to work. This means that in order to integrate them into the organization’s strategy, that strategy cannot be a top-down imposition by management, but must be introjected and owned by the proprietors of the intellectual property.

So in today's business world, strategy implementation is inseparable from effective leadership and communication within the company. The value creation process, in our experience, follows these lines:

- Formulation and effective communication of **vision and values**
- Formulation and effective communication of **mission**
- Generation of **enthusiasm and buy-in** at all levels
- Commitment to **projects and business results** that will fulfill on the mission
- **Design of organizational architecture** that allows for empowerment and communication
- **Creation of tactics and short-term goals** at the local level
- **Effective Action** in a context of accountability

Work on these intangibles is a strategic investment equally as important as new equipment, buildings, or mergers and acquisitions.