EXECUTIVE INSIGHTS

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Strategy Activation: Improving the Effectiveness and Reducing the Costs of Strategic Change

"The art of war is simple," Napoleon once observed. "Everything is a matter of execution." Although business leaders invest significantly in identifying, analyzing and making the right strategic choices, they often fail to achieve their strategic ambition because their organizations lack the ability and commitment to translate these choices into action. In a widely quoted survey by *Forbes*, 82 percent of Fortune 500 CEOs surveyed felt their teams were effective in strategic planning, but a mere 14 percent of the CEOs felt their organizations to be effective at implementation.

In a globalized world, where information is plentiful, strategic success is less about identifying undiscovered growth opportunities and more about effectively making and implementing differentiated business model and organizational choices to win in increasingly maturing and competitive markets.

At L.E.K. Consulting, we believe that rethinking the strategic process to close the gap between strategy development and implementation can significantly increase the probability of success, while dramatically reducing the effort and cost of strategic change programs.

Handing Down the Tablets? Not Appropriate for Most Modern Organizations

Organizations, influenced by a wealth of business school and consulting frameworks, typically adopt a two-stage approach to strategy:

- **The first stage is focused on developing the strategy:** this is typically treated as a boardroom exercise, with significant investment in rigorous analysis and "out-of-the-box" thinking to define the optimal strategy, with a clear set of priorities, "stretch" goals and a strategic roadmap to pursue them. Significant time and effort is consumed in aligning senior decision-makers, while only selectively engaging other management layers to collect data and inputs required in the process.
- **The second stage involves implementing the strategy:** the new strategy is translated into an aggressive implementation plan with clear roles and responsibilities, which is then handed down to the organization for execution. The senior leaders who conceived the plan expect their teams to roll up their sleeves and start delivering against the goals they have set for them. Special structures (e.g. a program management office) are put in place to track progress and manage change, essentially to police and enforce execution of the plan.

This two-stage approach may have served "traditional" organizations well, including the military, the public sector and some large hierarchical corporations, but it does not meet the requirements of a modern day business.

Separating a strategy's theory from the practice of its implementation increases the costs of strategic change and reduces its chances of success, for four principal reasons:

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- In defining a new strategy, there is insufficient regard to the real execution capabilities of the organization to successfully execute it. This results in delays during implementation as gaps in resources, skills and systems are discovered, sometimes necessitating changes to the strategic plan itself.
- There is limited upfront engagement of the employees who will be required to execute the strategy. This significantly increases the required effort and cost for change management, after the strategy has been defined, in order to generate buy-in and overcome cultural and other barriers to implementation.
- The targeted benefits of the strategy are not always grounded in reality and the realized value often dissipates during implementation due to weak discipline in tracking or unanticipated risks materializing (e.g., customer attrition or higher implementation costs).
- The benefits of a new strategy are not always sustained in the long-term as the organization tends to revert to its old way of working once focus moves on to other strategic initiatives.

According to a study published by the *Harvard Business Review*, companies typically only realize about 60 percent of their strategy's potential value because of shortcomings in implementation that had not been adequately anticipated in the strategic planning stage.

Strategy Activation: Combining Strategy Development and Implementation

At L.E.K., we believe that the right strategic process needs to bring forward a number of important activities that are traditionally postponed until the implementation stage. The "strategy activation" approach takes the long view, providing a framework from conception of a new strategic ambition to embedding the change, weaving together strategic development and implementation.

The resulting approach entails parallel work across four dimensions (see Figure 1):

A. **Defining the Strategic Plan**: Making the right strategic choices based on a rigorous assessment of a business's external environment and internal capabilities

B. **Securing Value Delivery**: Defining clear financial goals, establishing accountabilities to deliver and setting up effective mechanisms to track value realization

C. **Building Organizational Capabilities**: Assessing constraints in the organization's ability to execute the strategy, and defining required changes to structures, processes, resources, roles, skills and systems

D. **Generating Commitment to Change**: Engaging both decision-makers and future implementation leaders up-front to foster real ownership of the new strategy

Figure 1

The Four Dimensions of Strategy Activation

Parallel work across these four dimensions enables a business to develop an ambitious, yet realistic, plan informed by the unique circumstances of the business, while both preparing and empowering the organization to drive the strategic change effort. This expedites the implementation of the new strategy, reduces the investment required for change management and ultimately increases the probability that the new strategy will succeed.

Strategy Activation: How It Really Works

The strategy activation roadmap proposes three stages of work, each focusing on different aspects of the four dimensions identified (see Figure 2).

Figure 2

The Strategy Activation Roadmap

	1. Agree on aspiration	2. Develop plan	3. Embed and deliver
Defining the Strategic Plan	Define strategic ambition and priorities	Detail business model choices and plans to implement	Pilot, adapt and roll-out
Securing Value Delivery	Estimate "size of the prize" and build benefit case	Define clear financial targets and establish accountability to deliver across organization	Track both milestone progress and value delivery
Building Organizational Capabilities	Define required capabilities and gaps to be closed	Design organizational changes and implementation management structure	Realign organization and close capability gaps
Generating Commitment to Change	Assess implementation barriers and engage stakeholders on case for change	Co-create solution and establish accountability to deliver	Actively engage broader organization on feedback

The first stage entails agreeing on the aspiration. In addition to defining its strategic ambition and direction, a business should seek answers to a number of additional key questions:

- What are the specific benefits that the strategy is targeting and what metrics are we going to adopt to measure their delivery?
- What unique assets and capabilities does the organization have and what gaps will need to be closed to achieve our strategic ambition?
- What are the likely implementation barriers and how can we build commitment to change from the onset?

The second stage entails detailing the activation choices across each of the streams. Alongside translating the broader aspiration into detailed business model choices, the parallel work to build execution capability, generate organizational commitment and secure results delivery should include:

- Establishing metrics, goals, accountability and tracking mechanisms to secure value delivery.
- Designing organizational changes (e.g. structures, roles, processes, resources and systems) to build real, sustainable capabilities to execute the strategy.
- Establishing any required temporary governance structures (e.g., program management office) to oversee correct implementation.
- Directly engaging action leaders to co-create the new strategic plan and generate real commitment to execute.

The third and final stage entails embedding change by piloting, adapting and rolling out the new strategy, while continuing the work on the other dimensions:

- Enacting the necessary organizational changes to build the capabilities required to successfully implement and sustain the new strategy.
- Closely tracking implementation progress against specified process milestones and monitoring delivery of the targeted financial results
- Actively engaging the whole organization by communicating progress, as well as collecting and acting on received feedback

Case Study

L.E.K. recently helped a global manufacturing company to implement a comprehensive performance improvement program that dramatically increased its profitability. Earlier attempts to improve profitability had failed: some previous initiatives had not delivered their goals, while others had seen the savings dissipated by unforeseen needs. The leadership of the company was committed to double EBIT margin within three years.

Consistent with the strategy activation approach, the program was structured in three stages:

- **Stage 1 – agree on aspiration.** L.E.K. conducted a rapid market and performance diagnostic to define specific improvement priorities and estimate the targeted performance uplift, while engaging a broad cross-section of management to build early support for the priorities and goals of the programme. In parallel, the team assessed the operating model to identify options to strengthen capability and accountability for the delivery of results.
- **Stage 2 – develop the plan.** We worked alongside different levels of management to co-create the plans for each initiative, generating real ownership for the plans and their targeted results. In parallel, we supported leadership in designing the organizational changes necessary to deliver sustainable performance improvement.
- **Stage 3 – embed and deliver.** Profit improvement initiatives were launched in parallel with work to embed changes to the organizational structure. The organization was already well prepared to execute each of the initiatives, both in terms of capabilities and commitment to change, so the transition from design to roll-out was direct and seamless, requiring minimal external support.

Two years after the commencement of the diagnostic, the business is on track to double EBITDA margin by achieving 20% revenue growth in its core markets, by building strong new platforms for future business expansion, as well as by realizing significant short-term efficiency gains through 13% savings in manufacturing costs and 22% savings in SG&A.

The strategy activation approach enabled the business to increase the speed and reduce the cost of implementation by engaging management in the co-creation of the program and by directly empowering them to deliver the targeted results.

Applying the Strategy Activation Roadmap

	1. Agree on aspiration	2. Develop plan	3. Embed and deliver
Defining the Strategic Plan	• Asses market context for business • Run detailed P&L diagnostic to drive revenue and EBIT growth • Identify and prioritize key performance improvement opportunities	• Detail plans for each initiative, e.g., - geographical expansion - customer segmentation and strategy - SG&A cost reduction - ops excellence	• Pilot selected priority initiatives - new business model for small customers - new pricing strategy for large customers - finance activity centralization - range of ops excellence initiatives • Roll out initiatives across organization
Securing Value Delivery	• Estimate size of the prize and goal for the overall program • Define initial targets for each priority performance improvement level • Iterate with leadership to secure agreement	• Model targeted upside by initiative - revenue and margin impact - costs to implement • Estimate overall financial impact on business: revenue, EBIT, ROCE	• Establish weekly reporting cycle to track progress against plans and milestones • Institute new internal mechanism to track financial results delivery - margin and cost savings delivered - consumption of budget by initiative
Building Organizational Capabilities	• Assess organization and identify gaps in capabilities to drive performance • Identify options to improve operating model • Integrate business further at global level • Build new capabilities to drive growth • Increase accountability for results delivery	• Conduct leadership workshops to agree on new operating model for business • Design new organizational structure - centralization of support functions - integrated management of operations - global commercial / key account function	• Create Transformation Office to drive implementation with internal resources only • Initiate transition to new operating model • Launch new way-of-working for senior team • Provide guidance to sales teams to roll-out new customer initiatives
Generating Commitment to Change	• Series of workshops with different management levels - review findings and capture inputs - agree on priorities and targets • Leadership sessions to validate priorities, targeted savings and action plan	• Co-create plan for each initiative - mixed client/consultant teams - cross-functional representation • Establish clear accountability to deliver each initiative	• Mobilize broader organization using internal initiative teams as "change agents" • Communicate consistently success stories and realized benefits • Collect regular feedback across organizational levels and resolve issues

Results: Increasing Rate of Success while Reducing Implementation Costs

The strategy activation approach enables an organization to define an effective and comprehensive plan to achieve its strategic ambition, weaving together strategy development and elements of the implementation. This is achieved by bringing forward a number of activities that are typically only carried out once a new strategy has been defined.

Strategy activation allows organizations to realize a number of benefits:

- Enhance the effectiveness of strategic planning by linking the strategy to the unique realities of the external market context and the company's own core capabilities
- Significantly increase the probability of success of strategic change programs by addressing gaps in organizational capabilities and other implementation barriers
- Expedite the overall strategy implementation process and reduce the required investment to manage change
- Increase the likelihood of securing the strategy's targeted financial benefits

Ultimately, strategy activation provides senior business leaders with a powerful tool to align their organizations behind their vision and dramatically enhances their ability to deliver against their strategic aspirations.

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