Why Good Strategies Fail

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By Roger Wery and Marc Waco

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The business news is filled with stories of corporate failure. From the recent dot-com busts to the once-powerful companies whose fortunes have slipped, these unhappy endings are often the result of one thing: good strategies gone bad. And the underlying cause is usually poor execution.

Strategy formulation, though critical, is only the beginning of a process. Without an executable plan—and the resources needed to implement that plan—even the most innovative strategy is merely words on paper. Yet too often a good strategy fails because the conditions for success were never put in place. The inability to execute is typically due to one of five factors.

Lack of Focus

When it comes to strategies, it is possible to have too much of a good thing. Ideally, a clearly drawn strategy becomes a compass that guides all of a company's efforts. But what often happens instead is that competing strategies and sub-strategies scatter attention and dilute a company's focus. Although these sub-strategies may seem to make perfect sense individually, taken together they may not support and move the overall strategic vision forward.

In other situations, management may not realize the complexity involved in executing a particular strategy—or have the bandwidth and resources to properly manage the multiple initiatives needed to drive it forward. The main resource constraint that organizations face is management time. A company can juggle only so many initiatives until it risks losing sight of the forest for the trees. Symptoms of a lack of strategic focus include:

- Executive meetings always run out of time, invariably failing to address key topics and making decisions without enough information.
- The same set of gating and review procedures are used for both major and minor strategic initiatives.
- A general sense of churning priorities and perpetual fighting for resources pervades the organization.
- Key staff members are frustrated and stressed out from permanent work overload.
- The number of strategic initiatives increases, without a corresponding increase in resources.
- Trade-offs are handled effectively at a functional level, but not cross-functionally.

Lack of strategic focus is a common problem across a broad range of industries and companies. A leading construction and engineering firm began pursuing an aggressive growth strategy to offset a slowdown in its traditional core markets. But management underestimated the complexity involved in orchestrating the multiple growth initiatives that the strategy called for—penetrating new geographical markets, hiring new people with needed skills, and forming alliances with companies in new target markets. Individually, each initiative made sense, but combined they represented a daunting task, and quickly fragmented resources and management attention. Well into implementation, the leadership team recognized that momentum had stalled and a growing malaise pervaded the organization. Most of the growth initiatives were behind schedule, and many had yielded disappointing results. The multiple initiatives involved in the aggressive growth strategy had literally clogged the company's "execution engine."

To maintain the strategic focus needed for successful execution, companies must put in place a disciplined process for systematically reviewing, evaluating, prioritizing, sequencing, and managing strategic initiatives —and clearly communicate this process to the management team. The tools needed to make this process work include phase reviews, decision making forums, resource management templates, and metrics for monitoring resource allocation and usage. This disciplined approach will help keep management focused, and execution on track.

Unfortunate Market Timing

The success of a strategy is directly related to its timeliness and to the relative stability of the business environment. Even a brilliant strategy can become irrelevant if the market conditions have changed by the time the strategy is implemented. A warehouse filled with Betamax tapes is useless in a VHS world.

The fixed wireless segment of the telecom industry knows what it feels like to come to the party late. Although new fixed wireless technologies are a viable, cost-effective, high performance option for consumers seeking voice and data services, fixed wireless providers are finding that their target customers—wireless Internet service providers (ISPs)—have been reluctant to buy. Why? The timing is off. The telecom market is still recovering from a sharp pullback in spending on high-speed connections to the home, and from the promises of other access technologies that delivered bandwidth but at an unsustainable cost per subscriber, assuming realistic penetration rates. Adding to the woes of fixed wireless providers is the dramatic pullback of the capital markets, which makes financing more problematic. Although fast and effective broadband access to the home was and still is a sound strategy, the business environment isn't cooperating at the moment—for even the best fixed wireless companies.

Timing issues are most often associated with late-market entries, but they can also be caused by prematurely releasing a product into a market that is not fully developed. One well-publicized example is Microsoft's Xbox, an interactive, online gaming platform. When Microsoft developed its X-Box strategy, the company expected that homes would upgrade to broadband Internet access—cable or DSL—at a faster rate than they actually did. But instead of the projected 20% penetration rate, home broadband barely reached 10%, even in markets with the highest broadband penetration. As a result, Microsoft's online gaming strategy has fallen short of its revenue targets and remains an ongoing challenge.

> Too often a good strategy fails because the conditions for success were never put in place

To avoid such missteps, companies must closely monitor market conditions, and be ready to respond quickly to competitive moves and market changes. The inability to stop or redirect a strategy is often rooted in financial planning and governance processes. At many companies, an annual plan is the main driver of strategy. Annual plans are an exercise in functional budgeting, and strategies evolve incrementally. But in a world of increased competition, ever-shortening product life cycles, and rapid macroeconomic shifts, the annual strategic plan breaks down, and may lead a company to implement what was the best strategy a few quarters back.

The good news is that not all companies are equally affected by shifting environmental factors; some have more time to adapt—depending on the clockspeed of their industries. But the bad news is that a company's response time is usually fixed in the past. If the pace of change accelerates, most companies have a hard time adapting to the new reality.

Fortunately, we see more and more companies working diligently to develop "iterative," "just-in-time," or "proactive" approaches to strategy. Whatever the name, there is a common goal—to increase the frequency with which management assesses the marketplace, develops strategic options, and readjusts strategic direction if needed. The important enablers for agile planning are faster reporting methods and tools, performance feedback loops, and market sensors. Groups with the most external interaction—sales, business development, and product management, for instance—are best suited to act as a company's sensors. In successful organizations, market insights systematically loop back to key functional areas, either through regular communications or advanced customer information management systems.

Impatience for Results

In cultures of instant gratification, companies can abandon a sound strategy too quickly, before it has had a chance to realistically take root and yield results. But how tolerant and patient should the executive team be, especially in today's fast-forward business climate?

Unfortunately, there's no magic formula for deciding how long is long enough to wait. Some companies admit to churning through strategies so fast that none has an opportunity to bear fruit. By constantly shifting course, these companies are killing strategies that could yield valuable results if given a bit more time.

Symptoms of a potential impatience problem include:

- Overly optimistic time-to-results in the business case
- Extreme pressure to deliver results
- Resource constraints that may hinder execution—or cut it short

One of our clients calls it the "75% syndrome." After making 75% of the effort and investment, the company pulls the plug before seeing any meaningful results—even when early indicators show an encouraging trend. The client, a medical devices company, did an ad-hoc review of its product launch programs over the last five years and found that nearly 30% of new products were killed either in the final, pre-launch phase of development or within the first year post-launch. Further analysis, along with market insights after the fact, revealed that half of these late "kills" should not have been funded to begin with, but the remaining 50% had a reasonable chance of success. Some companies are unable to kill products. This particular company—and others as well—do it too often.

The root of this particular problem is poor planning—an issue that's usually easier to identify than to fix. Here are some practices to consider:

- Clearly identify and document strategic objectives, metrics, and interim targets.
- Hold specific individuals accountable for executing a strategy and for being its advocate with the rest of the management team. But don't penalize them if market conditions drive a change of direction.
- Minimize impatience by regularly sharing progress reports, accomplishments, and emerging issues with the decision making team.
- Don't confuse a delay in achieving results with a major disruption in the marketplace that requires a complete change of strategy. Track key leading indicators to determine whether the issue is one of timing, or related to a fundamental change in the environment.

A clear link between a company's strategic vision and each project that makes up the operational plan is critical to success. This linkage provides a holistic view of the strategy, clearly defining where the company is going, how it will get there, and how long it will take.

Major Competency Gaps

A company may need seismic skill shifts to execute a new strategy, but may not have access to the right people—or may not realize the extent of the changes needed or the time it will take to get up to speed. Most companies know that a new strategy may require either training their people or hiring the needed skills from outside the organization. But too often, management underestimates:

- The timing, cost, and complexity of adapting or adding to the talent pool to bridge the identified competency gaps.
- The changes that must be made to the management team itself—or worse, doesn't even recognize the need for these changes.

A large wireless service provider decided to shift its focus from the consumer market to the business market, where it hoped to reduce churn and boost revenues per subscriber. The management team identified the major changes to functional areas such as sales, delivery, and customer support that would be needed to support the new "wireless enterprise solutions" strategy. Clear action plans were designed to hire new sales people, train the existing sales force, acquire several small solutions providers, and aggressively partner with system integrators experienced in the needed wireless applications. But the management team significantly underestimated the time it would take to build an enterprise sales and delivery capability and scale it up to the size needed to really capitalize on the opportunity. Management planned on having the new capability in place within six months, but more than a year later, only 40% of the intended headcount had been recruited. Partnerships had been formed, but were not yet fully operational. Even the few acquisitions of small solutions providers created unexpected and time-consuming integration challenges.

> Even a brilliant strategy can become irrelevant if market conditions change

Failing to recognize needed changes in the management team can be equally problematic. A telecom equipment vendor with thousands of call center customers worldwide decided to expand into the consumer and retail markets. To support this strategic move, the company added significant staff with the needed skills—retail merchandising, supply chain, packaging, and consumer marketing. But the company failed to make additions or changes to the leadership team itself, despite its limited retail and consumer product expertise. It took more than four months to hire a general manager with the appropriate retail expertise, and another six months to fully train him on the company's product offerings. To date, the company has no board member with consumer marketing or retail experience, making the dialogue with implementation teams and leadership teams challenging.

Getting the right people in place may involve several parallel efforts ranging from training, hiring, and firing to targeted acquisitions. While planning for the new strategy:

- Create a competency map that clearly defines the skills, experience, and performance levels needed to support the strategy, along with the number of people needed to fill the new roles.
- Conduct a thorough skill-set assessment, candidly evaluating the skill levels of your people and the extent to which training could bridge any competency gaps. Include the leadership team and the board of directors in this evaluation—especially if the change in strategic direction is dramatic.
- Dedicate management time to planning, prioritizing, and sequencing the actions needed to bring people up to speed, or to recruit needed talent.
- Be wary of quick fixes. Although acquisitions and partnerships can speed up the skill-building process, they have their own challenges and can end up increasing time to results.

- Define a realistic timeline to acquire new skills. If the timeline doesn't support the strategy, then the strategy may not be right for your company at this time. Be ready to abandon it—or scale it back.

People are a company's greatest asset. That's why it's so critical to have the right people and skills in place when executing a new strategy. Careful planning during strategy formulation can identify competency gaps early in the process—and allow for the time and actions needed to bridge those gaps.

Misaligned Operations

Even the best strategy can stall miserably if a company's operating model—its structure, processes, technology, or culture—doesn't support it. The risk of this is particularly high when a new strategy is a clear departure from a company's traditional approach to business. The further a strategy strays from the historical core, the greater the risk that the company won't be fully prepared to work differently.

For example, a company with streamlined, low-cost operations focused on offering customers a no-frills, discounted service would be greatly challenged to adopt a high-touch, highly customized service. The cultural and process changes would be enormous. But too many companies fail to fully realize the challenges involved with a major change in strategy, and the operational ramifications. Several factors lead to failure in this category:

- ***Insufficient planning.*** If the degree of organizational readiness is underestimated during the strategy formulation phase, the execution plan will fall short on actions needed to align a company's operations with the new strategy. Key processes may need reworking, or new IT systems may be needed. Poor anticipation of these changes can send a sound strategy into a death spiral.
- ***Poor communication of the new strategy.*** To align your company's culture and mobilize your people in support of the new strategy, communication must be clear, consistent, and frequent across all levels of the organization.
- ***Inadequate management processes.*** Budgets and operating plans must support the new strategy, of course. But it also must be clearly linked to the day-to-day work of the enterprise. Employees may fail to deliver without a clear line of sight from their daily tasks to the strategic vision. New performance measures, goals, and incentives must be structured to support the new ways of working.
- ***Insufficient monitoring.*** To make sure that progress is on track, set up a set of metrics and targets linked to key areas of operation—and monitor them closely. If organizational changes and results aren't on track, management can make timely course corrections before the new strategy is permanently derailed.

The experience of a leading industrial equipment vendor illustrates the challenges of operational alignment. The company had found success with a single-product strategy and a functionally driven organization, and was a market leader in several related but independent product segments. The management team believed that the time was right to reposition the company as an "integrated solutions" provider, offering one face to the customer. But management did little upfront planning to prepare the company for this major strategic shift. Old, deeply entrenched ways of working became barriers to the company's planned evolution into a multi-product, integrated solutions vendor. A range of problems related to account ownership, product platform development, and customer service emerged. The strategy was finally scrapped.

One of our clients had a legacy of serving large, datacom OEMs as a cost-effective component vendor. The company's management decided to pursue a more lucrative on-demand, custom derivative design strategy—a dramatic departure from its traditional approach to business. At first, the company applied its old product planning and development process to the new customized products. The result? Major delays, slower sales responsiveness, and distracted product management teams. Once a redesigned process was introduced for the customized products, the company was able to achieve the responsiveness and cost effectiveness needed to compete in the new market.

Of all the strategy execution challenges, organizational alignment is perhaps the greatest—and the most frequent cause of failure. Often, senior managers are so consumed with functional operations, performance management, budgets, and processes that they have little time for thinking about the impact of strategic change on the organization. Yet these very people who keep the operations going are the ones needed to change course. Organizational alignment must become a priority, even if it means assigning dedicated resources to create a detailed blueprint of the changes to processes, systems, and infrastructure required by the new strategy.

At the end of the day, strategies are more than just words on paper. Real strategic leadership involves being at once visionary and tactical—having both the creativity to develop an innovative, workable strategy and the wherewithal to execute it.

C O N T A C T

Western US and Asia: PRTM Director Roger Wery, based in our San Francisco, CA office (rwery@prtm.com or 415-764-3400).

Eastern US: PRTM Director Doug Billings, based in our Waltham, MA office (dbillings@prtm.com or 781-434-1200).

Europe: PRTM Director Dean Gilmore, based in our Abingdon, England office (dgilmore@prtm.com or 44 1235-555500).