

White Paper

Strategy and Innovation

Execution Excellence

A Straight Answer to Strategy Implementation Problems

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1. Rethinking Strategy Execution

1.1 Initiatives – The Heart of Strategy Execution

It is a common belief that strategies fail because they were not elaborated properly. But in reality, strategy development is less than half the battle. In the majority of cases - we estimate 70% - the real problem is not bad strategy. It is bad execution [Charan/Colvin: Why CEOs Fail].

When we talk about strategy execution we think of hundreds of different initiatives defined to transfer abstract strategy into tangible business reality. In turn, every single initiative contributes to strategy execution. Hence the equation is simple: if a set of initiatives fails, strategy fails.

Within **strategy execution** we distinguish between **smaller initiatives** constantly developed and executed in daily business, and major **strategic initiatives** executed in a project setting. Companies with poor results in strategy execution might have trouble with the implementation of one or both kind of initiatives.

To make the myriad of smaller initiatives support a strategy we need to be ensured that individuals within the company are clearly committed to the strategy. Thus, employees have to know the company's strategic directions and must be willing to accept them. It is also important to give individuals proper and strategically aligned incentives to foster their willingness to implement strategy. Management tools like the **Balanced Scorecard** can significantly help to improve strategy execution in this field.

To be good at executing major strategic initiatives many managers pursue the plan that with "strong (multi-)project management" and "appropriate management attention" the successful execution of core projects must be a matter of course.

Quite the opposite is the case!

We found that although top-performing companies realize 85% of their core projects successfully, low performers achieve success in only about 40%. On average, almost every second strategic project does not achieve the originally intended objectives.

Since strategy execution is fundamental to competitive advantage, we think companies should strive to do their utmost in project execution and should question harder why their projects fail.

1.2 The Myopia of Project Management regarding Strategy Execution

We found that managers tend to underestimate the success factors of project execution which are not exclusively based on hard facts like budget or timeline adherence - which typically are the cornerstones of project management. Clear directions, right accountabilities and visible leadership, for example, play a greater role in project success nowadays than traditional project management tools for financial monitoring.

A recent representative inter-sector study of 82 different companies reveals that projects are often bound to failure because essential internal success factors (shown below) are missing.

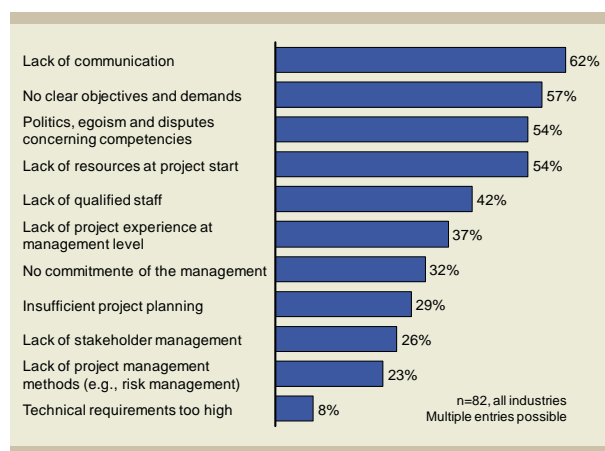


Figure 1: Internal reasons for project failure according to Engel, Quadejacob: Results of a project management study (2007)

The survey implies that by overcoming these weaknesses a major boost in strategy execution is possible. However, we also need to consider the fact that external reasons could also affect the success of core projects.

Imagine your project target is to launch a new professional hair care product at a lower price than your competitors. The business idea is to sell a professional hair care product in retail instead of in hairdressing salons or wholesale. Imagine you had a great resource plan, total management commitment, clear communication, the very best staff and brilliant project organization. Your project seems to be on track.

Unfortunately, the environment has changed since you started. A new competitor you did not see coming has already launched a comparable product at a more favorable price. Additionally, retail stores intend to stop selling hair care products to reduce complexity and to improve their margins. In this new environment, how successful do you think this project might be? It is a safe bet it will land on the list of strategic project failures.

1.3 Horváth & Partners Execution Excellence Model

Companies which want to improve their success rate regarding major strategic projects should not look at single reasons for project failures. They should try to manage the different crucial factors of successful execution in a comprehensive way.

In order to support managers to do this, we have developed the “Execution Excellence Model” based on our experiences with top-performing companies. The model combines traditional project management techniques with internal and external project success factors that can help to increase project success rate.

We are convinced that project execution success factors can be clustered in **six** main categories (see Figure 2) which are all crucial but can be weighted differently according to corporate relevance. To execute a project successfully it is imperative to review these factors at the beginning of and during every single project:

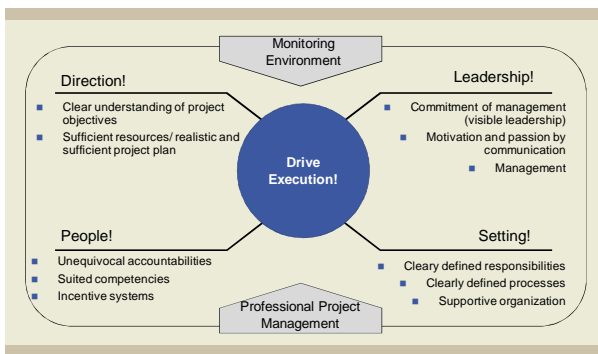


Figure 2: Horváth & Partners Execution Excellence Model

Direction!

In this category we analyze whether your project targets are clearly set and understood by all project stakeholders. Furthermore, we check the consistency between the strategic intent of each project and resource allocation.

Leadership!

Projects often fail if they are not backed sufficiently by management. For example, if an organization senses different opinions within the management team regarding the necessity of a specific project, the organization’s willingness to support this initiative will diminish drastically.

As far as leadership within project teams is concerned, project leaders should be trained in team management and leadership techniques. They must be able to arouse the fighting spirit and teamwork necessary to accomplish the respective project successfully.

People!

The success of a project is often due to its brilliant project team. Suitable competencies and unequivocal accountabilities are mandatory to accomplish the desired project results in the end.

Setting!

Without an organizational and process framework a project cannot exist. Projects must be positioned clearly in an overall vision in order to ensure that they are not regarded as “disturbing”, “distracting” or even “counterproductive” to daily business.

(External) Environment!

In this category the relevant corporate environment is analyzed and monitored at the beginning and during the project. In case of change in project premises, single milestones or the whole project must be rethought.

Professional Project Management!

Professional project management is obviously not the only enabler of successful project execution, but excellent project management techniques are a fundamental pillar of project execution. These techniques assure that time, budget and quality targets are met. Alert functions may help to provide early warnings in case of deviations.

2. Enhancing Execution Success

We firmly believe that top management should be informed continuously about the execution success rate of its core projects. Continuous information supply is crucial as factors influencing execution success vary significantly during project lifetime.

2.1 The PSE Rate

The probability of project success can be measured by a rate we call the Probability of Successful Execution (PSE rate). This rate indicates whether direction, people, setting, leadership and environmental premises should be revised or whether everything is just fine. The PSE rate considers all the internal and external success factors mentioned above and provides decision support for management and project leaders.

Before the PSE rate is calculated, the categories must be weighted according to corporate and/or project relevance. For complex IT projects, Direction might be more important than Environment and for creative product promotion projects People and Environment might outweigh all other categories. Weighting the categories ensures the individual nature of each company and project is considered in the PSE rate.

To assess single projects we have developed an excel-based questionnaire which contains all questions considered relevant to measure project execution success. The questions are divided into the internal categories Direction, People, Leadership, Setting, Professional project management and the external category Environment.

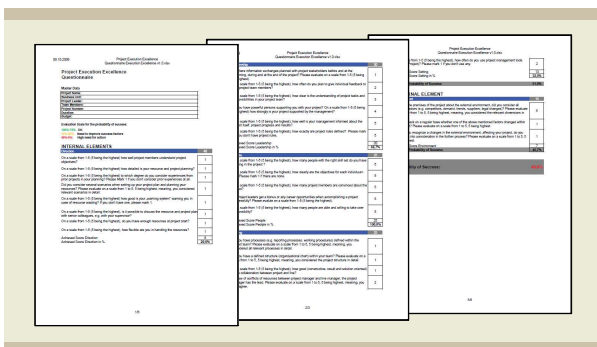


Figure 3: Example of an excel-based questionnaire

Every category is assessed individually by answering all questions measured on a 5-point scale. The questionnaire is used to calculate a separate probability of success rate for every category. Based on prior defined weightings (see Step 1) these individual success rates add up to the internal and external success factor, respectively. Finally, the internal and external factors are weighted against each other to create the PSE rate of the project (see scheme in Figure 4).

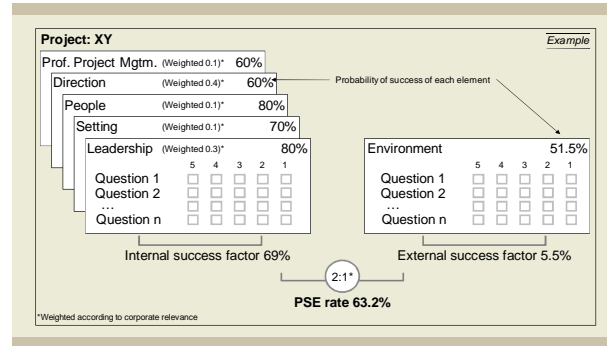


Figure 4: Evaluation of project success factors

The assessment can be carried out by the project leader himself or by the project sponsor. Additionally, an independent internal or external team can be involved to measure and interpret the findings. This way project success rates will not be distorted by the use of self-determined weightings.

2.2 The 75% Barrier

The PSE rate indicates the probability of success of a project. According to our project experience, projects with a PSE rate ranging lower than 75% cannot be executed successfully.

To support decision making, the questionnaire itself indicates the PSE rate in traffic light colors, with green for “ok” meaning the PSE rate equals or is higher than 75%; yellow and red stand for the recommendation to improve success factors - otherwise the project success is in danger.

Depending on the score you receive, need for action in the respective category (Direction, Leadership, Setting, People and Environment) will be defined and realized. If needed, also typical project management techniques and tools need to be revised.

3. Improving Project Execution Success Factors

Let us have a look at Toyota and learn how they improved project execution success factors to increase iteratively the PSE rate of their Prius project which highly contributed to Toyota's strategy to be the innovator of hybrid vehicles¹:

Direction!

Toyota's management had set clear and challenging goals by 1993: They wanted to have the Prius on the market before the end of 1997. Furthermore, the project plan provided measures for cost-efficient manufacturing on existing platforms.

Leadership!

The Prius project had a dedicated project leader, a factor which turned project risk into industry breakthrough. Furthermore, project communication was simplified: should problems arise within the project, emails could be posted to everyone in the company. Hence, email postings replaced the hierarchical, command-and-control communications model with the innovative, equal-access system.

People!

During the Prius project, Toyota drew on the knowledge, experience, and insights of everyone in the company (regardless of age and rank), and often outside the company as well. Toyota also selected young and dynamic, flexibly minded staff: Toyota hired a team of semiconductor engineers and then educated them about the car business and specifically the new hybrid technology.

Setting!

Toyota set the cornerstone for a unique process for vehicle design, development, and manufacturing within the company. Toyota let engineers take part in Prius development very early in the process which mainly contributed to the fact that errors in development were revealed early and not late in construction. Toyota could therefore complete the project faster: the Prius rolled off the assembly line in October 1997 - two months ahead of the company president's target date.

(External) Environment!

During the development of the Prius, several excess options for hybrid motors were created in order to find the single most powerful design which would meet customer needs. In addition, by completing the project faster (see Setting), there were less unexpected events requiring intervention that could have made the Prius project obsolete before it was launched.

Professional Project Management!

The project management team planned to launch the Prius in Japan first. After debugging the first generation, the Prius was prepared for launch in the US. As a result, there were enough buffers calculated for improvement.

In April 2008, Toyota sold more than one million Prius vehicles. The Prius was launched in Europe in 2000; since then more than 100,000 customers have bought the hybrid car.

4. To sum up

Only successfully executed initiatives lead to a successfully executed strategy since strategies can be expressed as a set of single initiatives. Thus the corporate assessment of project execution is both an indicator and a requirement for the quality of strategy execution.

The Execution Excellence Model of Horváth & Partners is recommended for all companies which have a great strategy but lack experience or simply lack the audacity to execute it successfully.

By using the PSE rate, companies may rank their project portfolio in order to compare projects or track the degree of strategy execution. Thus, Execution Excellence provides the necessary guidelines and support to facilitate the right management decisions.

¹ Adapted from Slywotzky, The Upside (2007)]



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