

shapecast

The cost of poor strategy execution

Can you afford it?



THE COST OF POOR STRATEGY EXECUTION

Summary

We are often asked by clients what is the real cost of executing a strategy badly? In this short article, we will provide some analysis on the implications and cost of executing a strategy badly both in impact on top line growth and extended bottom line costs.

Good strategy v Bad strategy

When we talk about strategy execution, we are specifically referring to how a set of strategic objectives will be achieved. Strategy execution defines the overall approach and plans required to efficiently achieve the outcome. What then makes a good strategy execution plan versus a poor one?

In our experience a good strategy execution plan should be logically coherent, easy to understand and as simple as possible; it traceably aligns all activity to the company vision and objectives whilst providing visibility, purpose and clarity to the relevant stakeholders involved in execution of their tasks and responsibilities

Furthermore, good strategic executions cascade through an organisation's sub divisions or subsidiary's that operate their own strategic plans. These lower level plans should align traceably to the main strategy so that the whole organisation transitions to the same end-point.

In our experience, a poor strategy execution plan is a failure to recognise or set the correct processes, communication channels and resources to execute key objectives that will ultimately achieve the planned outcomes.

We sometimes observe leadership teams who agree on a vision of where they want their organisation to be in the future, but struggle with creating and then linking a detailed execution plan to their long range objectives which would otherwise enable a smooth and efficient transition to their desired end point. A further common mistake involves creating a vastly complex set of delivery activities which aren't clearly linked to objectives and therefore fatigue the organisation and fail to deliver the outcomes efficiently.

Additional challenges lie within the culture of organisations, people, process, ways of working and also a fundamental appetite for change as well being able to mobilise the appropriate resources in order to carry out and execute key strategic objectives. If leadership teams are clear on desired future outcomes, they need to understand and efficiently execute all of the strategic activity required to get them there.¹

1. <https://www2.deloitte.com/content/dam/Deloitte/ie/Documents/Finance/CFO/Business%20Transformation.basics.successful.organisation.pdf>

Commercial impact of poor strategy execution

Setting a clear strategy at leadership level is important, but executing it within your organisation is critical and can often be much more challenging. It is widely documented within leading business publications, Harvard Business Review, INSEAD, Wharton and McKinsey for example, that well over 50% of strategic implementations fail in execution and here are some of the reasons why: ²³⁴

- Excessive change in strategic priorities
- Lack of knowledge and experience
- Acceptance of poor performance or failure to deliver on objectives
- High levels of bureaucracy resulting in slowing down the process
- Lack of delegation
- Under resourced
- Frequently missing deadlines and deliverables
- Poor communication across stakeholders
- Cultural resistance
- Lack of monitoring and progress

This high failure rate can come at a significant price to the organisation and leadership team.

But what is the real cost to the organisation of failure to execute. Well, ultimately it could mean the demise of the business if a competitor executes a critical market driven strategy more effectively. However, in less extreme cases the commercial and financial implications fall in to two areas.

- 1) Failure to achieve expected top line revenue/benefit
- 2) Increased execution costs through poor planning and inefficient use of resources

Failure to achieve expected top line revenue/benefit

Failure to achieve budgeted top line revenue will have many impacts on an organisation. A shortfall or reduced top line revenue could result in restricted growth, cash flow issues, poor shareholder and staff confidence, long term impact to future business plans and credibility damage with banks and lending houses. Less cash in the business may also mean abandonment of other strategy planning which could have a deepening impact on business operations and future growth. Redundancies and divestment can also be a consequence of missed or reducing revenues which can often take some time to recover from.

2. <https://hbr.org/2007/01/leading-change-why-transformation-efforts-fail>

3. <https://hbr.org/2015/03/why-strategy-execution-unravels-and-what-to-do-about-it>

4. <https://www.forbes.com/sites/forbesinsights/2015/01/23/why-business-transformation-fails-and-how-to-ensure-it-doesnt/#70d323bf518e>

Increased execution costs through poor planning and inefficient use of resources

Strategy execution plans that stall due to poor organisation comes at a cost. Trying to turn around or realign strategies that are not being executed correctly will undoubtedly increase execution costs as businesses spend additional time and resources either reconsidering or completely pre-planning their approach. Without proper tooling, most organisations will revert to throwing more resources at failing strategic activity plans which often compounds the issues rather than solving them as in most cases, resources aren't the problem, it's the ill-conceived plans that's often at the root of the problem.

Also consider increased loss of morale, high attrition and buy in and the impact on staff which is a further detrimental effect

With strategy execution plans failing and costs spiralling out of control, there could be intangible impacting factors to consider. With organisations trying to recover missed revenue targets by way of reducing overhead, recruitment bans and pay freezes, there will almost certainly be a detrimental effect on staff. Morale will undoubtedly be hit as key stakeholders are put under increasing pressure to turn around failing plans with reduced resources. Staff could become demoralised, unmotivated and frustrated which will inevitably productivity and lead to high levels of staff turnover leading to the need for more investment to on-board and educate replacement resources or buy in expensive agency staff.

We see varying levels of commercial impact when it comes to poor strategy execution. There is huge amounts of wasted spend on strategies that aren't aligned to the organisations vision, therefore not providing the required outcomes. We can assume that not all of the spend on unaligned strategies is wasted, but even if we take a conservative view we can say that at least half of all investment in unaligned strategies has been wasted.

Consider Company A, who has a portfolio spend of £2m which is managed through ad hoc, internal resources. We can safely assume that without tooling or an experienced PMO there will be a high volume of strategic activity not aligned to the overall company vision. If we ignore for now strategies that completely fail as a consequence of company A's structure as this will all be 100% wasted spend without an outcome.

Firstly, let's look at unaligned strategic activity. For organisations that have a poor portfolio management structure such as company A, there could be as much as 20% misaligned strategic activity which would equate to £400,000 worth of investment at risk of not achieving the desired outcome. If we accept that only half of this strategy spend will be useful or have a positive impact, then we are left with £200,000 of pure wasted spend. If we now add failed strategies costs to this number which would vary dependent on what stage of the process a strategy breaks down, but an additional £200,000 of wasted investment for failed strategies is more than possible equating to a total financial impact of 25% of the portfolio budget.

Organisations with experienced PMO's, management tools and / or expert consultancies managing their portfolio for them, this level of failure and wasted spend will be reduced.

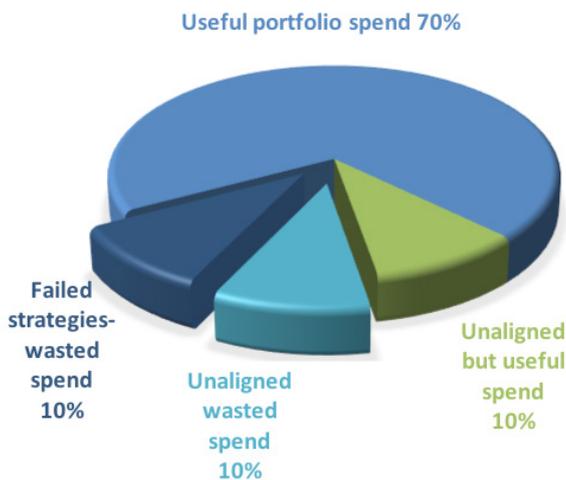
The commercial impact doesn't end there. The by-product of failed or unaligned strategies is an unrealised opportunity cost. If we take another look at Company A, they have a turnover of £100m with a £2m portfolio in place which is

focused on achieving a 10% (£10m) revenue uplift in the coming year.

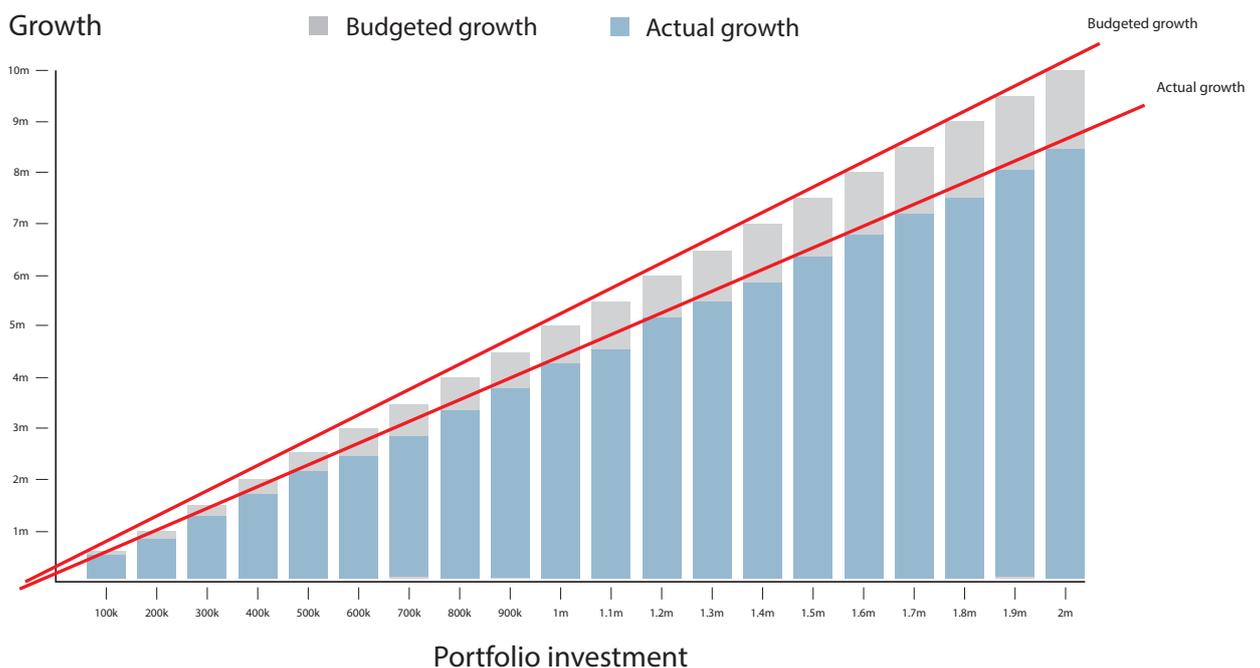
Given that we have already identified 20% of this portfolio activity will not achieve the desired outcome as well as a high percentage of strategies will not even get to completion stage, therefore there will be an obvious impact on Company A's growth plan.

If we take a very conservative view and say the commercial impact of not achieving the set outcomes will be 15% of the targeted £10m uplift therefore only achieving £8.5m with unrealised revenue of £1.5m which Company A would have seen if they had executed all of their objectives.

£2m portfolio spend



Growth impact



To summarise the impact to Company A

If we bring the wasted spend and unrealised opportunity together we can measure the ROI impact.

For example:

Company A has made portfolio investment of £2m to achieve a revenue uplift of £10m, if executed correctly company A would see an ROI of £8m or 400%.

If we look at total wasted spend identified from unaligned and failed strategies at £400,000 along with the unrealised revenue of £1.5m, the impact on the ROI is significant, reducing the budgeted ROI from £8m to £6.1m or 400% to 305%.

The total commercial impact to Company A will be £1.9m as a direct result of poor strategy setting and execution.

Company A is not an exception, there are many organisations, large and small that are failing to recognise or understand the impact of poor strategy execution on their businesses.

About Shapecast

At Shapecast, we have developed our data-driven methods over years of client transformation work.

Through our years of experience of client transformation work, we have built a highly data-driven transformation method and supporting rich analytics engine called Transformation Science™.

Together, these drive outcomes at a level of accuracy, pace and scale that we have not been able to achieve through skilled professionals alone.

We would love to hear from organisations or individuals that are going through or planning major change and are interested in this method and approach and how it could help you.

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