Closing the gap between strategic intent and operational execution
Performance alignment

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At a glance
The business environment over the last several years has significantly pressured companies to deliver on their strategic priorities.

Yet, many companies believe that they are not able to consistently achieve the fullest potential of that strategy.

This raises the question of why is there such a gap between effective operational execution and the achievement of strategic intent?

Instilling the Performance Alignment Leadership Model and effectively managing strategic risk can support organizations in realizing their strategic objectives.
The business environment over the last several years has significantly pressured companies to deliver on their strategic priorities. There is clear evidence today that while many companies believe they have defined the right strategy, they are not able to consistently achieve the fullest potential of that strategy. Based on PwC benchmarking data obtained over the past 18 months, 78% of business leaders believe that they have defined the right purpose, vision and ambition to reach their full potential, however just 54% believe that they are executing their strategies well.

Furthermore, while 72% of business leaders believe that they have the right strategy to reach their full potential, only 43% believe that all risks associated with their strategy have been sufficiently considered. This is especially troubling in times of significant change. In the same benchmarking data, over two thirds expect to transform their organizations over the coming year, yet less than a third are satisfied with their ability to execute strategic change. This raises the question of why is there such a gap between effective operational execution and the achievement of strategic intent? What is preventing these organizations from reaching their full competitive potential?

In our experience, the reason for the disconnect is internal management misalignment. Different layers of management do not always have the same capabilities or levels of understanding related to defining strategic priorities and where to make tradeoffs, identifying and managing the relevant strategic risks, establishing appropriate causes and drivers, and determining appropriate response.

The goal is to recognize the barriers to achieving success and create alignment throughout the organization. In order to consistently deliver on strategy and beat the competition, organizations need to both out-perform on what they can directly control and out-respond their peers on the things that they cannot. Those organizations most likely to succeed are the ones that are able to successfully align their operating model (how they operate) with their strategy (what it is they want to be). What is often missing is an effective model that drives alignment between operational execution and strategic intent—we call this gap the ‘alignment gap’ and closing this gap requires a better management of those issues. PwC has developed a simple model that fills this gap, which we refer to as our Performance Alignment Leadership Model. It is focused on the executive management structure, and is designed to establish clarity on both leadership and purpose, while also serving as a powerful compass to guide the organization’s operating model.

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Source: PwC Global Performance Alignment Survey Database 2013
The Performance Alignment Model highlights four related areas which collectively drive organizational alignment—strategic priorities & tradeoffs, strategic risks, performance drivers and critical behaviors—and we have found that it is the interplay and alignment between all four of these areas that should be optimized for the greatest long term success. In this article we focus specifically on how effectively managing strategic risk is a key driver for achieving performance alignment.

**Challenges to achieving more effective alignment around strategic risk**

There are many potential strategic risk related challenges that can negatively impact overall performance alignment—examples include:

- Adverse risk culture (as defined by the tone at the top and the example set by management) that drives inappropriate determination of strategic tradeoffs and/or inappropriate management behaviors.
- Lack of clarity or inconsistent understanding of risk appetite that leads to misinterpretation and the possibility that managers within the organization are accepting too much risk (creating exposure) or too little risk (resulting in under performance).
- Lack of (or inconsistent) appreciation for risks associated with strategic objectives and priorities resulting in misleading and/or incomplete perspectives on the risk landscape.
- Lack of (or insufficient access to) relevant or timely risk related information (through the use of monitoring & reporting mechanisms, risk modeling & analysis techniques, and key risk indicators) that leads to sub-optimal business decision making and limited performance.
- Unclear or inconsistent understanding of risk oversight roles and responsibilities that drives a lack of accountability for risk management and exposure to unmitigated risk events that negatively impact strategic priorities.
- Lack of effective business process integration for strategic risk related practices that reduces the relevance of strategic risk management to operational execution and lowers both real and perceived value of risk governance.

Recognizing that such alignment challenges exist is only the first step—organizations that successfully “crack the code” to achieve more effective alignment around strategic risk are the ones that will be best positioned to win in the market. We have outlined a number of practical steps that should help executives and management get a better handle on these challenges.

Good risk management allows companies to both execute against their plans but also realize untapped opportunities with a solid set of tools to adjust to market conditions as needed.
Practical steps to building strategic risk alignment

As previously noted, PwC’s Performance Alignment Leadership Model is based on the premise that to achieve optimal success, organizations need to both out-perform and out-respond their peers. In other words, the highest performing organizations are those that are consistently able to maximize their return on luck—both good luck and bad luck. Being internally aligned on strategic risk will allow a management team to succeed on both fronts.

Out-perform—An aligned management team will consistently:

- Identify and consider relevant risk factors when establishing and reviewing its strategies and associated internal business tradeoffs. Timely knowledge of the risks and opportunities presented by a constantly shifting business environment will allow management at all levels to make informed decisions (including those that impact priorities and tradeoffs) to better meet their organization’s strategic goals.

- Obsess on building a consistent and pervasive risk culture that influences and reinforces desired behaviors up and down the organization. Where this is most powerful, obsessive consideration of the potential risk impacts of operational decisions (both positive and negative), and their contribution to the overall achievement of defined business strategy, becomes part of the organization’s DNA.

- Establish clear expectations for strategic risk management accountability and oversight. This is not only achieved through the establishment of formal governance and oversight (e.g., an enterprise risk management program) but also, and perhaps more importantly, by linking individual performance targets and incentives to the effective management of specific strategic risks.

- Establish a consistent understanding of risk appetite that guides behaviors and decision making. Building clarity around the degree of risk the business is prepared to accept (and why) will encourage internal debate and focus behavior on how to align risk management skills with commercial opportunities.

- Embed risk management discipline and related activities into business / operational routines (including ongoing business performance monitoring). Alignment occurs when strategic risk management and ongoing business performance management are not just complementary but truly integrated. Where risk management is most effective, it is considered as a core competency for elevation into key business decision making roles.

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Performance Alignment

• Establish consistent and timely communication protocols on key risks and risk impacts to all major stakeholders (both internal & external). Knowing who needs to get what type of risk related information and when, will advance visibility about emerging risks and risk events, facilitating an organization’s ability to out respond. Risk identification, assessment, monitoring and reporting processes should be designed with the needs of all stakeholder audiences (internal and external) in mind.

Conclusion

An organization’s ability to continually and consistently adjust its intended course, such that it maximizes upside strategic opportunity and minimizes downside risk impact, depends in large measure on how effectively it has aligned around the four core leadership areas delineated in our Performance Alignment Leadership Model—establishing strategic priorities and tradeoffs, driving appropriate critical behaviors, setting performance drivers, and lastly managing its strategic risks.

In this article, we have focused on the strategic risk area; however, it’s important to note that performance alignment is best achieved when all four of these areas are aligned.

Broad based risk alignment touches many elements of a traditional governance, risk and compliance program; it also cuts across the risk management continuum from risk identification to risk response. In order for organizations to out-perform and out-respond peers, leadership should focus on the eight practical steps we’ve identified that drive strategic risk alignment—consistent risk consideration, pervasive risk culture, clear risk ownership, defined risk appetite, risk process integration, robust risk monitoring, risk response validation, and stakeholder communication. When implemented effectively, each of these risk steps contributes to setting and refining corporate strategy, guiding management to make appropriate strategic tradeoffs, driving critical behaviors necessary to achieve strategic intent, and providing management with important visibility into strategic and operational effectiveness—all of which ultimately create a competitive advantage in the marketplace.

Out-respond—An aligned management team will consistently:

• Establish risk monitoring and reporting mechanisms and processes (including relevant risk indicators and risk analysis) designed to identify and/or anticipate emerging risks and opportunities earlier than competitors. In addition to anticipating negative impacts, robust risk monitoring and reporting will also allow management to take advantage of new opportunities that shift to their risk environment before their competitors can react.

• Implement and regularly stress test internal mechanisms to respond appropriately to the inevitable crises, leveraging the most likely risk-based scenarios. Given the importance of rapid and impactful event response, it’s critical to get it right out of the gate, and therefore important that response mechanisms and processes are established, and regularly updated and drilled.

Strategic risks

Organizations that address these issues can experience 5x improvement in strategy execution
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