

Closing the gap between strategy and execution

Better alignment enables successful strategy execution, improves overall performance, and delivers financial returns

April 2014
Performance Alignment

At a glance

Nearly half of all organizations today are not ready to execute new business strategies in response to rapid, transformational change.

The gap between strategic intent and strategy execution creates a drag on performance and morale while increasing risk exposure.

Instilling an Performance Alignment Model delivers a three-fold improvement in critical strategy execution metrics.

Well-aligned organizations benefit from higher EBITDA margins, both short-term and long-term.

Challenges and opportunities for today's business leaders

PwC's 17th annual *Global CEO Survey* asks CEOs whether their organizations are prepared to make changes in response to transformative global trends. Department by department, US CEOs found plenty of room for improvement. While some corporate functions are well prepared for change—the executive office (63%) and finance function (50%) in particular—other functions did not fare as well. Only one-third of sales and IT departments—critical enablers of change—are well prepared. And only one-fifth of R&D departments—the engine of business innovation and tomorrow's growth—are ready for change in the eyes of the CEO.

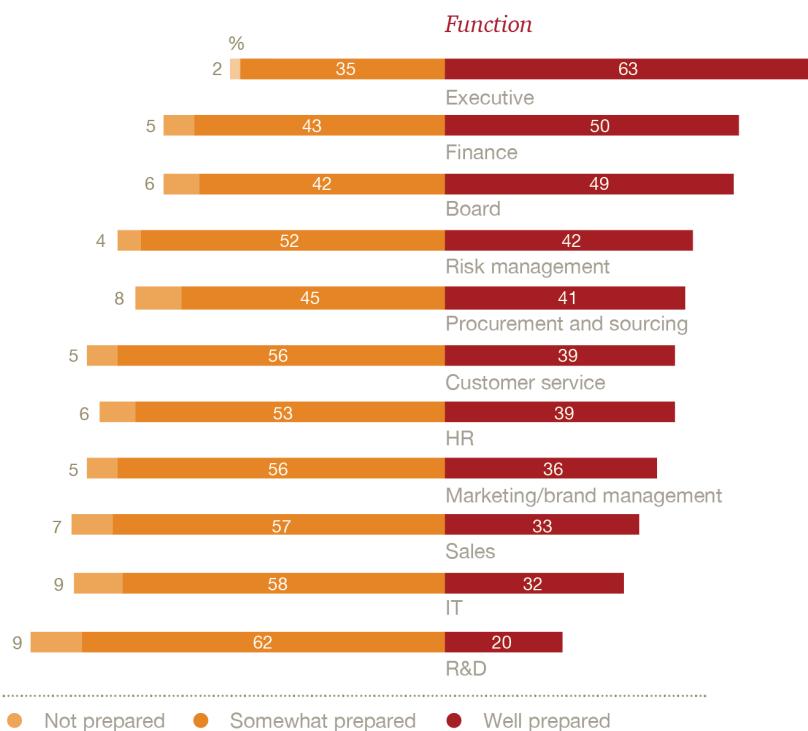
Based on our research, one of the top reasons for this inconsistency in an organization's level of preparation for change is misalignment between their strategic intent and operational execution.

Business leaders are urgently seeking growth in the face of global trends that present both challenges and opportunities. Their organizations, global and local, are operating in an environment characterized by increased global competition, changing demographics, resource constraints, dramatic technological advancements, and market volatility. While they're planning to grow through innovation and acquisition, tremendous focus remains on leveraging current operations to offer customers increasing value, with cost-efficient execution being the enabling cornerstone.

For these organizations, executing strategy successfully and embedding alignment into the operational fabric of their organization is critical.

US CEOs are evaluating capabilities to succeed in a different world

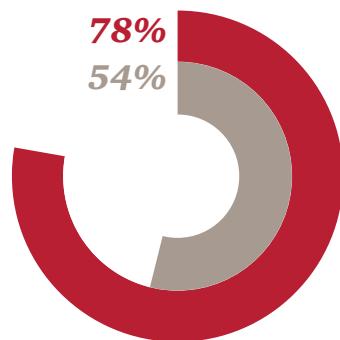
Thinking about the changes you are making to capitalize on transformative global trends, to what degree are the following areas of your organization prepared to make these changes?



Base: 161.

Source: PwC, 2014 US CEO Survey, January 2014.

A gap exists between strategic intent and execution that most organizations fail to address effectively



Strategy execution has increasingly become more important and more difficult

Organizations, global and local, are operating in a new and challenging environment compounded by new problems such as increased competition, rising prices, and market volatility. Greater focus is now on leveraging current operations to offer customers increasing value, with execution being the enabling cornerstone.

The effort of addressing today's most immediate challenges—increased regulation, global economic volatility, and the search for new sources of growth—leads to increased complexity for multi-national organizations as they seek to capitalize on opportunities. And that increased complexity, in turn, complicates execution of business strategy.

For instance, the execution challenges associated with entry into new geographies, markets, and cultures are immense hurdles. But they must be overcome for organizations to position themselves for the future. Failure to align all business units, processes and functions around a coherent, unified strategy can result in dissatisfied customers, disrupted supply chains, cost inefficiencies and diminished value.

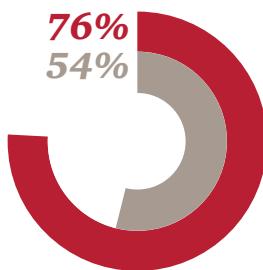
The stakes for successful execution of strategy are high. And in particular, strategic leaders will want to address the following:

- In today's world the line between strategy development and execution is becoming much more blurred requiring companies to adopt a more iterative, agile approach.

78% of Global CEOs surveyed expect to transform their organizations yet only 54% of organizations are satisfied with their ability to execute on their strategic vision

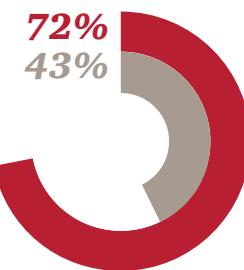
- With the rapid change of technology and competitive pressures, organizations are forced to execute their strategies as quickly as possible. By doing this, they often mistakenly embed poor practices and misalignment within the organization which can result in operational inefficiencies and extended time to market.

Our diagnostic survey uncovers “alignment gaps” that hinder organizations from realizing their full potential



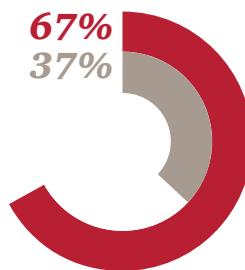
76% agree that their leadership team shares a consistent view of the strategic priorities...

...However, only 54% believe their strategy has been sufficiently translated into clear actions that will achieve their objectives



72% agree they have the right strategy to reach their full potential...

...However, only 43% believe all risks associated with the strategy have been sufficiently considered



67% agree that the critical behaviors they promote are the right ones given their strategy and external environment...

...However, only 37% believe there are clear consequences for anyone who fails to 'live' the identified critical behaviors day to day

Source: PwC Global Performance Alignment Survey Database 2013

Traditional approaches lead to alignment gaps

Often, due to multiple interpretations, a series of 'alignment gaps' prevent organizations from executing their strategy.

Conventional wisdom of executing an organization's strategy is quite linear. Specifically, the strategy is developed and then executed in a top-down approach, involving a few change agents and leveraging mass communications to cascade the strategy message through the organization. Often, due to multiple interpretations, a series of 'alignment gaps' prohibit organizations from executing their strategy.

Many organizations find a gap between strategic intent and day-to-day reality of the business

Incremental and static

Strategy

Focus of the organization's top leaders
(Executive team and direct reports)

Alignment gap

Where there is a lack of clarity and unity, leaders will cascade their own experience and bias of the strategy

Operating model

The reality of what goes on in the business day-to-day

For example, as debates arise about what the new strategy means for core operational functions, an unclear translation of strategic priorities could force organizations or business units to become quickly misaligned to the overall organization's goals. The lack of sufficient levers to truly mitigate those key areas of misalignment become obstacles that frequently contribute to the lack of confidence that CEOs identify in their organization's ability to execute strategy.

Closing the alignment gap to execute strategy successfully

The Performance Alignment Model is PwC's tool to address these 'alignment gaps'. The Leadership Model consists of four lenses that help organizations translate lofty strategic objectives into structured performance and risk management levers, which enable detailed structure and consideration of critical behaviors.

- **Strategic priorities and tradeoffs**—Providing the organization with a clear view of the organization's strategic priorities (e.g., achieving market dominance in a new segment and capturing 10% of incumbent's market share), this lens yields understanding of how organizations manage the tradeoffs needed to execute strategy.

- **Strategic risks**—Understanding risk factors causing the greatest reduction in shareholder value and impacting the organization's ability to execute their strategy. (e.g., operating control failures, human capital management issues, supply chain issues).
- **Critical behaviors**—Addressing whether the organization has the right behaviors within the organization in those key roles that are focused on setting the company's strategic priorities as well as those roles that are responsible for strategy execution.
- **Performance drivers**—Hardwiring the organization to the strategic priorities, this lens determines whether the organization has the right scorecards, KPIs, dashboards, and metrics in place to track and drive strategy execution deep within the organization and provide transparency for the leadership team.

Focusing on the Performance Alignment Model drives better alignment to executing strategy and reaching the organization's strategic potential

Transformational and dynamic

Strategy

Provides focus and direction—Describes 'Why' and 'What'

Performance Alignment Model

Drives clarity, unity, alignment, and accountability



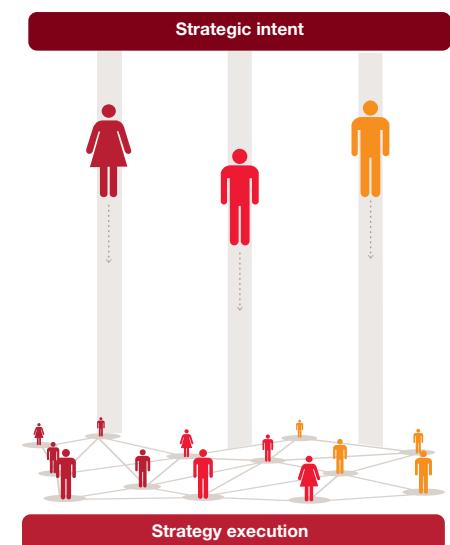
Operating model

Delivers performance outcomes—Describes 'How'

People

Process and Technology

Structure



Performance Alignment closes the gap between strategic intent and strategy execution

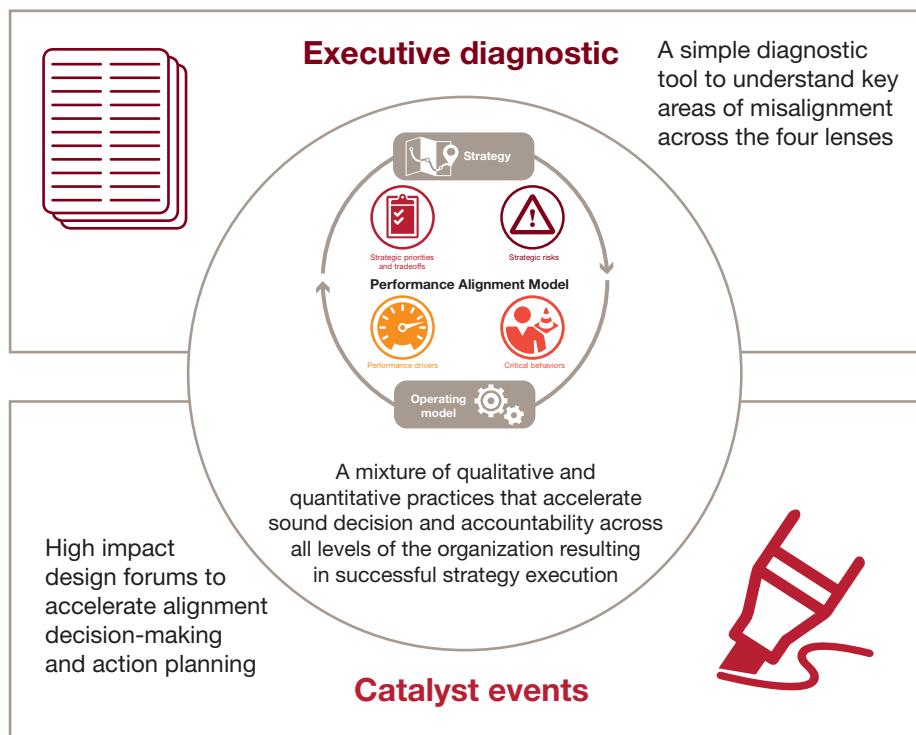
We call this fresh approach to strategy execution **Performance Alignment**. Performance Alignment helps unpack the strategy to a meaningful level of detail so that everyone knows what they need to do. It explicitly links strategy development with a company's risk appetite, and helps executives understand just how "risky" they can be in their strategic choices. It also recognizes that execution is ultimately about how people behave and make decisions on a daily basis—if this doesn't change, neither will performance.

Performance Alignment takes an iterative approach, enabling continuous improvement:

- Looking at the strategy through the four lenses drives clarity, unity, and alignment on the purpose and value of the strategy to the business.
- It clarifies strategic priorities and trade offs at the beginning of the project and as circumstances change. Leaders are able to align around a set of initiatives that work together to drive strategic intent.
- It continually surfaces strategic risks to enable the organization to be aware and prepared to address new conditions that could jeopardize success.
- It places focus on critical behaviors that facilitates alignment, ownership, and accountability to be driven from leadership throughout the organization.

- It provides leadership and key business unit leaders with pragmatic levers they can adjust to increase alignment within their organization and help them be more prepared to deal with rapidly changing and challenging environments.
- Performance Alignment is a proven methodology to truly embed strategy execution deep within the operational fabric of the organization.

Yet looking at the broader set of organizations that have participated in our survey, we find that there's a strong correlation between alignment and key financial performance metrics. The respondents who placed in the top quarter of our alignment model assessment outperform the other organizations in EBITDA margin, whether you look at results for one year, three years or five. Performance Alignment brings rigor and focus to strategy execution resulting in highly tangible rewards.



How to get started

We begin with a 2-week survey to identify areas of misalignment. After benchmarking the organization using the standardized survey, companies assess areas of misalignment for deeper understanding and driving alignment with leadership and the broader organization. These detailed assessments take between 4-8 weeks, and culminate in a Catalyst design forum that helps to software alignment within the organization while accelerating change.

The benefits are clear

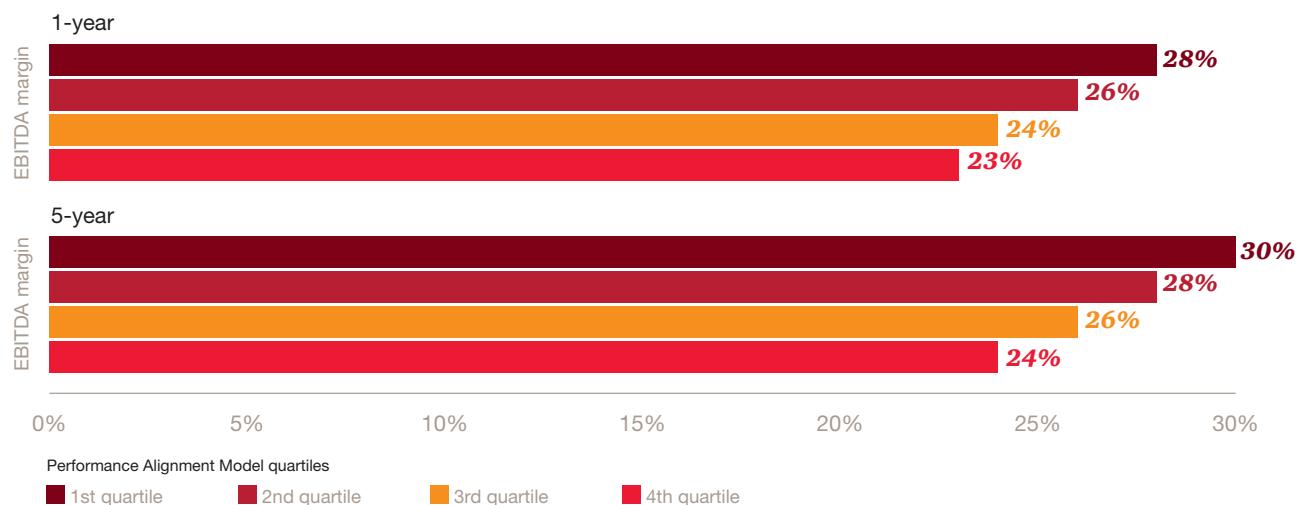
Organizations that focus on the four lenses of the Performance Alignment Model can improve their strategy execution by the following multiples:



In our experience working directly with clients, we've seen organizations adopt an alignment model that unifies strategic intent with strategy execution:

	Productivity	Customer satisfaction
Telecommunications firm Helped put the customer at the center of everything, while simplifying the operating model and significantly reducing cost in the business	↑ \$1.6b	↑ 15%
Consumer lending organization Worked to change behaviors around its sales and fulfillment model, along with the organizational and technology changes needed to deliver the model	Conversion ratio ↑ 20%	Customer satisfaction ↑ 15%
Wealth management firm Helped senior leadership and staff unpack the strategy, define critical new behaviors, and build the capabilities needed to be successful	Employee engagement ↑ 8% in 4 months	Strategic clarity (people understand vision) ↑ 91%

Focused attention on the Performance Alignment Model yields higher EBITDA margin across 1- and 5-year averages.



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about Performance
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