Accelerating execution at every management level

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Corporate leadership teams have an ongoing love affair with strategy formulation, yet the road to strategy implementation is littered with failure. According to *Harvard Business Review*, **67%** of well-formulated strategies fail due to poor execution.[1]

Why the high failure rate?

Shockingly, recent studies have reported that **71%** of managers cannot pick their own strategy out of a multiple-choice selection of six strategies. Furthermore, **70%** of leaders from VP to first level manager cannot define free cash flow.[2,3]

This means that more than two thirds of your managers can't identify your company's strategy, and over two thirds of your managers can't define the economic goal of nearly any strategy – also known as free cash flow. Given these statistics, it's not surprising that more than two thirds of strategies fail.

While one can cite many reasons for why strategies fail (lack of technology, processes, timing or resources to name a few), the "people side of strategy" is what's really being neglected – the capabilities, behaviors and mindsets held by the people in your organization.

So, what is missing from the "people side of strategy" that is causing your strategy to fail?

1. Lack of strategy alignment: not understanding the what, why, and how of the strategy
2. Lack of business acumen: not knowing how daily business decisions drive profitable growth and free cash flow

Research from Bridges Consulting, a firm that has studied the challenges of strategy implementation for over 20 years, helps to illuminate why strategy implementation fails. In a recent study, hundreds of managers were asked to "list the reasons you think strategy implementation fails," and the three most cited responses were:[4]

1. Poor communication of strategy and implementation
2. Lack of leadership through the implementation journey
3. Unclear on actions to take to implement the strategy

So, how can you help your leaders get your organization's strategy further, faster?

1 Ron Carucci, "Executives Fail to Execute Strategy Because They're Too Internally Focused," HBR.org, Harvard Business Review, November 13, 2016, https://hbr.org/2017/11/executives-fail-to-execute-strategy-because-theyre-too-internally-focused#:~:text=In%202016%2C%20it%20was%20estimated,failed%20due%20to%20poor%20execution.

2 "When CEOs Talk Strategy, is Anyone Listening?" Harvard Business Review, June 2013.

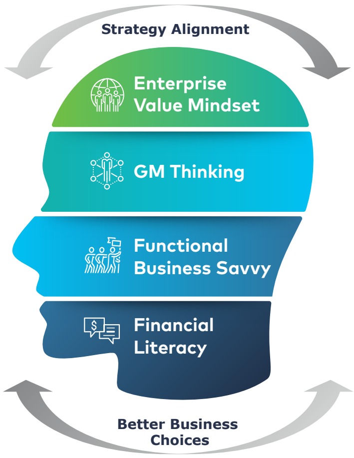
3 Karen Berman and Joe Knight, "Are Your People Financially Literate?" Harvard Business Review, October 2009.

4 "20-year Results From Surveying Strategy Implementation," Bridges Business Consultancy Int., October 2016.

It is critical to address the neglected capability areas cited above and improve your management teams' understanding of the strategy and economic goals of your business.

There are four key topics within business acumen that will make your employees better business decision makers and accelerate your strategy:

1. Financial literacy
2. Functional business savvy
3. General Manager (GM) thinking
4. Enterprise value mindset



This business acumen framework is designed as a continuum, with individual contributors and first level managers focusing on financial literacy; middle managers focusing on functional business savvy and GM thinking, while your most senior leaders focus on enterprise value mindset.

1. Financial literacy

For most new hires, coming to a new company is like moving to a new country. One of the first things a new resident should do is learn the country's language – and in business, financial literacy is this language.

Simply put, financial literacy is how a company keeps score and measures progress. All managers and leaders in the company should understand how scoring works and be working to improve it.

For new employees, general definitions are important, but so are the unique aspects that differentiate your company's business model from others. For example, if an employee moves from an on-premise software company to a SaaS software company, general software financial literacy will not be enough. New business models require new financial literacy.

The biggest mindset shift managers need to make around financial literacy is:

- From: "Finance is for the finance department"
- To: "Finance is the language of business and I can use it to make better business decisions."

Building a foundation of financial literacy, i.e., understanding P&L, balance sheet, cash flow and your Key Performance Indicators (KPIs) is critical for the next steps that help all employees become

better decision makers.

2. Functional business savvy

Employees typically specialize in functional areas throughout a company such as: finance, marketing, R&D, HR, sales, etc. Generally, employees are rewarded, recognized and promoted for being excellent individual contributors in these specialized areas. However, at some point in their development, these people evolve into managers and you need them to begin taking a broader business perspective.

Functional business savvy is what gives managers the necessary perspective on how their function works with other functions in the business to produce results for clients and drive profitable growth.

For example, finance leaders should have a clear understanding of how shaping terms and conditions with field sales teams impacts closing a deal, customer satisfaction and revenue recognition. In another example, R&D teams should understand how their decisions impact downstream product development, manufacturability and, ultimately, market share and profits.

Having functional business savvy means your managers within functions learn to see beyond their silo, think "end-to-end" across the enterprise, and all the way out to the customers and market.

3. GM thinking

Financial literacy and functional business savvy are necessary to develop GM thinking, but the two alone are not sufficient.

GM thinking is the full maturation of a leader's understanding how the business works and how it makes money. GM Thinking is inspired by the classic P&L leader title, traditionally called a General Manager (GM). The typical GM has all functions reporting to him/her and is accountable for the whole P&L.

All of your people don't have to be GMs to make the shift to GM thinking. GM thinking means a manager understands how all functions work together to produce value for clients, beat the competition and produce financial results. It requires outside-in thinking, an ability to sense market trends, the ability to set strategy and make the short and long-term trade-off decisions to navigate the business through ambiguity and uncertainty.

A GM thinker knows what it takes to lead a growing and profitable business.

4. Enterprise Value Mindset

GM thinking is the penultimate step to developing the highest level of business acumen, which culminates in an enterprise value mindset. While a GM may be fully capable of leading a business unit, a large corporate enterprise expects more of senior leaders.

Years ago, a large enterprise could have several business units with many independent GMs running them and producing results as independent players in a portfolio. However, in today's world, nearly every company is dealing with the

challenges of digital transformation and relentless consumer demands to be more agile and seamless across functions and business units. CEOs everywhere are demanding that their leadership teams adopt more of an enterprise value mindset.

For example, a high-tech materials manufacturer had five separate business units producing different types of electronic/intelligent materials. These five separate business units each went to market separately and had their own P&L, and for many years this was good enough. That is, until market trends shifted.

Mass consumerization and digital trends forced this company to pivot so that all five business units worked together seamlessly. Now, the five BU leadership teams collaborate and work through trade-offs together, integrating solutions, sharing resources, quickly solving complex problems, increasing ease of use for consumers, and maximizing enterprise value (not just their BU performance). Adding to the challenge, if the separate BUs didn't work together, they faced the real possibility of "shrinking together" as the market moved past them.

Enterprise value mindset takes trade-off thinking to the highest level and focuses on sustainably increasing enterprise level metrics like cash flow, EBITDA and profitable growth in general. It also requires the highest-level perspective and integration of strategy and operations to sustain performance.

Lack of strategy alignment and business acumen causes many strategies to fail. The business acumen framework above can help you identify gaps in mindsets, capability and alignment to lead a business, execute strategy and drive business results. Leveraging the right financial literacy, functional business savvy, general manager (GM) thinking, and enterprise value mindset will improve leaders' decision making and increase leader readiness to execute a strategy successfully.

