

Jomer & Co

Managing by values supports closure of the strategy-to-execution gap

The three essential leadership questions we usually phrase when meeting senior executives are:

- What is the environment in which your organization must compete and win?
- What are those few things your organization must do outstandingly well to win and keep on winning in this environment?
- How will you mobilize your organization to implement these things faster and better than your competitors?

These three questions are quite easy to ask but seldom easy to answer. It requires a lot of hard work to give comprehensive answers. This white paper explores these essential questions through the lenses of company purpose and shared values for executing strategy and change. To make the strategy stick, key priorities and supporting values must be anchored in the company culture. Hence, wanted behaviors and practices must be driven into the organization and grow deep roots in order to remain firmly planted in the culture to really stick and make the strategy work.

Our research¹ conclusions on strategy creation and implementation suggest that 58% of top executives are not satisfied with the output from their strategy promise. Put differently, a majority among top executives believes there is a strategy-to-execution gap in terms of how they perceive their strategy promise vs. the actual strategy output. Even if it is easier for most managers to get things done when there is a clear chain of command, many managers really struggle to make things happen in a cross-functional dimension. The people they are relying on sometimes do not even share their assumptions or objectives. Although the promises to strategy are critical for business success, they too often fail in practice and execution becomes a minefield.

Articulating purpose and values, which guide the daily activities as well as the employees at all levels in the organization in order to create value shapes the future of a company. Unless an organization has a clear purpose, individuals may question why they should cooperate at all or why they should be organized in a certain way.

Additional dimension when closing the strategy-to-execution gap

The system that shaped the model for management and organizations during the 20th century and still is in practice in many organizations has shortcomings to generate success in today's business environment. Despite the fact that the concept of Management by Objectives (MBO), first launched in mid-1950ies, has become an integral part of most organizations' managerial processes, efforts still often perpetuate and intensify hostility, resentment, and distrust between managers and their subordinates. As practiced in too many organizations, it is really just industrial engineering with a new name, applied to higher managerial levels, and with the same

¹ Jomer & Co Research: Strategy Creation and Implementation, 2013.

resistances intact. Obviously, somewhere between the concept of MBO and its implementation, something has seriously gone wrong in many organizations. When an organization loses sight of its objectives, it tends to redouble its efforts, but with little impact. We sometimes find that, like most rationalizations in the Taylor tradition, MBO fails to adequately take the deeper emotional components of motivation among employees into account. Sometimes, managers make things worse by promising young people challenges while assuming that these employees are challenged by the same things as they are. We then hear young employees ask: *What about my needs? Who will listen? How much can and will the company help meet my requirements while also meeting its own objectives?*

The old model, based on hierarchical control of employees, must unquestionably evolve and take into account new ways of thinking and doing things. Leaders are expected to make strategic choices and create the right conditions for the workforce to develop its true potential in order to reach the objectives. If high performance is expected, then shared values are extremely important to reach operational and financial success, since shared values are the grease in the machinery. In other words, a “humanized” interpretation must be given to the company’s strategic direction in order to achieve the objectives and to obtain satisfactory financial returns.

If you want your company to survive and compete in an increasingly demanding market, competitive conditions require value to be added continuously to productive processes to ensure that customers are satisfied. Objectives that traditionally are cascaded down from the top of the organization must then be fully understood and make inherent sense in themselves. For today’s enlightened and skilled workforce, company objectives will only make sense if they are consequences of specific and fully accepted beliefs and values. Then, the objectives will serve to translate work into proper action and results. People are after all most deeply motivated by tasks, which stretches and excites them while at the same time advancing organizational goals aligned with shared values. The ability to connect emotionally with the workforce and redirect values and attitudes is a

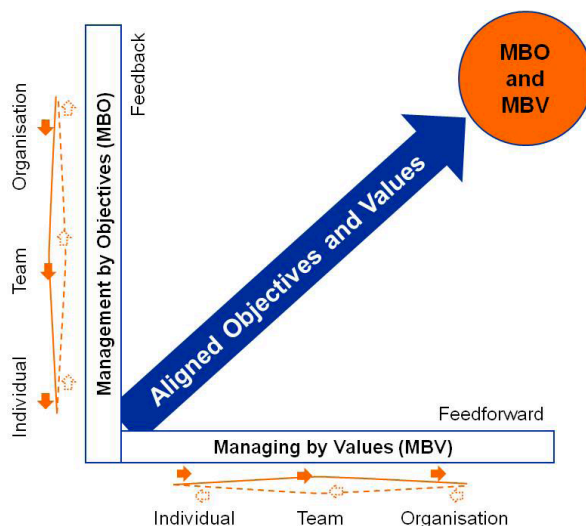


Figure 1. Aligned focus calls for an additional dimension in performance management

key factor when directing the company culture in pursuit of closing the strategy-to-execution gap. Hence, changing commitments and behaviors are of great importance, and not until measurements and rewards are aligned with values to support the strategy, will most things happen naturally.

MBO is a widely used approach, and the process for defining objectives, in a way that management and employees agree and understand what needs to be done, is crucial. In addition, an important part of the alignment of measurements and rewards and in the end strategy execution is also to focus on how the targets are reached. Working with values enhances people’s understanding of the

necessary behaviors to reach the targets. Thus, Managing by Values (MBV) is an important and complementary part of performance management when aligning the organization and executing the strategy. See fig. 1.

The CEO is not the "Boss"

Having more authority than anyone else in the company and bearing full responsibility for the company's success or failure, but at the same time being unable to personally control most of what will determine it, make the CEO's² job different and more complex than one can imagine.

CEOs must manage organizational context rather than focus on daily operations. They need to learn how to act in indirect ways, setting and communicating strategy, putting sound processes in place, and selecting and mentoring key people in order to create conditions that will help others down-stream make the right choices. At the same time, they must set the tone and define the organization's culture and values through their words and actions. In other words, they must personally demonstrate how employees should behave.

CEOs must continuously earn and maintain the right to lead. They can easily lose the legitimacy if the vision is unconvincing, if their actions are inconsistent with the values they communicate, or if their self-interest appears to negatively impact the well being of the organization. A CEO's success ultimately depends on the ability to enlist voluntary commitment from managers and employees rather than forcing obedience on others. The complexity in day-to-day work, which is derived from the growing need to understand customer demand in order to increase customer value as well as for a flatter and more agile organization, is absorbed to a greater extent by shared values than by objectives and instructions. The need for many organizations to increase the general level of professionalism and creativity among the workforce calls for management to treat employees as mature individuals, capable of articulating their own values and translating them into initiatives and into creative behavior at work. A professional without autonomy and skill is not a real professional, rather an operative and dependent resource.

Most new CEOs initially assume that they have finally reached a position where they have the ultimate authority. They soon learn that the situation is much more complicated than that. Seasoned CEOs, who have formulated and implemented a set of bespoke values for the organization, know that values are the real "boss" going forward. The minute the values are broken, the right to lead will deteriorate and the organization will rollercoaster to a dysfunctional state. Our experience tells us that this also goes for every manager in any organization that breaks the agreed shared values. It all boils down to trust, which is a prerequisite for engagement. Having trust in another person is as energy generating as the lack of trust is energy consuming. Hence, the values have to remain the "boss" to gain faith as the real source of power.

To successfully close the strategy-to-execution gap, MBO needs to be complemented with MBV when aligning the organization and executing the strategy. Genuine success

² We use the term CEO, which here is equivalent to the terms President and Managing Director.

does not come from proclaiming values; it comes from consistently putting them into daily action, and when this happens, people often accomplish extraordinary results.

Putting shared values into play when closing the strategy-to-execution gap

MBV is about simplifying, guiding and securing commitment. Simplifying involves absorbing the organizational complexity created by the ever-increasing need to adapt to changes at all levels in the organization. Guiding is about using the strategy to direct the people towards the vision of the company. Securing commitment is about integrating purpose, values and people, aiming at creating the right conditions for each employee to deliver high commitment and performance in their daily work. Shared values are the tools used by leaders to keep the organization together and thus channel efforts toward success.

Note that MBV does not eliminate the need for MBO, since objectives and goals are vital parts of the management system. Objectives tell what we are going to achieve, rather than how we are going to do it. Values on the other hand describe the behaviors needed to reach the objectives. If you as a leader do not distinctively clarify which behaviors you expect from your people to reach their targets, you may miss out of something essential. You may end up having achievers in your organization making the numbers but doing it in a way that is not on line with company policies. Judgment requires standards. To judge means to apply a set of values, and value judgments without clear, sharp communicated and agreed standards become irrational and arbitrary.

Our experience tells us that too many companies have spent countless hours in debate only to come up with values that, despite good intentions, sound like they were picked from an all-purpose list of virtues including “integrity, quality, excellence, service, and respect.” To be honest, all decent companies clearly sign up to these values, and having a statement of values is nowadays a hygiene factor. So, the issue is not whether a set of words called “values” exists, the issue is whether or not they support the strategy and its execution. Adhering to the need to align the behaviors behind the strategy must make the articulation of values core to any organization.

By contrast, we have also engaged with companies that have living values, which really describe to the behaviors they need for successful execution of their strategy. Those companies have crafted bespoke values based on the behaviors they want to embed in the workforce, i.e. behaviors that say how things should be done. However, values that guide behaviors so detailed that they leave little room for imagination are contra-productive. People must be able to use the values as guidelines in their daily work. Values are in essence words and therefore relatively simple structures of thought. Nevertheless, they encompass complex ideas about an organization’s wanted behaviors and they encapsulate in a few words how an organization shall achieve its objectives. The actual process of creating shared values is an iterative process were the leadership team starts by drafting the first version. Then the draft is distributed out in the organization to be poked and probed iteratively in a way that people feel a commitment to contribute.

MBV helps leaders and managers guide strategic changes in the direction of the strategy and vision. It is a proven way to manage behaviors, and strengthening and revitalizing

the values day-by-day to proactively meet challenges of the future. Three steps can describe the implementation of MBV:

1. Clarify purpose and values
2. Communicate purpose and values
3. Align daily work with purpose and values

Clarifying the purpose and values is really about articulating the values that best describe the wanted behaviors in order to execute the strategy. It involves identifying the gaps between what you say you believe in and how you actually perform. It is as mentioned above an iterative process, which must involve people in different layers of the organization before decision is made on the company's values.

Communicating the purpose and values is a prerequisite for success and the purpose is to lay an honest foundation for continued dialogues at different vertical and horizontal layers in the organization. Such dialogues, which clarify and make the values concrete, and put them into action in the right context, are essential for mobilizing the workforce. So, communicating the organization's purpose and values in an open and honest way is

really about launching a new way of company life, rather than just another program.

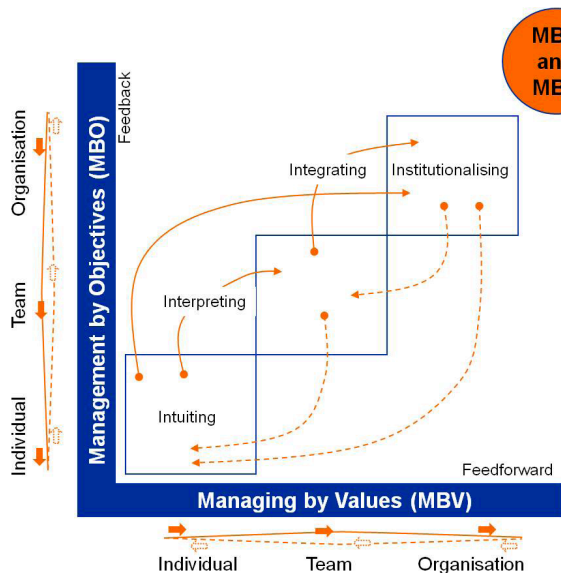


Figure 2. Management by Objectives answers *what to do* while Managing by Values answers *how to do it*

Aligning the daily work with purpose and values through MBV is about starting to live the shared values on all organizational levels. See fig. 2. Real change in culture and behaviors does not happen until it happens inside people. It is really a transformation, which does not happen overnight. It evolves through continuous dialogues about what the values and purpose mean to each individual and how to perform the daily work. MBV is based on the concept of a learning organization and contains four interlinked processes of learning, i.e. *intuiting, interpreting, integrating and institutionalizing*.

Contrary to MBO, where objectives are cascaded down from the top and feedback on the level of attainment is given as means of follow up, MBV is based on the concept of feed-forward. Reverse to feedback, feed-forward is the self-fulfilling prophecy process that turns logical cause-effect relationships upside down. Feed-forward is about encouraging future positive events and occurs when someone comes up with opportunities to improve future performances, i.e. from the individual to the team and then to the organization.

MBV starts with intuiting at the individual level to build tacit knowledge, and provides the basis for interpreting the values based on prior hands-on work experiences and knowledge of the organization's purpose, strategy and vision. This type of individual

insight is often difficult to put into words, which creates difficulties to share it with others. When the individual gains a new and additional insight in the context of performing work, he or she feed-forwards this to the work team. Then, the team interprets each individual insight to give it situational context. This often results in a common language and provides good opportunities to jointly make the values concrete and meaningful. Continued dialogues around the meaning of the values help ground the practice of the values into the team's operating behaviors when performing daily work, and in the end the whole organization.

Integrating is the process that further develops a common understanding of the values in a broader context. When the meaning of the values is not perceived in the common context, they tend to have a minor guiding influence on the broader organization. Continuous dialogues are important enablers to convey the values in its explicit context.

Finally, institutionalizing is about embedding the insight and knowledge formed from the individual to the group or team, and finally to the organization as a whole so that it becomes deeply rooted in the culture. The secret of making MBV work is basically doing what we all believe in, and believe in what we do.

Strategy execution is one of four phases in a virtuous strategy cycle

All executives and managers know that strategy is important, but many also find it scary. It forces them to confront a future they can only guess. True strategy is about placing bets and making hard choices. The objective is not to eliminate risk but to increase the odds of success. Crafting a winning strategy requires the leadership team to leave their comfort zone and advance into a rough-and-ready process of thinking through what it would take to achieve what they want and then assessing whether it is realistic or not.

The two most crucial choices when creating a winning strategy is the where-to-play, i.e. which specific customers to target, and the how-to-win, i.e. how to create a winning proposition for those customers. It is essential that leadership restlessly focuses on the key choices that influence the customers, the true revenue decision makers. They are the ones who decide whether they want to spend their money on your company. The only certain way to improve the winning rate of your strategic choice is to test the logic of your thinking. *For your choice to make sense, what do you need to know about customers, about the evolution of your industry, about competition, about your own realities?*

The human mind often suffers from the illusion of understanding what is going on in the world we are living in. Hence, it is critical to embed the above questions and the answers in a systematic strategy process, since the human mind naturally rewrites history and declares the world to have unfolded largely as was planned rather than recalling how strategic bets were actually made and why. If the logic is recorded and then compared to real events, the leadership team will be able to quickly detect when and how the strategy is not producing the desired outcome and will be able to make necessary adjustments. Such a systematic strategy process must be regarded as a critical core competence of any corporation.

Strategic Learning is a systems approach to strategy formulation and execution that embraces, develops and disseminates knowledge, and is able to adapt to changes in the

world so that it benefits customers, employees, shareholders and society. The Strategic Learning³ strategy process framework has a four-phase dynamic cycle of Learn, Focus, Align, and Execute. See fig. 3. These phases build on one another and are repeated to create and sustain winning performance. The more often an organization repeats this



Figure 3. Strategic Learning is a systems approach to strategy and execution

cycle, the better it becomes in doing it, thus enhancing its adaptive capability. The result is a process of ongoing renewal that characterizes a truly adaptive organization.

Each phase of the cycle has its own set of hurdles and rewards, and when done effectively, each phase builds on the previous one creating a powerful momentum behind the strategy. If all components are in place, then this cohesion will help executing the plan rapidly and successfully. But, the implementation of the strategy will only be as effective as the insights, focus, and alignment are. Execution is both the final phase of one cycle and input into the next cycle. Hence, by working the way around the cycle again and again, the company continues to update its insights, learns and adapts to new conditions. Hence, the Strategic Learning process never ends.

Leadership evolution

The causes of the strategy-to-execution gap are often not visible to top management. Leaders then sometimes pull the wrong levers in their attempts to turn around performance, pressing for better implementation and execution when they actually need a better strategy, or opting to change direction when they really should focus the organization on implementation and execution. Speed is more than ever a vital dimension in the world of business today. A consequence of speed in a strategy execution context is to also align measurements and rewards behind the strategy.

The leadership teams we have supported in the systematic process of strategy formulation and execution have gained deeper insights about the need for embedded shared values as a mean to align the organization behind the strategy. They have come to acknowledge the need to manage by values, as a complementary dimension to MBO, in order to clarify and align wanted behaviors to achieve the objectives. After all, releasing the power of the people calls for affirming the purpose and values, and to express the identity of a successful organization. Shared values are a source of emotional appeal, which increases employee engagement.

Having a higher leadership ambition, does not allow for awaiting grand new theories or perfect answers when closing the strategy-to-execution gap. The executives we have advised have come to see that their job as leaders is to tap into the power of shared values and that leadership requires courage from the heart. We have assisted traditional

³ Inspired by the thinking of Willie Pietersen.

“bosses” to evolve into transformational leaders by applying facilitating leadership through MBV to ensure that the right things happen in the daily life of the organization.

How can we help?

The strategy-to-execution gap must be closed, and creating a culture, which supports the execution and thereby significantly improves the company’s chances of success, increases the odds. One important benefit from the systematic process of Strategic Learning when it comes to strategy execution is, besides an immense focus of closing the gap, the learning experience from the execution that will be carried forward into the next strategy cycle.

Jomer & Co has long experience and deep knowledge of helping leadership teams and senior executives to execute their strategies. Our support is always bespoke and there are several possible entry points to a successful collaboration around execution, for example:

- Running a Strategy Execution Workshop with the management team is a proven process for identifying strengths and weaknesses when closing the strategy-to-execution gap and to build a higher ambition leadership through shared values.
- Aligning measurements and rewards behind the strategy with focus on adding MBV as a balancing dimension to MBO is an effective way to align behaviors behind the strategy to increase the chances for a successful and rapid execution.
- Engaging in Strategic Coaching of senior managers’ strategic challenges supports and assists them individually in their ongoing strategy execution work.
- Conducting Strategic Leadership Support for executives and managers is a comprehensive and effective way to individually assist them in their challenges with self-leadership, group leadership and direct leadership.
- Performing a Strategy Audit rapidly highlights faults in the strategy process, especially faults from an MBV perspective, which are difficult to detect.
- Supporting the Execution phase of the Strategic Learning strategy process gives management a comprehensive approach and drive for strategy execution.

Jomer & Co

We help clients close the strategy-to-execution gap by creating and implementing winning strategies.

Jomer & Co is a boutique advisory firm, focusing on strategy creation and implementation. Our focus on employing professionals with extensive experience provides us with the executive resources of a larger organization while still being flexible and responsive in the relation to our clients’ challenges.

We are devoted to knowledge and situational insight and are aligned to the shift in demand for management consulting services by its way of leveraging knowledge, experience and giving advice. Our experienced Consulting Associates work closely with clients throughout the stages of strategy creation and implementation.

For contact and more information, please email info@jomer.se.