PM SOLUTIONS RESEARCH

Seven Steps to Strategy Execution

Integrating Portfolios, Programs, Projects and People for Organizational Performance

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with
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Foreword by Art Kleiner, editor-in-chief, strategy+business *magazine*

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Foreword

Tinkering with the Living Organization

Over the past 30 years, the idea has been floated again and again that organizations are "living systems:" they aren't mechanistic and shouldn't be thought of as machines. Among the writers who have put this idea forward are Gareth Morgan (in *Images of Organization*), Arie de Geus (in *The Living Company*), Peter Senge (in *The Fifth Discipline*), and Eric Trist (in his various papers). And there's good reason to believe they're right. After all, as anyone who has ever tried to intervene in an organization can tell you, they don't react as machines would when you try to fix them.

When approached with change, in other words, they do not respond like clocks, automobiles, engines, telephones, or even computers. They do not either start working better or stop working at all. Instead, they respond like animals, plants, families, and communities. They shift course and react in unexpected ways, often rejecting the measures and approaches that you thought would be most helpful.

But if the idea that organizations are living systems makes sense, there's far less of a complete understanding about how to translate that into effective interventions.

None of this is surprising. After all, large managerial organizations, separate from the state or the church, have only existed since the mid-19th century. They began with the railroad and the telegraph. We have only had 175 years or so to begin to understand them. And it took a long time to recognize that they are living systems. But if they are living systems, where would we look first to learn how they work?

Back in the 1980s, W. Edwards Deming and others wrote about seeing the "organization as a system:" or as Rummler and Brache put it, managing the "white spaces in the organization chart." Like Eric Trist and many others, they were concerned about the actual flow of work and knowledge about work through the organization: goods, services, throughput, money, and anything tangible that ultimately reached a customer. Indeed, some of the most effective organizational work of the past 50 years, from the quality movement to sociotechnical systems to reengineering (when it worked) to lean production has all been interventions in the domain of processes and workflow.

The Center for Business Practices has entered the fray of those trying to understand how the living system of the organization works, with its Strategy Performance Management model, a "thought experiment" that is an attempt to synthesize processes and workflow throughout the system that is the corporation. By breaking down artificial barriers between functions, and removing the mental barriers thrown up by the differing languages of the executive suite and "the projects," this model (which, in graphic form, looks a lot like a web or a molecule of some living substance) proposes to ease the flow of value through the organization's white spaces. Like any model, it is only as real as the practice of people in living organizations will prove it to be. Welcome, reader, to the ongoing experiment.

— Art Kleiner
Editor-in-Chief
strategy+business

Acknowledgements

It's fitting that "knowledge" is at the heart of the word acknowledgements. The work, study and writings of many members of our organizations (PM Solutions, the PM College, and the Center for Business Practices) have, over the years, contributed to the knowledge base from which this book was born.

The SPM model is the brainchild of Jim Pennypacker, but has been field-tested by many in our consulting practice. And, over the years since 1999 when the Center for Business Practices began publishing research and writings on the human and organizational side of project management, associates too numerous to list here have written on aspects of organizational life that are covered in these pages. You will find their names and credits in the References, but our thanks for their brilliant work is on this page.

Thanks once again to Jeannette Cabanis-Brewin, the editor of all our books, for tying all the threads of investigation and practice together into a readable whole.

And thanks to our families for putting up with distraction, absence, and computer keyboards clattering at midnight.

—J. Kent Crawford

PREFACE

"Remind Me Why We Are Doing This?"

"A poor strategy executed well is always better than a great strategy executed poorly."

– *Michael Porter*

IF YOU WORK in an organization of any size, you have heard this line before—maybe even uttered it yourself. A disconnect between corporate strategies and the activities conducted by the organization's staff is a widespread problem. In fact, a survey conducted by the Society for Human Resource Management and the Balanced Scorecard Collaborative found that 73 percent of polled organizations said they had a clearly articulated strategic direction … but only 44 percent of them communicated that strategy well to the employees who must implement it. So it's not surprising that, as *Fortune* magazine has reported, nine out of ten corporate strategies devised on the executive level never come to fruition. To quote one expert, these companies "are like a body whose brain is unable to tell it what to do."

The inability of organizations to effectively execute their corporate strategies is one of the major factors limiting their success. Recent management research and literature has thoroughly documented the importance of strategy execution in creating corporate value. The time and money spent on strategic planning is wasted, in the absence of a way to execute planned strategies. Therefore, sound execution is critical: a focus on making strategy work results in a healthy organization.

Execution: Turning Ideas into Action

Given that execution is critically important, why don't more organizations develop a disciplined approach to it? Simply because it's very difficult to do. Turning strategies into reality requires constant investment in management resources. It's particularly difficult in large or more complex organizations, where the distance between those who formulate strategy and those who carry it out can be significant. Research has revealed numerous barriers to effective strategy execution, including:

- Inflexible processes and organizational structures, which lead to difficulty in adapting to rapidly changing business environments
- Inadequate performance measurement tools, which leads to poor improvement practices
- Poor communication of strategy and performance, which leads to strategic misalignment
- No strategy-execution focus, which leads to poor delivery of results
- Poor change management practices, which leas to execution failure
- No execution roadmap, which leads to inefficiencies and wasted effort
- No understanding by employees of their contribution to execution outcomes, which leads to lack of motivation to succeed
- Poor resource allocation, which leads to inefficiencies and lost opportunities

- Unclear strategy management policies, which lead to confusion and poor decision making.

That execution is of paramount importance to companies today can be seen from the wide variety of recent books on the topic, and innumerable business press articles. Numerous studies have shown the correlation between the ability to execute strategy and company success, while other work concentrates on the negative side, concluding that strategy execution is often less than satisfactory, with failure rates ranging from 30 to 90 percent. (See References and Resources for a list of publications consulted in the writing of this book.)

The consensus of all the recent buzz about execution has, not surprisingly, centered around the increasingly crucial role of integrating strategic plans—which are developed by a relative few individuals in most companies—with the work of the many, at all levels of the company. Because, like a game of "telephone" where much of a message can be lost as it is transferred down the organizational ladder, across functions, and from project to project, writers on execution agree that companies must establish coherent and logical processes for the transformation of strategies into actions. This cannot be left to chance.

Although the terminology may differ, most writers on execution hit on the same critical success factors for strategy execution. Clarity of purpose; accuracy of data about performance; transparency of communication; and a "systems thinking" perspective that strives to optimize all the strategic activities of the organization, rather than put out fires in one initiative at a time—these attributes of the "excellent execution" culture are universal. The role of information technology in keeping information flowing up and down the organization is also agreed to be paramount.

"The next decade," warns George Veth, writing in *DM Review,* "will be marked by an increased focus on strategy execution as the key determinant of market leadership." In today's fast-paced competitive climate, it's no longer enough to have strategy creation (*thinkers* doing analysis, planning, visioning) in the board room and implementers *doing* the follow-through, somewhere far down the corporate hierarchy. Says another *DM Review* columnist: "In recent years, these worlds have merged as traditional planning efforts have proven too costly or time-consuming, and many major top-down strategy initiatives have failed. Today's challenge is how to build execution into strategy."

This level of integration, for most organizations, will require a serious culture change, and a real commitment to implementing processes that both engage people from every level of the organization, and apply a rigorous decision-making process to every investment of time, resources and money.

Yet, while strategy execution can be difficult, it is not impossible to achieve. A carefully planned approach to execution is needed to overcome these barriers to attain organizational strategic goals and objectives.

Strategy Performance Management

Seven Steps to Strategy Execution describes such a planned approach and offers organizations a framework against which to map their progress in creating what we call Strategy Performance Management. SPM is an approach to business success that integrates aspects of the organization that too often operate asynchronously. An organization operating under the SPM framework links governance and performance management to each of seven key areas, which are described in the following chapters:

1. Strategy Management
2. Project Portfolio Management

3. Program/Project Management
4. Structure
5. Culture
6. People
7. Information Technology.

This approach, based on Center for Business Practices research and field-tested by PM Solutions' consulting practice, gives organizations a logical framework to help them communicate strategy to the people and processes that make it a reality. And, it further builds organizational capability by continually recording performance against the organization's selected strategy performance metrics. Using SPM, strategies generate real initiatives for change, and usable information flows back into the strategy planning process, allowing decision makers to forge ahead or change course as necessary.

SPM Defined

In its simplest state, an organization's Strategy Performance Management context begins with corporate strategies (including objectives) which cascade to business units or equivalent organizational entities (IT). These business units, in turn, develop aligned strategies (see Exhibit 1). Program and/or project teams develop strategies that align with business unit and corporate strategies using project strategy or similar processes. Strategy performance feedback measured against objectives is used to adjust the elements of this SPM context—strategies (objectives), portfolios, programs, and/or projects may change as events unfold that impact the organization's strategic intent. Strategy Performance Management is a dynamic process that requires information sharing, coordination, and effective control and feedback mechanisms throughout this hierarchy of

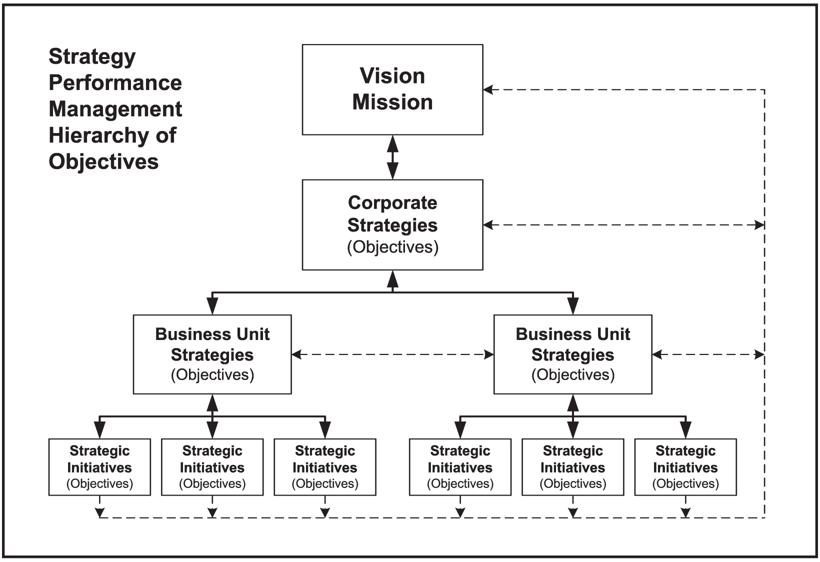

Exhibit 1. This model of a simple Strategy Performance Management hierarchy of objectives shows how strategy is driven from the top down, yet aligned across business units and strategic initiatives (top-down arrows). As strategic initiatives are executed and the business environment changes, performance information moves from the bottom up and may require changes in strategies and objectives, as well as strategic re-alignment (bottom-up arrows).

strategies and objectives to enable the organization to make its strategy work.

Understanding SPM requires an understanding of the organization's hierarchy of objectives and strategic initiatives. To help in this, we developed the SPM framework, a strategic organizational context that includes process, governance, information technology, structure, people and culture (see Exhibit 2). Each of these elements must be strategically aligned for effective execution.

Strategy Performance Management, then, is the comprehensive and integrated set of processes and tools that enable

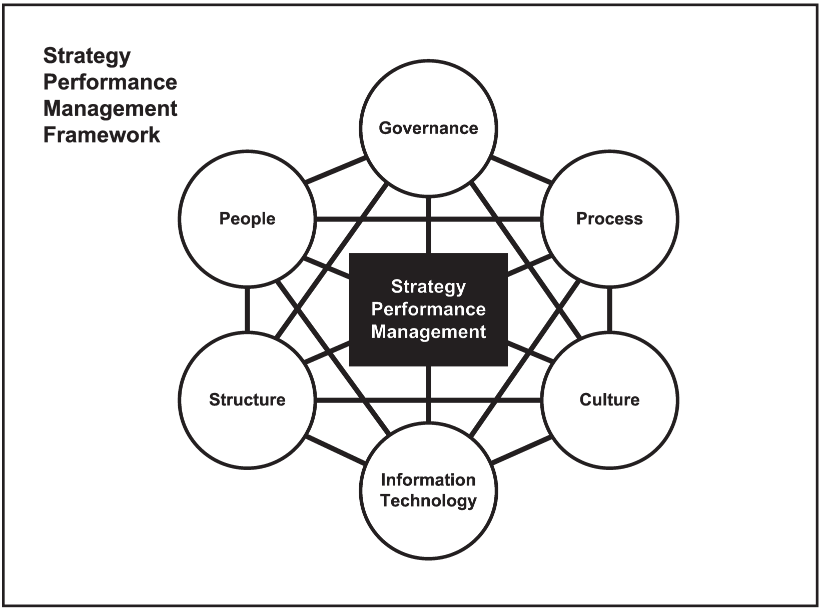

Exhibit 2. Strategy Performance Management operates within the context of six elements: culture, structure, process, governance, people, and information technology. These elements are highly interconnected and influence each other. Organizational success, therefore, requires the alignment of these contextual elements in support of strategy execution. SPM focuses on integrating these elements—and on integrating the key processes of strategy management, project/program management, portfolio management, and performance management.

the effective execution of organizational strategy through sound portfolio, program, project, and performance management. SPM focuses on aligning the elements of the strategic organizational context in order to overcome the barriers to effective strategy execution. SPM is used to monitor whether or not the set of strategic choices made by the management team continue to be the right ones, and that the initiatives planned to achieve them are being executed efficiently.

What Do Projects Have to Do with It?

Ideally, organizations execute their strategies through the creation of "strategic initiatives," comprising portfolios of programs and projects, which become the vehicles for executing the organization's strategy, as shown in Exhibit 3.

In practice, however, most companies, far from having a coherent model for managing the projects as a portfolio, have at best a vague idea how many projects they have in the pipeline, how much they will cost, how they will be staffed, or who is qualified to run them, making strategic planning an exercise in fantasy. Studies of the failure of customer relationship management systems, for example, confirm that lack of knowledge about one's own company is a primary reason for project failure. Companies who do not know their starting position build future corporate plans not on a solid foundation, but on shifting sand. Furthermore, their leadership often does not understand what is wrong, or how to distinguish what needs fixing.

A glance at the impact that the Balanced Scorecard has had upon businesses gives us some clues. The BSC emphasizes the linkage of measurement to strategy. A tighter connection between the measurement system and strategy elevates the role for non-financial measures from an operational checklist to a comprehensive system for strategy implementation. For the first time, the details of the project portfolio (what the Balance Scorecard creators Kaplan and Norton call the "strategic initiatives") become important to a company's strategic thinkers.

At the same time, alignment resolves some thorny project management problems. Many studies have cited the lack of executive support as a key contributor to project failure. Project managers complain that their projects do not receive the resources they need. Projects completed "successfully" by project management standards (on time, on budget, to spec) have been

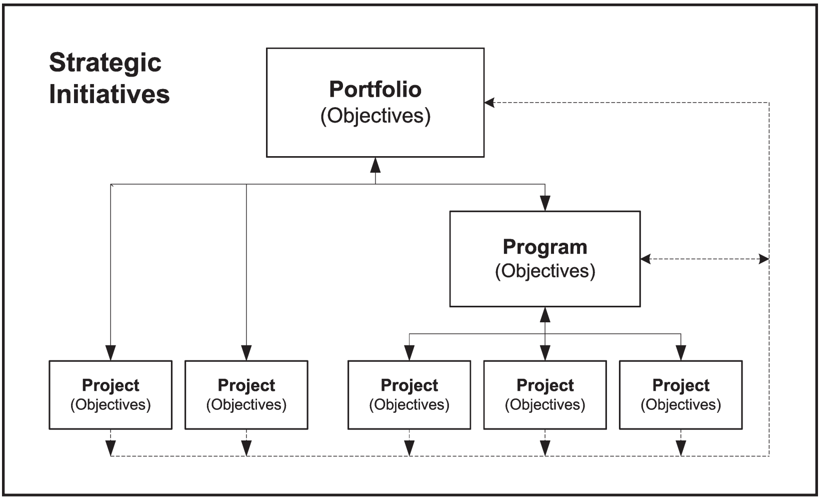

Exhibit 3. Strategic initiatives comprise any number of portfolios, programs, and projects. Again note that strategic alignment (top-down arrows) is necessary among projects, programs, and portfolios, and that performance information (bottom-up arrows) feeds the decision-making process regarding which projects make up the programs and portfolios. Note also, that project strategy and objectives must be logically linked from the bottom to the top of the Strategy Performance Management framework, and need to be taken into account when determining the capability of the organization during strategy formulation.

considered failures because they did not address a business need. All these issues are alleviated in a company that ties strategic planning to portfolio selection and project execution.

Strategy & Projects: What the Research Says

In order to ascertain the extent to which integrating corporate strategy with project portfolio management contributes to organizational success, the Center for Business Practices conducted a survey in November 2005, targeting a broad spectrum of organizations.

An extensive review of management literature on the integration of strategy execution, portfolio, program, project, and performance management yielded a set of best practices related to the alignment of projects and strategy. These best practices were organized according to the SPM framework, and respondents indicated how often their organization used each practice on a 7-point scale.

At the same time, responding organizations rated themselves on a number of measures related to performance. Two kinds of performance measurement are key for determining whether an organization is functioning at a high-performance standard: Measurement of *project* performance and measurement of *organizational* performance. For purposes of analysis in this survey on *Strategy & Projects,* we measured project and organizational performance using the following eight measures:

- Strategy execution performance
- Shareholder satisfaction
- Organizational financial performance
- Strategic alignment
- Project schedule/budget performance
- Project customer satisfaction
- Resource allocation
- Project portfolio performance.

The results allowed us to differentiate high performing organizations from the crowd (see Exhibit 4).

The results: companies using the identified best practices for aligning strategy, projects, and people most consistently also had the highest rates of project and organizational success. Low-performing organizations consistently under-utilized the best practices in all areas. (Further details about the research can be found in Appendix A.)

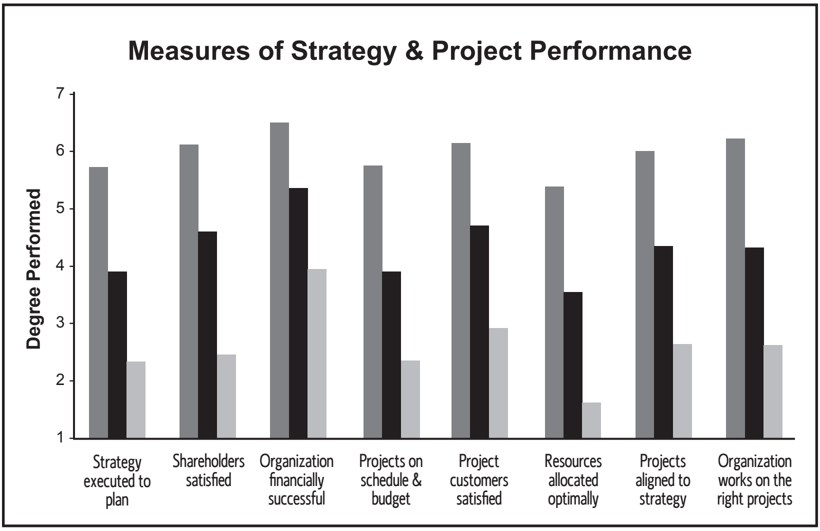

Exhibit 4. Performance Indicators. This graph displays the wide divergence between the top performing organizations and the low performers on the eight performance statements used in the survey. The left bar indicates the frequency with which each measure was reported by the top-performing companies in the survey; right bar indicates frequency with which that measure was reported the low performers in the survey. Central bar expresses the mean of all companies. The top performers as measured by these eight performance indicators also scored the highest on the consistent use of strategy and projects alignment best practices, across all areas of the SPM framework.

In other words, companies that are skilled at integrating strategy with their project processes, their people management processes, their organizational structure, and their performance management processes reap the benefits. In such companies, each player knows how his or her role serves the corporate strategy; the business units and programs are balanced to optimize the enterprise's progress against strategic goals; waste and confusion are minimized. The brain and the body are in sync, and, like top athletes, they execute their planned moves to a high standard of performance.

Introduction

Governance

The SPM Framework in Action

Governance is a concept that is infiltrating the organization from both directions. On the enterprise level, Sarbanes-Oxley regulation has driven the development of corporate governance policies, re-engaging top executives with issues of risk, ethics and finance that had become obscured by layers of bureaucracy. Meanwhile down in the trenches, IT and data governance policies proliferate as technology personnel struggle to keep massive amounts of information organized while doing too many projects with too few people. It's an understatement to say, as one IT governance website does, that there's a "considerable grey area" between business and IT. The SPM model strives to connect these two pressures for better control throughout the organization, bringing clarity to the grey area between vision and task.

The Canadian Institute on Governance (IOG) says that the central component of governance is decision-making, which directs the collective efforts of people in organizations. Strategic decision-making must occur within a policy framework that lays out clearly defined roles, accountabilities, and processes. Governance is that framework. It assists the organization's leaders in making the strategic decisions to fulfill the organization's purpose—as well as the tactical actions to be taken at the level of operational and project management. In addition, such a framework helps workers and teams to understand the actions they need to take to deploy and execute the organization's strategy. And, it ties everyone in the organization together around consciously-chosen purposes.

Or, to put it simply, governance is integration … with clout.

Defining Governance

Any time people come together to accomplish work, some sort of governance is needed. The word "governance" as a business buzzword seems relatively new, but the concept is well-established in nonprofit organizations, and their experience with governance holds many lessons for the for-profit world. The *Oxford English Dictionary* defines "governance" as "the act, manner or function of governing," and governing is further defined in part as "regulating the proceedings of a corporation." Many people, at least in U.S-based businesses, are more familiar with governance as an IT term. The Gartner Group defines governance as the "assignment of decision rights and the accountability framework to encourage desirable behavior in the use of IT."

But why stop in IT? Shouldn't the entire organization—across all departments and projects—have a policy framework to encourage "desirable behavior"? And should it be the *same* framework—not one for IT, one for Finance, and another for HR? Defining the rules by which the enterprise operates should be done once, for the entire enterprise: not piecemeal, department by department.

The IOG gives a simple definition of governance as "the art of steering … organizations," specifically "the more strategic aspects of steering, making the larger decisions about both direction and roles."

"Steering" is a great metaphor for governance, as anyone experienced in sailing can attest. There's no simple straight ahead in either governing an organization or in sailing (the IOG calls it "tentative, unpredictable and fluid"). And, like a sailboat, the organization is somewhat at the mercy of the environment, no matter how skilled the helmsman. It's important to leave port with all the machinery of the organization—the processes and tools—in place and in good repair, but that alone isn't enough. Good governance requires that those steering the organization be alert to all aspects of the internal and external environment and have risk plans in place in event of emergency. Yet, as the IOG notes, governance is complicated by the fact that it involves multiple actors—the organization's stakeholders—not a single helmsman.

An initial step in the formation of governance is the absorption of input from the business environment and from stakeholders within and external to the organization. This input can come in various forms, for example:

- As process maps of existing processes and/or maturity assessment of those processes
- As existing role descriptions for groups within the organization (descriptions at the level of individual roles are too granular a level for a governance policy)
- From a knowledge base such as a lessons-learned database
- From focus groups with employees, managers, vendors, customers or other crucial stakeholders
- From best practices resources, such as benchmarking forums or reports.

Management—whether executive or middle, operational or project—provides the link between governance policies and the actual work: the organization of tasks, people and technology to get the job done. A conceptual map of the place of governance in the organization is shown in Exhibit 5.

It's important to remember that "good governance" means not only achieving the desired results—but achieving them in the right way. That "right way" is shaped by the needs, values and culture of the organization, so even governance frameworks based on the SPM model will vary widely from each other in practice. While there is leeway—another sailing term!—for differing values to be accommodated in the definition of good governance, some universal norms do apply. For example, consider these characteristics of good governance from a list published by the United Nations:

- Participation—providing all stakeholders with a voice in decision-making
- Transparency—built on the free flow of information
- Responsiveness—of organizations and processes to stakeholders
- Effectiveness and efficiency—processes and institutions produce results that meet needs while making the best use of resources
- Accountability—of decision-makers to stakeholders
- Strategic vision—leaders have a long-term perspective.

The practice of governance with such characteristics, according to the IOG, leads to a number of positive consequences, including:

- People trust your organization
- You know where you're going
- Executives are connected to stakeholders
- You get good decisions; people value your work
- You have the ability to weather crises
- You achieve financial stability.

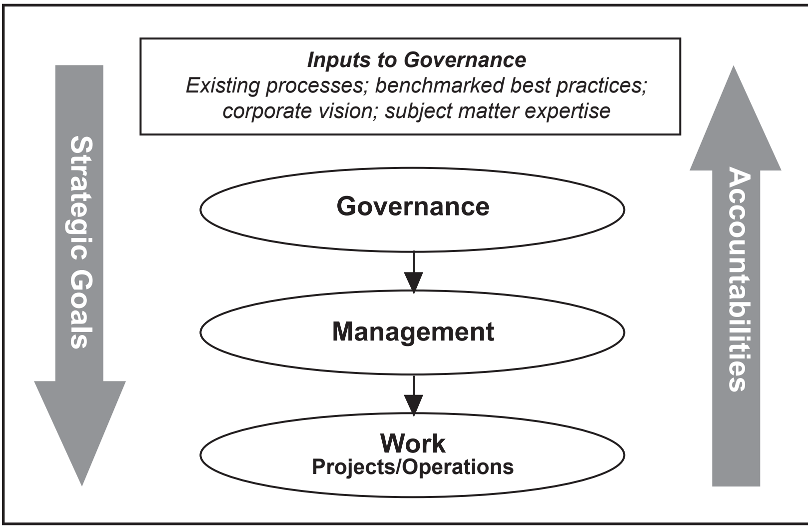

Exhibit 5. With input from stakeholders and the application of knowledge from within and without the organization, a governance policy provides guidance to management (executive, project, and operational) so that the work of the organization is accomplished in a setting of coherence between planned strategy and completed deliverables. Adapted from figures on the website of the Institute on Governance, Ottawa, Ontario, Canada: www.iog.org.

Other benefits of good governance include:

- Standardized process and procedures
- Maximized return on investment
- Alignment with corporate objectives
- Accountability and transparency in decision making.

Of course, IOG research focuses on the nonprofit and public sphere. But there is a growing body of evidence linking governance and overall organizational performance in all types of organizations, across the spectrum. The SPM model is designed for use in any organization—for-profit, not-for-profit, or governmental.

Many organizations struggle to for a definition of governance that is both comprehensive enough to achieve its purposes, yet simple enough to be easily put into practice. Most experts on governance agree—although they may use differing terms—that there are two major aspects to defining governance: defining processes, and defining roles and responsibilities in carrying out the processes. To discuss these two aspects, we'll borrow terms used by British IT writer Neville Turbit on his IT governance website.

Process Governance

Agreed-upon processes, described at a high level by the organization's governance document, should flow from the top for consistency throughout the organization. Often, when seeking to set forth governance, companies do just the opposite, describing what's already accepted practice in the departments and attempting to roll it up to the enterprise level. In setting forth governance, take it from the top: defining first how strategy is made, and then how that results in the evaluation of ideas, their justification, approval and prioritization, the commissioning of projects and programs, the roles of the departments in those programs, and of the personnel on those projects. This is the only way to shed light on the famous "grey area."

Methodology and Standards

Process standards—such as the *PMBOK® Guide* for project management—may be stipulated in a governance document but should not be described in detail. Instead, it is common for a governance document to refer to a more detailed document. It may say, for example, that the organization's project management methodology must be followed for projects in any function area that exceed a certain dollar value or resource threshold. Governance development can also drive the development of standards, identifying where a needed standard doesn't exist and stipulating that this lack should be addressed.

Naturally, governance is also about setting up a system for assuring compliance with the policies: there's no point in having rules unless there's some process to ensure that people are following them. This can be formal, as in a governance audit, or informal, as in periodic reviews. The important thing is that the right metrics are collected so that performance and compliance can be monitored. The purpose here is not to punish, but to tweak processes, develop personnel, and change strategic course if needed. Governance, while being serious, should not be come so heavy-handed that the members of the organization view it with dread. The purpose is to create a more smoothly-operating organization, one that is more successful and in which people are not frustrated in trying to achieve their goals. Overall, participating in a well-governed organization ought to be a rewarding experience.

Which brings us to the second area that must be addressed in governance.

People and Structure Governance

In order to execute strategies effectively, people need to understand their roles in making strategy happen. A strategically focused culture is one in which the organization structure, and the defined roles of groups and individuals, are designed specifically to smooth the way towards goal accomplishment. Many organizations, due to inchoate strategies or the buildup of obsolete roles or functions over time, actually have elements in the management and work layers of the structure that hinder and impede progress towards strategic goals instead. When putting a new governance structure in place, it's a good time to clean house: to examine the organization's structure, processes and roles for outmoded and unhelpful aspects.

Given that strategy is executed through initiatives (programs and projects), the SPM model proposes that the ideal structure for the organization is one built to maximize project and program management effectiveness. We'll discuss that in more detail in Chapter 4.

But even within the ideal structure, roles and responsibilities cannot be left to chance. Since governance is all about accountability for results and methods, defined roles are the basic building blocks. A role means there's someone accountable for a specific task or group of tasks: his or her responsibilities. As Turbit notes, "Responsibilities mean the role must be doing something. The 'doing something' implies there is a methodology or process for doing whatever is being done … By defining [roles and responsibilities, then rolling them up as part of a structure, it will become clear where gaps exist. [I]t also shows the poor fits in the organization."

Turbit also notes that, while it is generally a good principle to only have one person accountable, in defining governance this is not always practical. For the purpose of defining governance, it is sometimes better to define at a group level. The types of roles, and the supporting people-management practices that help them to succeed, will be discussed further in Chapter 6.

The SPM Governance Framework

The SPM governance framework defines the set of responsibilities and practices exercised by the board and executive management with the following goals:

- Strategic direction is clearly understood throughout the organization and business units and levels of management are all focused on aligning to this strategic direction.
- Strategic objectives are achieved. This is controlled by establishing a continuous loop process for measuring strategy performance, comparing to objectives, and redirecting activities or changing objectives where necessary.
- Appropriate and effective processes are in place to monitor risk and that a system of internal control is effective in reducing those risks to an acceptable level.
- Verification that the enterprise's resources are used effectively and efficiently.
- Decision-makers have the information necessary for making decisions.

SPM promotes a governance framework whereby all strategic decisions throughout the organization are made in the same manner. Each level within the organization must apply the same principles of setting objectives, providing and getting direction, and providing and evaluating performance measures. A common governance framework ensures that decisions are made the same way up and down the organization and that there is an appropriate mix of people making decisions.

SPM Governance Tools

The processes in four key management functions must be integrated for effective strategy execution—strategy management, portfolio management, program/project management, and performance management. It is critical to the success of an organization that these processes are integrated to support the alignment of the organization's strategic objectives. Exhibit 6 depicts those processes and sub-processes.

Strategy Management Processes

Strategy is the integrated vision and direction of the organization, including the manner in which it determines, communicates, and implements that vision and direction. It answers the question: how will we position ourselves in the market to secure a sustainable competitive advantage. It's the roadmap. And although it's not highly detailed, it provides a framework for decision making. Strategy management is discussed in detail in Chapter 1.

Portfolio Management Processes

A project portfolio is a collection of projects or programs that are grouped to facilitate effective management of the work to meet strategic objectives. Project portfolio management provides a consistent way to evaluate, prioritize, select, budget for, and plan the right projects—those that offer the greatest value and contribution to the strategic interests of the organization. When used effectively, project portfolio management ensures that projects are aligned with corporate strategies, that the portfolio contains the right mix of projects, and that resource allocation is optimized. It bridges the gap between the strategic planning process and program/project execution. Portfolio management is discussed in detail in Chapter 2.

Program/Project Management Processes

Program/project management is the application of knowledge, skills, tools and techniques to program/project activities to meet program/project requirements. Programs are collections of projects that unify and leverage the contributions of projects in the portfolio; a program of projects may be established to meet a key strategic objective.

Good project management is a fundamental building block of good program management. Program/project management is covered in Chapter 3.

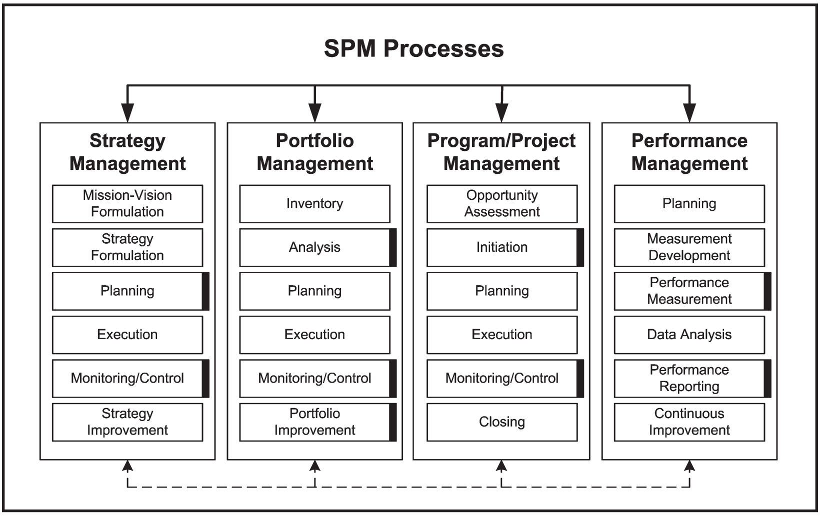

Exhibit 6. SPM processes must be integrated to support the alignment and effective execution of the organization's strategic objectives. Integration of the highlighted processes (black bar on right) is, in particular, a key success factor of strategy execution. Once more note that strategic alignment (solid lines) is necessary among SPM processes, and that performance information is shared (dotted lines) to optimize the comprehensive SPM framework.

Performance Management Processes

Making strategy work requires feedback about organizational performance and then using that information to fine tune strategy, objectives, and the execution process itself. There is a learning aspect to strategy and execution as organizations adapt to changes in the environment. Because business unit strategies flow from corporate strategies, the foundation for performance management should be laid first at the corporate level. Corporate performance measurement is augmented by business unit performance measurement, focusing on the business unit contribution to executing strategies. Portfolio, program, and project performance measurement follows and is logically linked to business unit performance measurement.

Because it is via the performance management processes that accountability and actionable information about all aspects of the organization flow back up to the strategic planning level, we discuss performance management in the final chapter, Chapter 8.

Implementing SPM

Implementing Strategy Performance Management requires the integration of disparate management tools and practices that are currently implemented in today's best practice organizations, including corporate performance management, business process management, business intelligence, strategy management, portfolio management, and enterprise program/project management. The key is to use these tools wisely, guided by an integrated SPM framework, to enable effective strategy execution. The results are worth the effort.

Results

The most successful organizations integrate key SPM processes, establish a strategy execution focus, and implement the tools required to make this approach sustainable and agile. What value can the organization achieve by undertaking SPM? Simply put, SPM helps organizations overcome the barriers to effective strategy execution, optimizing their total return to shareholders. The new organization, focused on executing strategy, features:

- Organizational processes and structures that are flexible and adaptive, optimized for today's rapidly changing business environments
- Effective management tools to measure the performance of strategy execution and, therefore, improve that performance
- Clear communication of strategy and strategic performance throughout the strategic management hierarchy, leading to organizational strategic alignment

- Focus on achieving corporate strategies, with managers trained and motivated to execute strategy
- The ability to manage change effectively
- A roadmap to guide strategy execution efforts
- Employees who understand their contribution to important execution outcomes
- Effective allocation of resources leading to efficient strategy execution
- Clear strategy management policies, especially those regarding responsibility for execution decisions.

This governance framework must also be understood as part of a larger organizational context that includes structure, information, people and culture. Each of these elements, discussed in later chapters, must be strategically aligned as well for effective execution.

SPM focuses on aligning the elements of the strategic organizational context in order to overcome the barriers to effective strategic execution. SPM is used to monitor whether or not the strategic choices made by the management team are the right ones, and the extent to which the initiatives planned to achieve them have been undertaken and are working as expected.

Best Practices in Governance

The Center for Business Practices' 2005 research study, *Strategy and Projects,* identified six best practices related to governance that had been proposed in management research. They were:

- The organization has a well-defined strategy.
- A documented strategy execution plan guides strategy execution efforts.

- Strategy is communicated clearly to those developing portfolio and program/project plans to ensure that those initiatives support the organization's strategy.
- Portfolio, program, and project managers feel a sense of ownership about the organization's strategy execution plans.
- Appropriate and effective processes are in place to monitor and manage risk.
- Decision makers have the information they need about the execution of their organization's strategy to make optimum decisions.

Responding organizations were ranked according to the performance indicators discussed in the Preface into high performing and low performing organizations (see Exhibit 7). Not surprisingly, the research results indicated that:

- High-performing organizations use governance best practices more than other organizations, consistently and significantly.
- Low-performing organizations consistently under utilize governance best practices.
- The most often used governance practice by high-performing organizations is having a well-defined strategy.
- High-performing organizations are significantly better than average at having project managers feel ownership of their strategy execution plans, followed by having appropriate and effective processes in place to monitor and manage risk.
- Low-performing organizations are significantly poorer than average at having strategy communicated clearly to those developing portfolio and program/project plans.

For many years, proponents of project and program management have decried the disconnect between executive

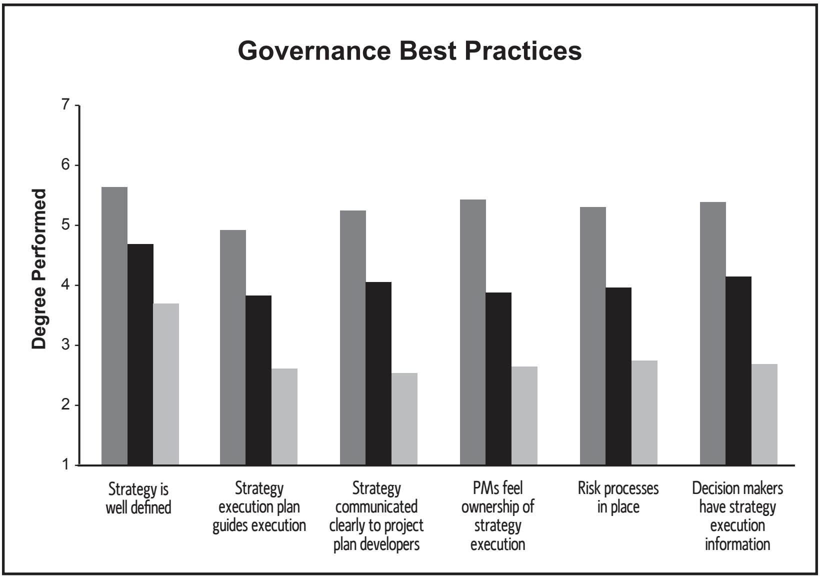

Exhibit 7. This graph displays the wide divergence between the top performing organizations and the low performers in terms of the frequency of their use of governance best practices. The left bar indicates the frequency with which each measure was reported by the top-performing companies in the survey; right bar indicates frequency with which that measure was reported the low performers in the survey. Central bar expresses the mean of all companies.

decision making (strategy and governance) and the project/program level of the organization. It has often been proposed that, if there were better communication and coordination between the executive level and the project level, organizations would be able to execute their planned strategies more effectively. But a model for the integration of the key processes in the organization has been lacking. SPM is that model; it brings the discipline of project management to strategy execution, and the vision of strategic planning to project teams. Together, strategy and projects can create a powerhouse organization.

Chapter One

Strategy Management

Key Process #1

"If you don't know where you are going, any road will do."

— *Anonymous*

STRATEGY IS THE organization's game plan. And although that plan does not precisely detail all future moves of the organization, it does provide a framework for managerial decisions. Without such a framework, it's easy for an organization—even a small one—to spin towards chaos. A business is presented with new opportunities and challenges each day; without some guiding point of reference to anchor present decision making to the future, various functions in the organization can wind up working at cross-purposes to one another.

A strategy reflects an organization's awareness of how, when, and where it should compete; against whom it should compete; and for what purposes it should compete; it is the integrated vision and direction of the organization, as well as the manner in which it derives, articulates, communicates, and implements that vision and direction. Strategy answers the question of how a company will position itself against competition in the market over the long run to secure a sustainable competitive advantage.

Far from being an exercise in fantasy or some sort of "soft" fluff, strategic planning is where risk management is born.

"Strategy" has, alas, become something of a buzz word: many companies claim to have strategy that have, in fact, nothing but a wish list of outcomes or a shopping list of tactics. Often, companies fail to distinguish between *operational effectiveness* and *strategy.* Targets for productivity, quality, sales, efficiency or speed masquerade as strategies. These targets, while essential to superior performance, do not move an organization towards a strategic position in the marketplace. As a recent article in the *Harvard Business Review* states, "Operational effectiveness means performing similar activities better than rivals perform them. … In contrast, strategic positioning means performing *different* activities from rivals' or performing similar activities in *different* ways."

Vague strategies cannot easily be translated into the measurable objectives or metrics so vital to achieving these kinds of stretch goals. Unclear corporate and business plans inhibit integration of objectives, activities, and strategies between corporate and business levels. Poor strategies, simply, result in poor execution plans.

The strategy management process is about moving the organization from its present position to a future strategic position in order to exploit new products and markets. It consists of two sub-processes—strategy formulation and strategy execution. The strategy formulation process focuses on investigating the current and future positions and planning the trip, its duration and effort. The strategy execution process is about getting the organization to move. The literature on strategy management is vast; we won't try to compete with it in this chapter. Let's just take a quick overview of the essential elements of strategy.

Strategy Formulation

Vision-Mission Development

Which comes first—mission or vision? In a new start up business, or if an established company is undergoing a sea change in the way they do business, the vision may guide the mission statement and the rest of the strategic plan. But for many companies, mission guides the creation of a vision statement—an expression of where the mission may lead in the future. This is particularly true for nonprofit and governmental entities, where the mission is central to all decision making. Either way, organizations need to know where they are and where they want to go so they can develop a rational plan for getting there.

A vision statement provides a mental model of a future state for the organization and reflects an optimistic view of the possibilities ahead, while the mission statement defines where the organization is now, describing the purpose for which the organization exists. These are high-level statements and should never be more that a few sentences long: shorter is better. If employees are to become the "execution engine" of the organization, they will need to be able to remember these core statements of the company's values and direction so that they can be inspired by the vision and guided by the mission. These statements must be so regularly heard or viewed that they become assimilated into the organization's culture. Leaders have the responsibility of communicating the vision regularly, creating narratives that illustrate the vision, acting as role-models by embodying the vision, and creating short-term objectives compatible with the vision. Such assimilation can be as simple as a subtle but constant visual presence. For example,

> The Center for Business Practices promotes effective strategy execution through sound portfolio, program, project and performance management by capturing best-practice knowledge and integrating it into actionable, fact-based information expressed in research reports, books, and benchmarking events ....

is the mission statement that greets both readers and staff members each time our own website is accessed. It lets newcomers to the site know, in a flash, who we are and what we do—and reminds us to stay on track when contemplating new projects.

The Analysis Process

Strategy analysis is the advance work that must be done in order to formulate and implement effective strategies. When strategies fail, it is often because executives try to pronounce strategies without a careful analysis of the organization's external and internal environment.

Most readers will be familiar with the SWOT model of identifying the Strengths, Weaknesses, Opportunities and Threats confronting an organization. This model and others like it assist us in going through the thought experiment of strategic analysis.

Aspects of the external environment include:

1. Customers
2. Competition
3. Technology
4. Suppliers
5. Labor markets
6. The economy—both local and global
7. Politics—notably the regulatory environment.

All these factors should be assessed in terms of both the present situation and potential future situations. For example, these days it would be foolhardy for a company to count on the present workforce demographics, as we face the mass retirement of the Boomer generation and the social and economic changes that will bring.

Rarely will all seven of these factors be equally critical. Customers and competition are almost always key aspects of the business environment and are probably the first things addressed in an environmental scan. Companies can be woefully short-sighted, however, when it comes to political, economic and human resource issues on the national and international horizon. Demographic, technological, and economic trends and events can have a dramatic impact on the organization.

The internal environment includes every step in the organization's value chain: projects and programs, operations, marketing and sales, human resource management, logistics, etc.). No internal environmental scan can be complete without involving employees and other stakeholders in the data-gathering process. Their input can be a means of uncovering potential sources of competitive advantage for the firm. Likewise, sources of threat or weakness—for example, a disgruntled technical workforce—may be identified that, if left unaddressed, can impede any new strategic direction.

Strategic Planning

Knowing the desired end state (the vision) and having a values-based sense of itself (the mission)—and aware of its internal and external environments, the organization is at last ready to define a strategy, and make the decision on allocating resources—both monetary and human—to pursue this strategy.

The outcome, the strategic plan, becomes the guiding document that is used to define functional, divisional, and project plans. Some sources suggest that, for every minute spent in planning, ten minutes are saved in execution. The numbers may vary from organization to organization, but the purpose of strategic planning remains: to increase the return on the capital, energy, and ingenuity the organization's stakeholders have invested.

For this reason, it may be a mistake for strategic planning to take place in a "retreat" environment. Too often, what executives and managers create in an offsite retreat environment stays there, disconnected from the daily life of the organization. In the "execution environment," strategic planning and tracking of goal achievement towards those plans is incorporated into the work environment. This is done by involving the largest possible sample of organizational stakeholders in gathering input for the strategic plan and by linking the resulting goals and objectives to departmental and personal goals and objectives in a concrete way.

Goals and Objectives

There are a number of methodologies for strategic planning and all require mapping a possible route to the envisioned state. This is done through the development of goals and objectives. In formulating a strategic plan, it is critical to identify not only actions that will need to be taken, but processes that will support those actions in goal attainment. In addition, there must be systems in place to monitor the strategic plan to determine whether or not the goals and objectives are being pursued; whether the processes are being followed; and what adjustment to the plan may be necessary as conditions change over time.

Goals and objectives—in project management parlance, the "deliverables" of the strategic planning exercise—provide a means of allocating resources effectively. They bridge the gap between intention and follow-through.

It's common to organize objectives as hierarchies of ranked means and ends as shown in Exhibit 1-1.

Using one goal as a stepping-stone to the next in this way involves goal sequencing. Most organizations define short-term goals, medium-term goals, and long-term goals. Short-term goals should be fairly easily attained, while the long-term goals appear very difficult—"Big Hairy Audacious Goals" (BHAGs) in strategic management jargon. A person or group starts by attaining the easy short-term goals, then steps up to the medium-term, then to the long-term goals. Goal sequenc-

Exhibit 1.1. A Hierarchy of "Nested" Objectives. From any rank, the objective in a lower rank answers to the question "How?" and the objective in a higher rank answers to the question "Why?" The exception is the top ranked objective—in which case the why is defined by its necessity to the strategic plan.

ing can create a "goal stairway" shown above. It also provides a concrete format in which to assess the congruence of the nested goals: whether they conflict with each other in any substantial way. (Resource conflicts are more likely to show up at a more detailed level of analysis: see Chapter 2 on Portfolio Management Processes).

This all seems very obvious on paper, and yet we are all familiar with organizations in which "the left hand doesn't know what the right hand is doing." Such clichés have entered our lexicon simply because they express common truths. In the absence of structured strategy management processes such as these, entropy will set in and departments—even people within departments—will be working on conflicting objectives.

Processes to Support Strategic Execution

Strategy must be designed to meet the organization's circumstances: its competitive environment, resources and capabilities, a situation referred to as "strategic fit." Recent research on strategy has zeroed in on the problem of non-execution of strategies by examining why the "strategic fit" is so often misjudged. One issue, as it turns out, takes us straight into the realm of complexity theory.

Complementarity

Organizational performance is dependent on the interaction among a wide range of management practices. In fact, the adoption of any particular management practice will fail to improve performance, studies have found, unless every other complementary management practice is adjusted. For example, a quality management program is likely to be of little value unless it is accompanied by adjustments in incentives, recruitment policies, product strategy, and budgeting practices. This concept, termed complementarity, is at the heart of the SPM model.

In practice, the implications of complementarity are that, while every organization is unique, there's a limited number of ways that organizations can structure themselves for success. In fact, in a study (cited in *Contemporary Strategy Analysis, Sixth Edition*) of large European companies, successful adaptation was associated with a small number of configurations of organizational structure, processes, and boundaries. The SPM framework connects structure, processes, and practices in a way that creates complementarity among the various practices and programs of the organization. Armed with this framework for the integration of the enterprise, strategy management moves on to the next step. The SPM model helps everyone in the organization to understand the demands of strategy, their effects on organizational resources and capabilities, and the impact of the resources and capabilities on execution.

Strategy Execution

Strategy is the first essential ingredient in the execution process. Having a good strategy is essential to effective strategy execution.

However, a strategy is just a piece of paper without the essential follow-on activities of:

- **Communication.** Clear communication of the operational components of strategy and the measurement of execution results to all stakeholders in the organization. Such communication brings its own rewards, both in terms of increased engagement of employees, which yields bottom-line results. The powerful tactic of engaging people in strategy execution is discussed in Chapter 6.
- **Monitoring/Controlling.** Systems for linking strategies to departmental and personal goal achievement, metrics to record progress toward goal achievement, and a compliance structure to make sure the identified strategic processes are being used. The Project/Program Processes discussed in Chapter 3 are ideally suited to this type of monitoring and control.
- **Strategy Improvement.** An iterative process whereby the strategic initiatives that support the goals and objectives are periodically reviewed for progress and adjustment; and, a related process for revising and updating the strategies themselves. The Portfolio Management Processes discussed in Chapter 2 provide a way to review and adjust the entire enterprise's strategic initiatives.

Strategy Management: The New Support Function

Writing in the *Harvard Business Review,* Balanced Scorecard creators Kaplan and Norton called for a new organizational entity to oversee the execution of strategy. They argued that under "The Old Strategy Calendar," with its periodic activities related to strategy being carried out at various times in various silos, most activities take place largely in isolation and without guidance from the enterprise strategy. This widens the gulf between an organization's strategy and its processes, systems, and people. The authors note that surveys revealed that "HR and IT departmental plans rarely support corporate or business-unit strategic initiatives. Budgeting is similarly disconnected: Some 60% of organizations do not link their financial budgets to strategic priorities. Incentives aren't aligned, either: The compensation packages of 70% of middle managers and more than 90% of frontline employees have no link to the success or failure of strategy implementation. Periodic management meetings, corporate communication, and knowledge management are similarly not focused on strategy execution."

The answer, they propose is an Office of Strategy Management. Such an office would:

- provide an organizational lens for the focusing of a strategic lens on each and every initiative
- provide a process for executing the strategic choices by means of budgeted resource allocations
- focus on getting the work of the business done efficiently and effectively
- monitor and control via a process for tracking a strategy as it's executed, detecting problems or changes in its underlying premises, and reporting to appropriate management levels

- provide a process for strategy improvement; a way of making necessary adjustments based on monitoring and control information and strategy performance review.

The Office of Strategy Management would oversee the Planning Integration for strategy. Strategy management planning includes developing annual objectives and specific initiative plans that are logically linked to the results of strategy analysis.

And, the Office of Strategy Management would be in charge of the Monitoring/Control Integration, tracking the performance of a strategy as it's executed.

Fortunately, many organizations already have such an office, although they may not yet realize it. Any organization with an enterprise-level project management office has the capability to oversee the execution of strategy at their fingertips. The SPM model capitalizes on this—in many companies—already existing structure and processes to move organizations from planning to execution.

Performance reporting from portfolios, programs, and projects are necessary to understand how well the organization's strategy is working. This information may reveal problems in the strategy or in its underlying premises, or it may reveal errors in strategy formulation, where organizational capability and environmental analysis informed the strategy selection process.

To insure effective strategy execution, the SPM approach requires that strategy be communicated clearly to those developing portfolio and program/project plans, to ensure that those initiatives support the organization's strategy. At the same time, portfolio analysis and program/project initiation processes must be integrated with the strategy management planning processes to provide the information needed for effective strategic planning.

The key processes for execution: project and program processes, portfolio processes, and performance management processes, are presented in detail in the chapters that follow.

Best Practices in Strategy Management

The Center for Business Practices 2005 study, *Strategy & Projects,* identified the following best practices for strategy management:

- Strategy performance is measured, compared to objectives, and activities are redirected or objectives changed where necessary.
- There is an understanding of the impact of projects or project management activities on the creation and implementation of strategy.
- The organization's strategic plans cascade down from corporate strategy to business unit strategy to portfolio, program, and project strategy.
- Corporate and business units assemble a strategic portfolio of programs and projects and measure the strategic contribution of a program or project and adopt or reject programs/projects based on this information.
- As strategy cascades down the organization, performance measures are established at each level (business unit, portfolio, program, project) to link up with the strategic performance expectations of the entire company.

The most often used practice by high-performing organizations is having strategic plans that cascade down from corporate strategy to business unit strategy to portfolio, program, and project strategy. High-performing organizations are significantly better than average at having performance

Exhibit 1-2. Strategy Management and Projects. The left bar in each set indicates the frequency with which that metric was reported by the top performers in the survey; right bar indicates the reported use of that best practice by low performers. The central bar expresses the mean. Note the dramatic difference between high and low performers on each measure.

measures established at each organizational level (business unit, portfolio, program, project) to link up with the strategic performance expectations of the entire company. Exhibit 1-2 shows the dramatic difference between the frequency of use of these practices by high performing companies in the sample, and low performers.

Looking at the spread between high and low-performers in the sample, a quote from Seth Godin comes to mind: “The right strategy makes any tactic work better. The right strategy puts less pressure on executing your tactics perfectly.”

Obviously, the companies in the low-performing column do many things right. Yet on the eight key performance measures (see Appendix A for a full explanation of how we determined high and low performance) they fell far behind their peers who used these alignment practices. This demonstrates the truth of Godin's comment. You don't have to have perfect projects every time, if you have an overall project alignment to a good strategy. Strategy energizes the workforce, eliminates busywork, and surfaces duplications of effort. It's time for organizations to stop trying to optimize their operational effectiveness and their project-level performance, and optimize the entire organizational system by instilling an "execution environment." The SPM model provides a roadmap for the way.