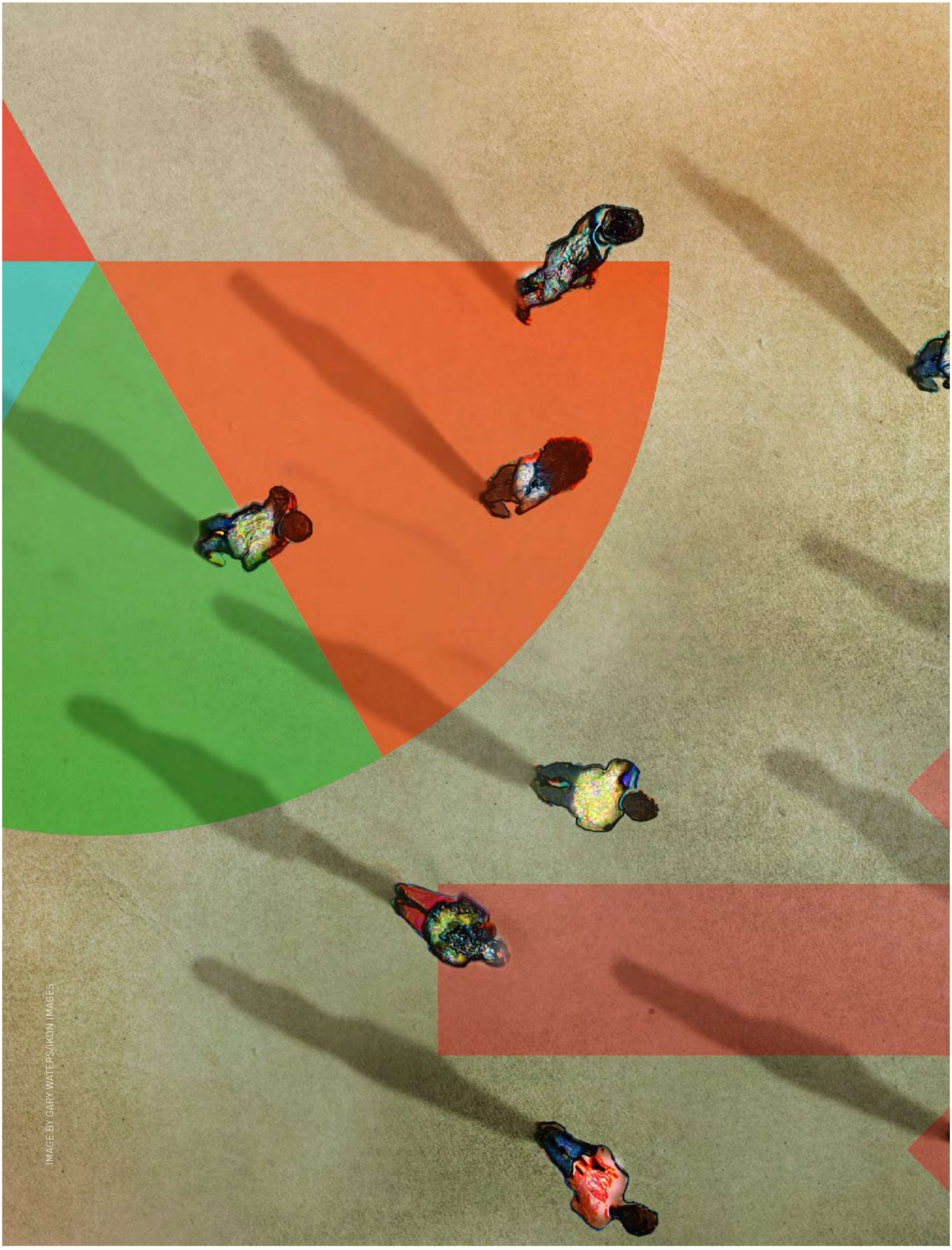

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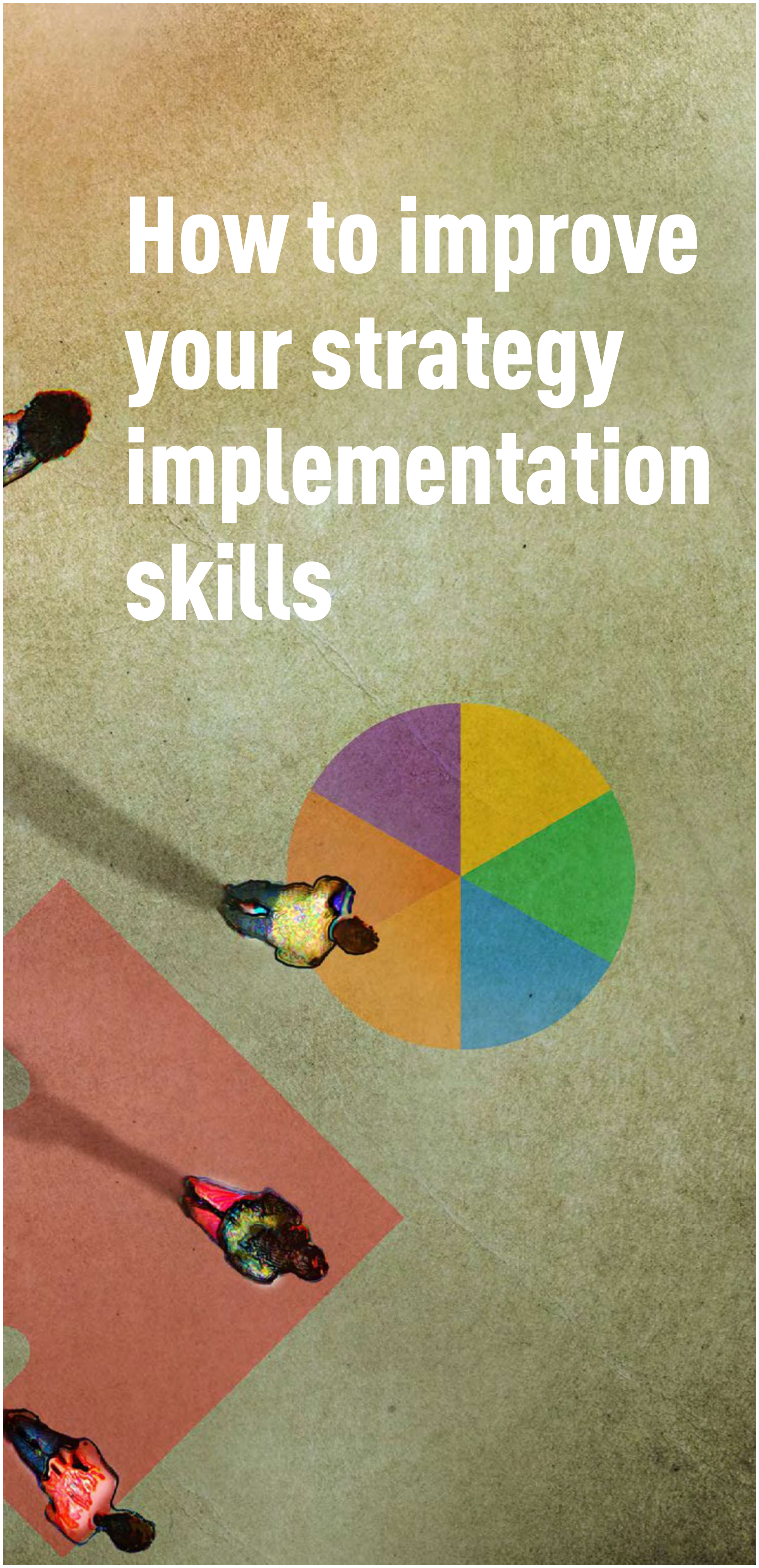
How to improve your strategy implementation skills



Finance professionals can follow these nine steps to execute a corporate strategy, track performance, and propose revisions should the environment change.

By Raju Venkataraman, FCMA, CGMA

Strategy implementation is the process that turns strategies and plans into actions to achieve set objectives and goals. Research shows that the real value of strategic thinking lies not only in formulating sound strategic plans, but also in the ability to:

- Implement the plan successfully to achieve the desired end results, and
- Adapt in an agile manner to changing circumstances.

Nearly 40% of companies are "adrift" without a strategic direction, according to a report by Strategy&, PwC's strategy consulting unit. Moreover, research and consulting firm Gartner found that 67% of key functions are not aligned with business unit and corporate strategies.

***Editor's note**: This is the second article in a two-part* FM *series about strategic thinking and implementation. Part one looked at how to become a better strategic thinker and planner. Part two addresses the steps needed to execute well on strategic plans.*

To motivate individuals and teams, it is important to create an incentive compensation structure that aligns with execution of the company's strategy.

To determine how finance executives can help bridge the execution gap, it is important to appreciate the common challenges faced in the execution process. These include a breakdown in communicating the strategy to middle managers and frontline staff; lack of a common definition of success; issues in resource allocation, performance tracking, and incentive alignment; failure to hold people accountable; and the inability to adapt the chosen strategy in an agile manner when circumstances change.

Implementing strategy effectively requires team members to buy into it and the entire leadership team to be actively involved together with the team members. For effective implementation:

- Senior leaders must initiate and orchestrate the big initiatives and must communicate the strategy in a way that team members can comprehend it and understand how their work will contribute to the strategy's success.
- Middle- and lower-level managers must ensure all goes well in their respective areas of responsibility by allocating responsibilities, training their people, tracking performance, holding people accountable, and taking corrective measures as needed.
- Operating-level employees must upskill as needed and perform their individual roles competently as well as proactively help others to do well, too.

9 steps to effectively implement strategy

To become better at implementing strategy, finance executives can follow these steps:

1. Dig into the details

If your role and situation permit, seek a chance to participate in the strategy formulation process. If this is not possible, you can study the approved strategy, brainstorm with functional and business managers to identify the specific achievements to execute against the strategy, and develop these into action plans with milestones.

Each strategic initiative should have a timeline, a predetermined target value of success, and a causal relationship to the overall company strategy.

For example, if one of the strategic priorities of a Singapore-HQ company is to drive international expansion, a finance executive can team up with business partners to further define the priority as:

- Enter ABC markets in fiscal 2023 and DEF markets by fiscal 2024.
- Achieve a minimum 25% market share by the end of year two after market entry in each market.
- Ensure revenue from international markets reaches x% of total revenue by fiscal 2024.

2. Address capability and clarify responsibilities and accountabilities

Finance should partner with the business leadership to understand the critical capabilities that people need to possess or develop, and the key activities that need to be performed well in order to execute effectively against the strategy. These are the capabilities and activities that need to be monitored and reported on.

The finance department can further help business leadership ensure that responsibilities and accountabilities for decisions and actions are clear and agreed upon and help leadership resolve areas of overlapping responsibility by highlighting them.

The finance department can also add value by evaluating outsourcing opportunities for noncritical activities. This will allow a company to concentrate its energies and resources on value-chain activities where it has a competitive advantage or needs direct control. Thus, a company improves its chances of outclassing competitors in performing strategy-critical activities.

3. Identify key decisions

Based on the critical capabilities and activities identified, list the significant questions that need to be addressed and the key decisions that need to be made. This will help you understand how leaders and business users will actually use the information. Adopt the Pareto principle to identify, set, and measure the few key metrics that matter (KPIs) and provide the information needed for each question/decision. The Pareto principle, or 80/20 rule, suggests that most consequences can be traced to a few causes.

It is also important to identify the key assumptions (which need to remain true for the strategy to succeed) and potential risks that need to be regularly monitored.

4. Establish data sources for a balanced scorecard

Determine the relevant primary data sources for the information and work with the business partners to finalise the format required for the reports. Make sure the scorecard is balanced, with financial and nonfinancial measures, and both leading and lagging indicators.

5. Match incentives to strategic targets

To motivate individuals and teams, it is important to create an incentive compensation structure that aligns with execution of the company's strategy. Here again, the finance department can play a key role by teaming up with business partners to create balanced personal scorecards for individual employees and teams that are focused on the critical performance measures they can affect.

Achievement of these targets should then serve as the basis for incentive compensation.

6. Track performance

Design dashboards to track and monitor actual performance vis-à-vis plans. From time to time, iterate those dashboards and improve them in consultation with users and key stakeholders, based on evolving requirements.

These dashboards must also cover reporting whether all the key strategic activities are adequately resourced.

7. Share key performance insights

Regularly report insights to the implementing managers, to their teams, and to the executive leadership, based on financial performance and operating performance — ideally one set of numbers throughout the organisation to avoid varying assumptions by the teams. By understanding how well individual business units perform, managers can identify areas for improvement.

For example, let's say that your organisation's strategic goal is to improve its customer retention by 33% by the end of 2023. You can set up dashboards to monitor any change in the customer retention rate weekly or monthly. If your reports show that your customer retention rate is decreasing month-on-month, it could signal that your strategic plan requires pivoting because it's not driving the change you desire. If, however, your data shows steady growth, you can use that trend to reasonably predict whether you'll reach your goal of a 33% increase by the end of 2023.

8. Continue to track performance and share projections

Set up periodic strategy implementation review meetings and prepare for these with financial simulation modelling, forecast updates, and what-if analyses.

Unlike financial reporting and controlling, which go by exact numbers, strategy implementation only requires numbers to be in the right ballpark to indicate whether the business is moving in the right direction and to spot trends and risks. There's no need to know a project initiative will cost $79,225. An estimated cost of $75,000 to $85,000 is sufficient. So don't spend time boiling the ocean.

9. Watch out for reasons to revise the strategy

Effective implementation requires regular evaluation of the strategy, by (1) reviewing the internal and external factors affecting the implementation of the strategy; (2) measuring performance; and (3) taking corrective steps to make the strategy more effective.

High-performing organisations are agile both in course-correcting on the strategy itself as well as in shifting resource allocation as the business needs evolve, in order to ensure successful execution of the strategy.

An important capability that finance teams must develop is rolling forecasting/budgeting, such that changes in resource allocation and investments can be made in a timely manner instead of waiting for the next annual planning cycle.

For example, if actual results continue to deviate significantly from goals and relevant KPIs and/or if there is a major shake-up in the business environment, the finance team should initiate an in-depth review and explore together with their business colleagues whether (1) it is time for a course correction in strategy; (2) it is purely an execution issue fixable by changes in personnel or resources, etc.; or (3) the aspirations were set at the wrong level and they need to be made more realistic.

Examples of environment shake-ups include acts by competitors or new, emerging competition, evolving customer expectations, or new regulations coming into force. In short, periodic reviews of the strategy can help determine if underperformance was the result of a bad market assessment, a wrong strategy, or poor execution.

A continuous process

As you consider the nine steps, remember that strategic thinking and execution don't happen on a linear timescale. Good strategic thinkers think about how the execution would play out even as they are formulating strategy. They then plan for execution iteratively as they draw up the strategic plans and translate those into actionable goals.

Finance professionals can and must play a crucial role in supporting strategy execution. Devoting time and effort to hone their strategic thinking and implementation skills will allow them to build a more fulfilling career in finance, help their organisations make well-informed strategic plans, and implement the plans successfully to achieve organisational goals. ■

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