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The execution gap

Missed opportunities

When observed during any given shift, companies may appear to be a 'beehive of activity.' However, a significant gap often exists between a company's best demonstrated performance and its true potential. Even executives who witness first-hand the effort given by their employees each day often do not realize that the gap exists.

The "execution gap" significantly impacts a company's performance – creating missed opportunities for revenue increases of up to 15 percent, cost reductions of up to 20 percent, and capital asset productivity improvements of up to 30 percent. Recently, a large global pharmaceutical manufacturer identified a significant top-line gap, but a renewed focus on sales effectiveness improved the company's revenue by 40% (without changing strategy, market segmentation, product portfolio or capital expenditure levels). This is just one example of how companies can fill gaps in performance by making small, yet significant changes in the execution of important business initiatives. Working smarter is about re-evaluating existing processes and creating new ones to give your business a competitive edge.

Bob Lutz, former Vice Chairman of General Motors, "This kind of operational improvement can only be achieved by abandoning incremental change models and excessive faith in the 'tried and true.' It requires a willingness to go back to square one and ask, 'If we had no acquired process to begin with, how would we proceed?' In many instances, a new set of professional eyes, neutral in terms of their functional loyalties and unfettered by the status quo, can be of enormous value."

Ed Hanway, former CEO of Cigna, "In this flood of data, knowing which performance metrics really matter is very important. Engaging each associate in reviewing a strategy and making sure that they understand how their work impacts it is also important. Often execution does not advance your strategy because people working on the front lines do not identify their role with the strategy."

Mr. Michael Miles OBE, former Chairman of Schroders plc and Swire Group, "Top management is often unaware of how much opportunity exists for improvement. Information on company performance is polished and tidied up every step of the way before reaching the CEO. Only a 'deep-dive' into performance gaps through a detailed business review can reveal the true magnitude of the opportunity."

The problem with benchmarking

Companies around the world spend millions on outside consultants to gather competitive information and performance rankings. When a company ranks within the top quartile, its executive team often believes that improvement initiatives dependent on outside factors, such as better market segment penetration and new product introduction, are not necessary.

This complacency is built on two dangerous fallacies. First, competitive comparisons are often 'apples to oranges' as a result of varying company values, management styles and geographic footprints. Second, even with 'apples to apples' comparisons, obtaining accurate information on valued metrics is difficult. Companies that are aware of being benchmarked typically build almost impenetrable firewalls to prevent any true ranking from taking place.

Build a culture of engagement

The most successful companies follow the same mantra, striving to build a culture of continuous improvement and not basking in the glow of past achievements when times are good. The observed 'beehive' does not readily reveal all the opportunities within a company's reach – ways to grow revenue, increase safety, reduce costs and maximize the return from an existing capital asset base. A company's activity levels do not show the non-value added work that trickles down through the ranks, the extent to which supervisors proactively manage their teams, or the usefulness of existing key performance indicators.

A company's executive team should perform a detailed review of its operations to identify the gap between current performance and its level of potential – taking the company beyond a benchmarking status to the next plateau.

Examples around the globe from some of the most iconic brands illustrate the execution gap and its impact on revenues, costs, margins and overall competitive positioning. A company must move beyond simply holding its own to winning in a dominant fashion. Executive teams must challenge their employees to not settle for the false comfort that comes with benchmarking, but rather to take the steps necessary to realize the organization's full potential. Closing the execution gap represents a major opportunity to improve margins and compete more effectively in today's market. ■

Ray Wilcox, former CEO of Chevron Phillips Chemical, "When it comes to execution, you get what you measure and what you reward. That's why developing key performance indicators that will actually 'deliver the plan' is so important, and why rewarding people based on those indicators is what gets the desired results. The two biggest detriments to successfully deliver plans are creating too many metrics or letting everyone develop their own. Good strategy, plus good metrics, plus good execution equals good results!"

Former CEO of Pfizer, "Businesses succeed, not when they pay for presence, but when they pay for performance. Businesses perform not by working harder, but by working smarter. The difference between working harder, which most everyone does, and working smarter is shown to be a 20 to 40% improvement time and time again. Help your organization work smarter."

Mike Critelli, former CEO of Pitney Bowes, "Execution is all about institutionalizing change in the way members of an organization think about strategy, the way they develop and implement processes, the way they measure and reward people, and the way leaders select and motivate the talent needed to affect the change measures."

Former Vice Chairman of ThyssenKrupp, "During my tenure as a Vice Chairman for ThyssenKrupp, I was exposed to a number of challenges that come with leading a global capital goods conglomerate—performance Improvement programs, organizational restructuring projects and management audits to name a few. Through it all, I came to the conclusion that, while there is never a shortage of ideas, there is a significant lag in execution."