How to get your functions to supercharge your strategy

Many strategies look great on paper, but stumble during execution. A common problem is that functions such as HR, IT, Finance, Operations, R&D, Purchasing, Supply Chain and Communications do not fully support the organisation's strategy.[1] These functions are often seen as operating in a world of their own; the cartoon character Dilbert has to deal with "the Trolls" in Accounting – a label that might be applied to other functions, and not just Finance.

A recent survey found that "Only 9% of managers say they can rely on colleagues in other functions and units all the time, and just half say they can rely on them most of the time."[i] This is a major problem because, as the survey also describes, "…execution lives and dies with a group we call 'distributed leaders,' which includes not only middle managers who run critical businesses and functions but also technical and domain experts who occupy key spots in the informal networks that get things done." The message coming through is that functions are failing to support the organisations that they are there to serve.

In our experience, it is rarely the case that a function leader does not want to do the right thing. More commonly, the problem lies in the design or implementation of the strategy for their function. Strategy execution is often managed carefully as it is rolled out at one or two levels below the Board. But execution often gets stuck at the function level. As a result, functions end up ploughing their own furrow, independent of what the rest of the organisation is doing.

Take the example of a major Industrial company, whose Board had decided on a cost leadership strategy. They instructed the functions in the business to avoid adding cost, and standardise where possible. The Supply Chain function, which served the needs of all the business units, implemented this strategy by automating processes and applying a "one touch" philosophy to all transactions.

When the function reviewed its strategy a few years later, it realised that this emphasis on reducing their own costs had resulted in some missed opportunities. There were some opportunities to slightly increase their own costs in ways that would lower the overall costs of the organisation, or provide benefits for customers which they would be willing to pay a small premium for. For example:

- Rather than have one, low cost interface with customers, a set of differentiated "interaction models" were developed – each of which was customised to let a particular customer segment interact with the company in a way that helped them

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[1] "Functions" can include functions that are embedded in business units, such as some HR or Finance departments, functions that carry out activities that are embedded in the value chain of several businesses such as a shared supply chain, Operations, Production, Purchasing, R&D or IT, and functions such as Corporate HR or Treasury that operate largely at a corporate level, supporting broad corporate initiatives. Our work, and this article, is concerned with all types of functions.

order, schedule, receive and pay for deliveries. These interaction models improved customer experience with limited additional costs.

- A Logistics Network Optimisation function was created which was tasked with developing new tools and techniques that could be used to significantly reduce total company-wide costs at the same time as improving customer service levels.

Also, the drive for low cost had led to some deficits in its focus on safety, which could have put the company's "license to operate" at risk – so selected investments in safety management were identified.

If the function had been more involved in the initial strategy debate, perhaps these nuanced opportunities to create value through carefully selected investments could have been added to the overall cost leadership strategy, Valuable time had been lost, but the function did finally have a robust strategy.

A few years later the Board launched another strategy review. Whilst preparing for this, the head of the Supply Chain function learned that that the business units were also interested in additional services beyond what was being offered. After a series of interviews, with stakeholders from across the organisation, it became clear that the strategy of selectively investing where customers particularly valued the improvement in service levels was the right one, however it had never been fully implemented. On reflection they realised this was because the function had not set itself clear, measurable targets and had not strictly monitored its progress towards achieving those targets. The Board had not challenged that behaviour and was, in any case, more focused on the overall strategy of visible cost reduction. Several years had passed since the original strategy cycle, and only now did the function get a grip on not just what to do, but also how to make sure it got done.

This case illustrates a common problem. All too often, functions underperform in their contribution to the overall strategy of the organisation. All too often they do not take an expansive look at their strategy and even if they do create a robust strategy, they fail to execute it fully.

Four Mistakes to beware of

In our experience, there are four mistakes that companies can make when developing and executing function strategies. Each represents a trap that is worth looking out for and avoiding, and there are specific tactics for making sure that it doesn't happen to you. Doing so will improve the value that the functions can deliver to support, shape and enhance the overall business or corporate strategy.

Mistake 1: Companies frequently fail to include functions in their formal strategy development process

At the Industrial company described above, the Supply Chain function was instructed to automate and keep its costs down. It was not asked to review how it might contribute more broadly to the overall (cost reduction) strategy. Once it was given the time to develop a strategy it came up with a broader set of ideas.

Strategic plans typically consider what capabilities a company will need to be successful and create action plans to make any required changes. However, the connection between these action plans and what they mean for the functions is often poor.

In other companies, function plans are created as part of annual “operational planning” which, by its very nature, is incremental and short term. The problem with this approach is that there is not enough thinking about any transformational changes that might be needed by the functions.

To address this problem:

1. Include the development of proper function strategies as part of the overall company strategy programme. The ideal process should involve iterations and communication between those developing the overall strategy and those developing strategy for the functions. A typical model is the “W” approach. Start by developing the overall organisational strategy (at the top left of the W), then push the strategy down to the functions to get them to describe how they can support and enhance the overall strategy. Now, push strategy making back up to the top of the “W” for the centre to create an integrated strategy, across all functions – this completes the first “V” of the W. The final “V” involves pushing the strategy back down to the functions for detailed planning and target setting, before finally pushing the plans back up to create an integrated plan. If this ideal approach is not feasible, ensure that there is a two-way conversation between central and function strategy-making.
2. Sort out the priorities and how linkages are to be handled. It is important to consider which functions to tackle in most detail e.g., R&D makes sense in a technology dependent company. It is also important to think about sequencing. For example, functions which underpin all the business processes, such as IT and Finance & Control, may need to finalise their strategies after the other functions have completed theirs.
3. Ensure you allow functions sufficient time to work on their strategies – meaningful strategic analysis and thinking needs time – this is as true for functions as it is for corporate and business units. A function new to function strategic planning in an international $500m + company may need 6 – 10 days as a function team to build their strategy and resulting action plans and gain sign off with the corporate leadership team and business units. If significant re-focus is required they will also need to allocate serious time to engage the whole function in understanding and planning the changes. If new capabilities are needed then the implementation timeframe goes out further.
4. Repeat the process the next time the strategy is reviewed. Our experience over the last 10 years has shown us that functions do not become good at strategic planning overnight. In the examples described here you will see how the top team in both companies provided their functions with strategic challenge and a formal function strategic planning approach. Nevertheless, it took both of these functions three rounds of strategic planning to develop a strategic agenda for their function which had significant traction and impact on the company’s overall strategy.

Mistake 2: They fail to challenge and stretch functions to find new and different ways to contribute to competitive advantage

Even if the time is allocated, function heads have not always been given the chance to become strong strategists. They need to be supported and stretched:

1. Provide the functions with a template for how to go about building their function strategies so that know what to cover and how – if not, you will probably get a detailed operational plan and this is how function activities end up over time with a lack of alignment to the overall company direction
2. Set the functions challenging strategic questions which you want them to address in their strategy and ensure you provide them with clear targets on cost and/or value add – if not, you may get a plan asking for more people, software, hardware etc., with a poorly defined link to an improved value proposition for a customer or a more productive business process.
3. Involve internal customers in the function strategy work – they are often the function's best critics and will become the function's best supporters.
4. Set clear expectations for function benchmarking of strategic activities. Functions often think they are best in class at many of their activities in their industry but their industry could be providing very poor benchmarks and will give them few insights on what is excellence in a particular field of function activity. For example, a seed potato breeder we work with benchmarks its breeding capabilities with a tomato breeding company – because tomato breeding is a comparable but historically more advanced industry in this particular area.

Mistake 3: Companies do not require the functions to make clear strategic choices about which capabilities to invest in, where to spend their time and where to reduce efforts

Functions often suffer from scope creep due to historical factors and end up spending too much time & money on activities which are not in their own scope. For example, does the accountability for Technical Service truly reside inside the R&D function or does the R&D function get drawn in because the sales team think they get better answers from R&D? Does the investor relations activity reside inside the Communications function or the Finance & Control function and is this a function accountability or a function support role to the Executive team? Does anyone really know?[ii]

Solutions:

1. Request the function to divide itself into 6 – 8 strategic planning activity categories which can be used to structure their analysis and decisions about function strategic priorities and resource plans. This function segmentation rarely reflects the function's organisation chart.
2. Many functions believe all their activities are mission critical for the company. This must be challenged. For some, fit for purpose is good enough and being best in class will waste precious resources. Some of these non-strategic activities can be

considered for outsourcing. At the Industrial company, some of the activities were identified as creating value for customers and the organisation, however many activities simply needed to be fit for purpose and were targeted for automation, standardisation, cost reduction or outsourcing.

3. It is worth reflecting on whether the function segmentation should be influenced by the different (internal or external) customers served. It is often the case that different customers need different levels of cost and service levels.
4. Request the function to demonstrate how it will reduce, change or stop some of its activities to enable the team to focus on delivering the new strategic agenda. Functions are cost centres and must be able to demonstrate that they are focusing the company's resources on being best in class in value enhancing activities. One way to do this is for the centre to create a clear description of its strategy – for example using the business model canvas, or operating model canvas tools and then to ask the functions to describe how their strategies support this central business model[iii].

Mistake 4: They do not monitor strictly enough if the function is working on its change agenda

Many companies monitor whether they are on target with their corporate and business unit strategies. Functions – particularly manufacturing and supply chain – are well versed in operational KPIs and targets. However, these KPIs do not usually track whether the function is delivering against its change agenda. Without the discipline of checking progress against this change agenda, the function team often reverts to spending their time fixing the day to day issues and the future direction is left for another day. This can seriously undermine the speed with which the company can implement its overall strategy.

For example, at the Industrial company, even after having designed a robust strategy, they did not implement it properly. They had not reviewed regularly the targets that they had set themselves and had compromised on the investments required to execute the strategy. The result was poor delivery of the strategic changes they had promised. This was a wakeup call for the team. They set themselves stretching but achievable targets, supported by a detailed benchmarking of competitors and a review of new technologies. They established clearer ownership of key processes. They made more detailed plans about the resources and skills required to achieve the targets they had set themselves. The resulting strategy is now being implemented with a renewed vigour.

Solutions:

1. Demand a clear set of "A" to "B" statements for each of the strategic function activities with detailed project plans, simple milestones and a clear project lead from within the function team.
2. Ensure these projects have realistic schedules and are not all planned to be delivered in the same 12 months.
3. Schedule and adhere to a strict programme of project reviews - at this stage it's all about good project management! Make sure you know what are the top three

change projects in each function, monitor their progress, intervene if a critical one is failing or slowing down, make sure there is broader learning and adjustments when things do not go as planned

4. Be ready to break log jams and barriers to effective action. However well planned, many important changes require functions and businesses to collaborate – something that is typically more challenging than executing strategies that sit within the boundaries of a single function. Senior executives need to ensure that problems are identified and dealt with.

The benefits of good function strategies

The newly arrived MD and Marketing Director of a European crop breeding and trading company set out a long-term vision for the company and embarked upon a journey which would take them from sales and production focus to a strongly market oriented one with ambitious geographic growth objectives and entry into services as well as products. Their initial approach was to focus on developing corporate and sector strategies and marketing plans.

When reviewing their progress, they found that, whilst the vision was understood by their employees and they had improved their sales position year on year, the new market orientated mindset had not permeated through the company as much as they had expected. They firmly believed that this change of mindset was fundamental to them achieving their long-term vision.

They decided that a key way to address this was to add the development of function strategies into their 5-year cycle of companywide strategic planning. Three strategy rounds later, by adding the time and a formal function strategy approach, they have:

- an IT function which has moved from a stressed and defensive team servicing the day to day needs of its growing numbers of internal customers across more and more countries with very mixed levels of satisfaction to an IT function which is leading the specification and implementation of a new ERP system which will provide all the functionalities needed by a business which is expanding its market space and continuing to invest in a differentiation strategy.
- a Finance & Control function which has expanded its horizons from a focus on processing transactions and basic financial reporting to a team which now has the systems in place to deliver management information on all the key strategic parameters as well as provide expert financial support for strategy and investment decisions.
- a Production & Logistics function which has changed its way of working from a reactive national production system with satellites to a proactive, co-ordinated, integrated and centralised planning approach across all its local production sites around the world.
- an R&D function which is now able to spend more of its resources on latest breeding technologies and genetic control than product support and quality control.
- a Communications function which was overworked, under skilled and focused on delivering events and printed publications to a team with the skills and time to broaden its involvement in digital communications channels and support the

Executive Committee on issue management, major organisational changes and brand positioning for a broader market space.

Function strategy is often treated as an afterthought. The strategy cycle often treats it as a planning rather than a strategic exercise. Individual functions may attempt to design a strategy in isolation, but find it hard to do so effectively because they have to design the process from scratch and designing a good function strategy requires collaboration with other functions and parts of the business. Being aware of the four potential mistakes, and following our recommendations on how to avoid them, will increase the speed and effectiveness with which functions contribute fully to the overall strategy.

About the research and the authors:

This article draws on the authors' shared experience in helping functions create effective strategies. Anita Hunt and Debbie Rogerson are consultants who have worked with clients to develop more than 60 function strategies over the last 3 years including R&D, Operations, Supply Chain, Product Management Finance & Control, IT & HR, primarily at £300m - £10bn B2B companies.

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[i] Why Strategy Execution Unravels—and What to Do About It, Donald Sull, Rebecca Homkes, Charles Sull, Harvard Business Review, March 2015

[ii] See also Why Corporate Functions Stumble, Sven Kunisch, Günter Müller-Stewens and Andrew Campbell, *Harvard Business Review,* December 2014

[iii] Operating Model Canvas; Aligning operations and organization with strategy, Andrew Campbell, Mikel Gutierrez, Mark Lancelott, Van Haren Publishing, 2017