How can organisations separate operations from strategy?

In this series, Palladium asks expert strategy practitioners to share their experiences and opinions. We asked:

Operations protect value – these are the things that need to be done to keep business running as usual. Strategy creates value – these are the things that need to be done differently to reach a desired future state. On paper, the difference is clear; in practice, the line between the two is less clear cut.

What criteria should organisations use to determine what measures and objectives are truly strategic – and should therefore be the focus of strategy review meetings – and what is operational? What can organisations do to keep the urgency of operational concerns from overwhelming strategy discussions?

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For producing goods and services, operations are a crucial contribution to organisational success. However, in pursuit of a desired future state, strategy is required to create enduring value and sustainable success. So both operations and strategy are fundamental to good performance. In spite of this, in performance reviews strategic conversations oftentimes take a back seat to operations because it is less clear to how strategic value can be achieved. From my experience this is a constant challenge in most organisations, prompting and questioning the sense of investing resources that don't deliver tangible short-term benefits. Funding operations is as safer option.

Most strategic initiatives are done by those in the business units. Although this is sensible as we aim to operationalise the strategy, herein lies a problem that most leaders fail to acknowledge and that is a major contributor to strategic failure. Cast your minds back more than a hundred years to the 1911 publication *The Principles of Scientific Management*, in which Frederick W. Taylor argued that successfully managing operations required strict silo-based working with prescribed technical skills and approaches. Organisations today are still mostly structured this way, thereby governing the way we work, think and behave.

The fact is that managing strategic initiatives with an operational, function-based mindset simply does not deliver optimal value. In contrast, managing strategic work or initiatives requires a shift to a 'boundary-less' approach, i.e. end-to-end process management, where boundaries of functions are not distinguished.

However, there are similarities in both working within boundaries or without, such as elements of planning, scheduling, budgeting and following organisational processes to produce the deliverables. These similarities cause further confusion about what is strategy and what is operations, and so the fall-back response is to think operationally.

To help overcome this confusion, it is important that the strategic vision is clear, which is crucial when quantifying the longer-term strategic objectives and appropriate measures. From this clear vision it is possible to understand the critical elements that need to be addressed by teams across the organisation. Whether those elements are communication, resources or infrastructure, etc., they should be directly supporting the pursuit of clear and quantified organisational (not functional) goals.

The Balanced Scorecard is used and cascaded to operationalise strategy. Again, this is sensible, but alas the actual value and impact of strategic objectives is lost as the scorecard is often used as an operational rather than strategic management tool – and this issue is compounded by poorly chosen and very operational measures. The inevitable consequence is that operational discussions often overwhelm strategy discussions during review meetings.

Review meetings therefore also require a shift in thinking from function to end-to-end process, so to separate the two conversations. Operational meetings should focus on routine outputs and short-term problem solving. Strategy review meetings should mainly focus on the progress of the major initiatives and how they move the strategy forward and the identification of, and putting in plans to resolve, longer-term issues. Importantly, critical insights from operational meetings should be an input to the strategy discussions, which might lead to new strategic objectives, measures or initiatives. Essentially, this helps everyone understood how they fit within the big picture and makes strategy a continual process.

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My professional experience has taken me through many industries, and despite the insistence from each that 'we are different' they share very similar challenges. Through that journey, my experiences have taught me that when it comes to strategy and operations, the most common and reoccurring challenge is how to connect the two in a way that doesn't dilute the strategy yet ensures operational actions truly support and drive towards the strategic goals. To summarise the difference between strategy and operations, strategy is oriented towards the future and seeks to understand those things that can create value; operations is focused on the present, protecting value by ensuring delivery to the core measures of the business. These definitions are generally agreed upon, so why, for most organisations, is it so easy to define the two yet hard to separate in implementation?

There are many approaches and opinions that attempt to solve this issue. For the purpose of this article, let's consider two, one that is focused on strategy (Strategy Maps) and one that is focused on operations (Lean).

Drs Robert Kaplan and David Norton devised strategy mapping as part of their well-known Balanced Scorecard methodology. A Strategy Map approach has four perspectives as the foundation for its design (financial, customer, internal process and leaning and growth). Lean, on the others hand (originally made famous by Toyota as the Toyota Production System) also focuses on similar perspectives, in this case profitability of the organisation, customer value (right product, price and quality), continuous improvement of the process and respect for people.

With so much similarity, why do companies struggle to effectively connect the two? Maybe the similarities cause the problem. When you hear the words Balanced Scorecard, is your first thought strategy? Oftentimes the focus gets lost in delivering what are in reality operational measures. When you hear the term Lean, do you think of operational tools or a culture of business? Oftentimes these conversations take on more of a strategic focus.

So look at the strategy mapping perspectives again. Success here is about following the perspectives from the financial level down and understanding the major changes that, through cause and effect relationships, are required to deliver on the strategy. Lean should then be deployed to continuously improve the major operational processes that support the strategic goals. Strategy Maps take the longer-term view of value creation, whereas Lean focuses on fixing the short term problems. One is about breakthrough performance improvement, the other about incremental performance improvement, but ultimately both are focused on the same goal: delivering value.

For many organisations, operational firefighting consumes their daily routine and meetings. With strategy, many organisations develop more theory than an actual plan. Naturally, firefighting and strategic theory cannot mix with any hope of a productive outcome. The common factor between both of these states are loose or non-existent systems of measurement. The two systems can work together when organisations make strategy tangible through solid understanding of their leading and lagging measures (driver modelling) and operations can establish a fact-based Lean culture. When an organisation defines the metrics that matter, then you can have meetings with meaning.

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Organisations exist to create value, which is assessed in different ways, subject to its purpose and/or legal status. Delivering value and success occurs in three different ways – through strategy, day-to-day operations and finally, when both strategy and operations are working in harmony, creating synergy and delivering healthier returns. One survey (Crabtree & DeBusk, 2010) indicates an outperformance of 17% return on equity for those embracing the Balanced Scorecard!

Here's the challenge. Does your organisation really want to be strategic? At a recent conference, Joseph Stiglitz, American economist and Noble Prize Winner, bemoaned the propensity for modern business to focus on the here and now; the next quarter; the day to day operational returns. As an economist, perhaps such criticism is fair. However as a business leader, it's important to be in touch with what is happening day to day . Technology makes it easy to source this information; checking our phones or iPads makes it easy to access it. It becomes a problem when we think that checking out our morning sales revenues means we are in control of our business. It is only part of the jigsaw. We need to understand the contribution and relationship between our daily sales returns and monthly sales targets; our quarterly sales targets and our growth ambitions in a specific new market; our sales revenues by targeted market every six months juxtaposed with specific marketing investments that are targeted to deliver a healthy return over the course of 12 months – all of which leads to investment in a targeted market contributing x% of our sales revenues in three years.

Creating harmony and resonance between the measures and targets selected to manage and protect *short-term, operational* performance and those measures and targets focused upon delivering *strategic returns* is vital, not optional. It is not an either/or; both are required in order to deliver value. Measures that produce data that will inform decision-making enrich understanding – consistent in terms of communicating priorities. Targets that tell a story of strategic ambition and change encourage and stretch people. Measures and targets that together are focused upon aligning behaviours around and throughout the organisation make it so that everyone is pulling in the same direction, focused upon delivering tomorrow's success today.

A strategic measure, lead or lag, cross-functional and qualitative in character, will focus upon assessing progress in terms of the achievement of a strategic objective. Embracing a long-term focus and tracking trends and performance of the big picture, a *lead* measure will indicate whether things are heading in the right direction. A *lag* measure will be directly connected to operational performance – easy to define and with readily accessible data, possibly industry or sector specific, looking back at an achieved standard of performance and reported in absolute terms. This is the point of resonance – where strategy and operations touch, creating either gentle friction or mutual support.

Tactical measurement is performance focused, quantitative in nature, operationally and functionally driven, short term and specific. Operational meetings focus upon the short term and the specific detail of operational, functionally driven activities – discrete and bounded. Attending to problem solving re operational specifics in operational meetings is vital.

Strategy demands similar attention in strategy review meetings. Using the Balanced Scorecard framework, with its attention on execution of strategy through an *integrated* set of objectives, measures, targets and initiatives, strategy management reviews are focused upon learning – about the propensity for success, what needs to change, and how to deliver the future.

Leadership is about optimising the operational and the strategic in harmony, knowing when to push on one and when to push on the other. Favouring strategy over operations or operations over strategy is not really a choice; it's the road to confusion, compromise and failure. Seeking alignment, consistency and harmony may be tough but the results speak for themselves.

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Let's start with differentiating strategic objectives from operational objectives. Then, after you decide what you want, you can decide how to measure them.

Accepting the premise that operations protect value and strategy creates value, the question is how to decide what is what? I offer the following to guide executive discussion/decision regarding what is strategic.

Using the following questions, strategic vs. operational objective can be made clear:

- Does the objective communicate the long-term priorities of the whole organisation?
- Does the objective support decisions required at the executive level?
- Is the objective one that remains relevant over the strategic plan's timeframe?
- Is it among the top few things the organisation must do to achieve long-term success?
- Does it stretch the organisation? (Does it create "constructive tension"?)
- Can the objective be managed on a frequency consistent with environment change?

Turning to measures. Once a client asked, what are the strategic measures? My response was that there are no strategic measures – the objectives are strategic and their associated measures are way to monitor progress. Focus on the objectives and the measures will follow.

With this caveat, there are ways to select the most appropriate measure for your strategic objective. The following questions will help in selecting measures:

- Does the measure clearly communicate the intent of the objective?
- Will the measure elicit the behaviour, activity and results intended?
- Is the measure reliable – can it be trusted to provide relevant decision-making data?
- Is the measure repeatable over the strategic time horizon?
- Can the measure be trended?

Before leaving these questions, it might be helpful to recognise some behavioural indicators that may surface during strategic planning discussions.

Dave Norton, co-creator of the Balanced Scorecard, says, 'Managing strategy is managing change.' If you buy into that premise, then there are behavioural signs that could distinguish between operational and strategic objectives.

When discussing the objective, if the discussion focuses on the here and now and the consequences are immediate and certain, then it is a good chance the objective is operational. On the other hand, if the objective has potential value but the consequence is not immediate and is uncertain you may be discussing a strategic objective.

Another tell-tale sign is the level of resistance/anxiety surrounding the objective. This involves the natural resistance to the unknown change will bring. In the face of change, there may be a tendency to insist on continuing to do what you do, keeping the business running and using measures that you have and can manage. Be sensitive to these behaviours; they may inform your selection of strategic objectives.

Beyond separating strategic and operational objectives, it is important is to separate operational and strategic review meetings. Don't discount the hard work of defining strategic objectives and measures by falling victim to the false efficiency of 'combination meetings' where operations are discussed first (and at length) leaving strategic discussion as an afterthought. Just remember the mantra 'separate topics – separate meetings.'

The discussion surrounding the strategy review meeting is another topic for another time.

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Strategy and Operations – two words that are used interchangeably as per convenience, especially during Strategic Review Meetings. But in reality, while the former is like an airplane's flight plan – at waypoint level – the latter is the runway-level, 'coming in for landing' details. While both are essential for reaching the desired destination, clear segregation is required for each one to be successful.

A strategy is a planning process undertaken by the top-level management to decide where the organisation wants to reach in future and what should be done to pursue the organisational vision, mission, and objectives. It is an analytical process that examines the micro- and macro-environment of business. The method is used to define a route that will lead the business towards its ultimate goal.

Operations, on the other hand, is the process that predetermines the day-to-day activities of the enterprise. Operational planning supports strategic planning to accomplish organisational goals. In this process, short-run objectives are determined, and how they will be achieved is agreed upon. This function is usually performed by the middle-level management and involves planning of regular business activities and operations over a short period.

Linked strategic and operational reviews should focus on different performance dimensions: the 'Flight Plan' and the 'Runway Plan'. Unfortunately it is not uncommon for operational conversations to dominate the supposedly strategic agenda.

As a solution to this problem consider the following criteria for strategic review meetings:

1. **Correctly identifying the participants of the meetings:** Stakeholders who do not add value to strategic decision-making process need to be avoided. Usually, participants below the managerial grades should be considered for operational reviews and invited only if necessary for strategic reviews. This helps to keep the focus on strategic discussions and avoids dilution through operations issues being brought up into the review.

2. **Pre-defining the agenda:** To help steer the direction of the strategic review, all participants should be informed of the agenda and presentations/documentation/reports to be presented should be screened in advance by one of the members (usually the coordinator). This will not only eliminate last minute surprises but also enable opportunities to improve the quality of reports and presentations.

3. **Limiting the scope of review discussions:** Once a high-level dashboard at the organisational level is reviewed, then dive deep into one or two department goals and discuss strategic issues. Trying to handle all functions in one meeting or slide into the depths of operational issues for a particular unit is not only time consuming but non-productive.

4. **Identifying a timekeeper:** Just like a scribe is identified for every meeting, it is important to have a timekeeper whose job is not only to have a control over the time allocation for each person but also to identify the drifts of discussion and get the review committee back on track with the agenda. Their focus would not be on the details of the discussion but the subject relevancy and its relation to the agenda item.

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In today's business, a sound and well-structured strategy must drive like a high-speed electric train through a multi-tracked complex route. A good corporate strategy must have a desired future destination, a clear direction on how to attain this and the anticipated duration of accomplishment.

A business strategy defines how the business and its members should evolve in order to achieve long-term, future success. In crafting an enduring and potentially successful strategy, our focus should be driven by these simple questions:

1. What future do we envisage?
2. In view of (1), where do we compete (creating our space and scale of relevance)?
3. How then should we begin to compete in view of our desired future (contemplating, articulating and preparing for the demand that our future will place on us)?
4. What should we be doing now in anticipation of this future destination (clear-cut, progressive and well thought-through initiatives, with measurable indices, that will birth our desired future)?
5. How do we execute and measure our progressive advance?

In operations we are concerned with executing on the demands of everyday activities and commitments. The purpose of the operations plan is to keep the current activities in the organisation moving and functioning at peak levels. We apply a lot of our energy and resources on how to best execute these activities.

A well-structured and effective operations plan would ask the following:

1. How do we improve our processes to deliver on today's value and standards?
2. How do we ensure that such processes positively affect our product and/or service right now?
3. How do we ensure the necessary support our people need to perform effectively this week?
4. How do we improve efficiencies in our order process and invoicing system this month?
5. How do we drive costs down, optimise resources and maximise profitability?
6. How do we sell to our current customers, engender repeat orders and attract new customers?

So how then can organisations separate operations from strategy? Crucially, we should not separate –rather we should find a perfect and dynamic relationship. Every good strategy incorporates an execution plan. A good part of success of our strategy execution process comes from a disciplined and effective operations plan.

I would challenge organisations this way: How do we ensure that our focus on operational efficiency today does not discount or relax our need to plan towards a more glorious future? Where does operations efficiency stop or how do we seamlessly integrate our operations efficiency into our strategic plan? Conversely, how does our strategic plan accommodate our need to optimise the value of today's operating environment?

My take on these questions are as follows:

- An effective operations plan must derive from an existing strategic plan and support its core objectives.
- The operations plan of today should be dynamic in its application and help produce the required variables that will feed and advise discussions at a strategic review or in anticipation of a future strategic plan.
- The strategic document, while articulating a desired future, must recognise the realities of today and how best to manage our resources and environments towards creating today's value while progressively achieving our future goals.
- Key indices of measurement and initiatives should be developed for both strategy and operations such that one feeds into the other.
- In aligning our operations plan with our strategic objectives, areas of existing and potential conflict should be creatively addressed.

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Every person in an organisation contributes both strategically and operationally, which means that everyone has two jobs: one job to deliver value (operations) and one job to increase the value (strategic). This is the base to distinguish between measures and objectives that are truly strategic and measures and objectives that are operational.

Operational measures and objectives should be set to ensure that products and services that are carried out along the value chain are done in a consistent way. Strategic measures and objectives, on the other hand, should be set in a way to improve your operational work. Compare it with a job description. The operational job is to follow the job description and the strategic job is to improve the job description.

Take a COO and a front-line shop floor team as example. The COO´s operational work is to ensure the factories deliver products on time, to cost and with specified quality. He or she focus on empowering the employees and solving daily issues that need her or his involvement. On the other hand, the strategic focus lays in ensuring the manufacturing footprint and supply chain are set up to reach the long-term strategic targets regarding cost, logistic targets and quality.

The shop floor team, on the other hand, are standing in the middle of the value creation and need to handle manufacturing issues here and now to ensure a smooth manufacturing process. Their operational targets are to meet the daily production volume and quality defect levels within a given resource utilisation and cost. Their strategic work is to focus on the root cause problems that support the overall strategy in the best way. For example, if the company´s strategy challenge is to reduce cost, they might focus on set-up time to increase production capacity (and thereby increase production with same resources). Or if they have a high amount of rework, they need to focus on quality improvements.

Sometimes it can be the same measures, just shown in different dimensions. Take for example quality defects. An operational measure can be number of defects per day. The employees fix the problem here and now to meet the target. A strategic dimension can be trend of defects. To reduce the defects according to the strategic stretch target, the employees need to focus on the root causes and eliminate them.

Therefore, it is of absolute importance that there an alignment from the company´s strategy to the front-line employees. If the front-line employees understand their contribution to the strategy, they can focus on the improvements that are most important to drive the execution of the strategy. This is a prerequisite to find the right operational and strategic objectives and measures throughout an organisation.

The two-job thinking helps an organisation to distinguish between operations and strategy and thereby helps to find both the right operational objectives and measures as well as the strategic objectives and measures.

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