



Harvard Business Review

REPRINT H03EMG
PUBLISHED ON HBR.ORG
FEBRUARY 07, 2017

ARTICLE STRATEGY

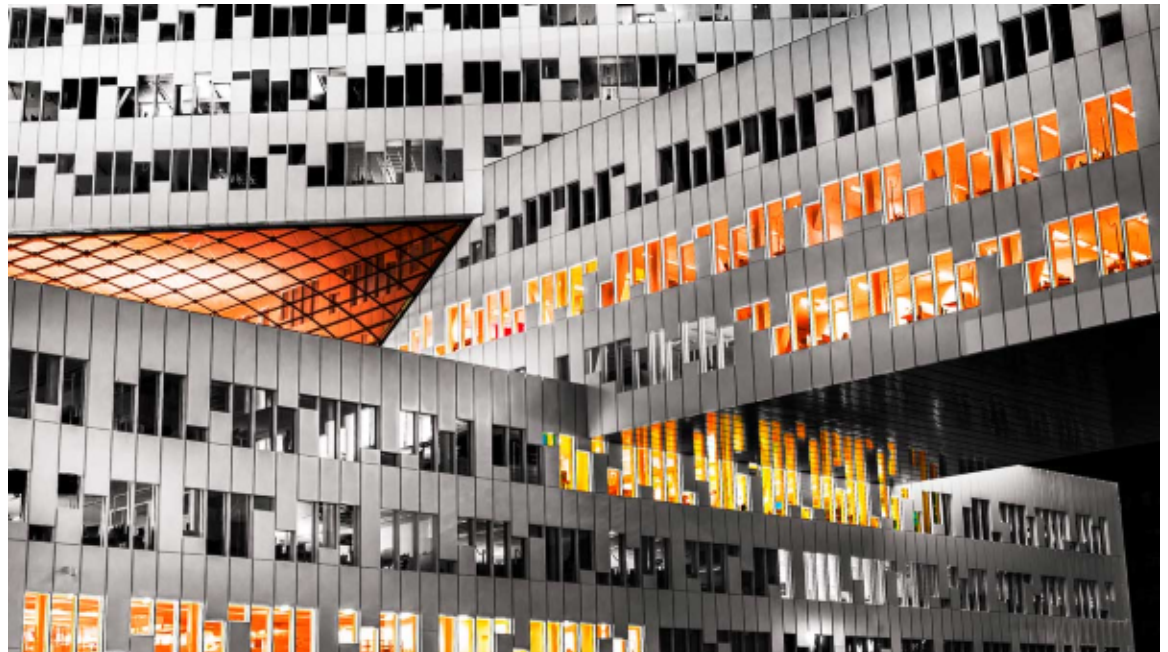
How Aligned Is Your Organization?

by Jonathan Trevor and Barry Varcoe

STRATEGY

How Aligned Is Your Organization?

by Jonathan Trevor and Barry Varcoe
FEBRUARY 07, 2017



Most executives today know their enterprises should be aligned. They know their strategies, organizational capabilities, resources, and management systems should all be arranged to support the enterprise's purpose. The challenge is that executives tend to focus on one of these areas to the exclusion of the others, but what really matters for performance is how they all fit together.

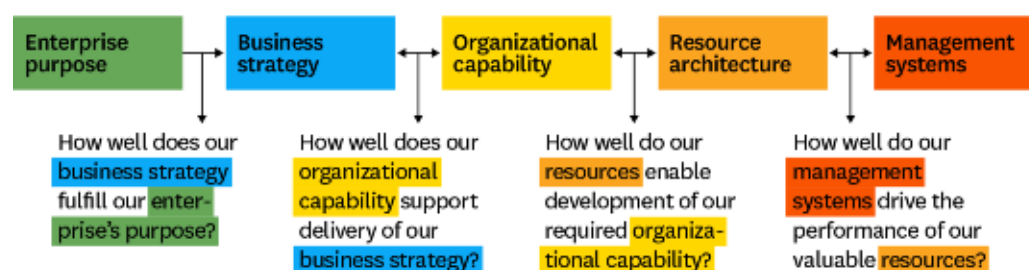
Consider McDonald's. What does it take to be able to serve over 1% of the world's population — more than 70 million customers — every day and in virtually every country across the world? Fanatical attention to the design and management of scalable processes, routines, and a working culture by which simple, stand-alone, and standardized products are sold globally at a predictable, and

therefore manageable, volume, quality, and cost. Maximizing economies of scale lies at the heart of McDonald's product-centric business model. Efficiency is built into the design of its winning organization in the form of formalized hierarchies of performance accountability, a high division of labor, routinization of specialist tasks, and teamwork at the point of sale. McDonald's has been the market leader in its sector for decades.

This is what enterprise alignment looks like. It means winning through a tightly managed enterprise value chain that connects an enterprise's *purpose* (what we do and why we do it) to its *business strategy* (what we are trying to win at to fulfill our purpose), *organizational capability* (what we need to be good at to win), *resource architecture* (what makes us good), and, finally, *management systems* (what delivers the winning performance we need). The enterprise value chain is only as strong as its weakest link.

The Interdependent Components That Make Up a Strategically Aligned Enterprise

The value chain is only as strong as its weakest link.



SOURCE JONATHAN TREVOR AND BARRY VARCOE

© HBR.ORG

Consider the following questions, ideally with your team. You might ask them about the enterprise overall, or about a single strategically important business line, activity or function.

Enterprise purpose: What do we do and why do we do it? Purpose is the loadstone upon which every enterprise is built. Financial success is the consequence of commercial enterprises fulfilling their purposes well, but it is not to be confused with enterprise purpose itself. Profit, for example, is rarely a positive focus for people's effort.

Consider your own case: What is the enduring purpose of your enterprise? Why would it matter if you went out of business tomorrow, and who would care? Is your purpose clear enough that your investors, employees, partners, and customers could articulate it?

Business strategy: What are we trying to win at to fulfill our purpose? If purpose is what the enterprise exists to achieve and why it matters, then business strategy is planning for what the enterprise must win at to fulfill its purpose. Unlike its purpose, an enterprise's strategy should flex

and morph in response to future opportunities and threats. The degree to which your enterprise's business strategy fulfills its purpose is the measure of its effectiveness.

The Walt Disney Company's **purpose** is to "create happiness by providing the finest in entertainment for people of all ages, everywhere." *How* Disney creates happiness is by offering a range of consumer products (Disney Store, publishing, licensing), entertainment (Walt Disney Studios, Pixar, Marvel), and experiences (parks and resorts). It wins by pursuing high performance in each area and by using each to support the others.

Consider the following strategic questions for your own enterprise: What are your offerings to customers, in the form of products and services, and are they consistent with your purpose? What's missing? What do you do or offer that you shouldn't? Who are your customers, and what are they demanding of the products and services you offer, now and in the future? Who are your competitors, and what are they capable of offering that you aren't? How do you need to be different to compete and win?

Organizational capability: What do we need to be good at to win? Business strategy receives the lion's share of executives' attention, but even the best strategy is useless unless supported by appropriate organizational capabilities. It is a reckless leadership team that commits to a business strategy without knowing whether they can achieve it. Traditionally, businesses competed on their ability to execute their planned strategies for matching supply to demand as efficiently as possible. Many enterprises will continue to operate this way in future, but additional capabilities are increasingly important: the strategic value of organizational capabilities such as agility (around the customer), connectivity (between complementary offerings), and innovativeness (to explore novel opportunities).

Consider your own organizational capabilities: What do you need to be really good at to successfully achieve your winning strategy? What are you capable of organizationally that your rivals are not? How do you become uniquely capable of fulfilling what markets and customers are demanding of you, now and in the future?

Resource architecture: What makes us good? (And how good are we?) Strategically aligned enterprises are made capable by their organizational resources, including people, structures, cultures, and work processes, and by the degree to which they are **configured to be strategically valuable**. *People* reflect the value of skills, experience, and knowledge required to perform the enterprise's work; *structure* reflects the value of formal and informal relationships, networks, and functional connections through which work is structured; *processes* reflect the value of planned and ad hoc work processes and routines through which work is performed, and in which valuable knowledge is retained **organizationally**; and *culture* reflects the values, beliefs, and attitudes **that guide everyday working behavior**.

Consider your own resources: What type of people are core to you being superior at the things you need to be good at to win? What type of culture might support collaboration between complementary lines of business, if your business strategy depends upon it? What types of work processes are critical to your ability for inventiveness? What type of structure will enable you to be agile enough to compete for and win fickle customers repeatedly?

Management systems: What delivers the winning performance we need? Management systems include all aspects of management infrastructure, operations, and tactics, from information systems to employee performance management. What management practices, systems, and technologies best fit your winning strategy for fulfilling your enterprise's purpose? What are appropriate measures of success, both short and long term? Where is the focus of effort and attention managerially in your enterprise, and is it aligned to how you plan to win?

Four Reasons for Misaligned Enterprises

So far, so straightforward. So why do many businesses go off the rails? Of many factors, there are four main reasons for misaligned enterprises:

- **Enterprise leaders are unaware of the risks of misalignment.** Many senior executives we talk to do not think of their enterprises as connected and coherent value chains. Their primary focus is all too often on their enterprise's structure as articulated by the org chart. The main operating units described there are seen as being the primary components of "value." Alignment thinking requires *all* decision makers to view their enterprise as a value chain, not merely a set of more or less valuable boxes and wires on an easy-to-forget, ever-changing chart. What are the typical alignment debates in your enterprise? How often you have them, and with whom, relates to our second reason for misaligned enterprise.
- **Nobody "owns" enterprise alignment.** Generally, no individual or group is functionally responsible for overseeing the arrangement of the enterprise from end to end. Multiple individuals and groups are responsible for different components of the enterprise value chain, and usually they are not as joined up as they should be. All too often individual leaders seek to protect and optimize their own domains and components, rather than align and improve across the entire enterprise. Who is responsible for ensuring your enterprise is as strategically aligned as it should be? The answer cannot be "nobody" or "I don't know." Neither can the answer be "the CEO" (or equivalent). Modern enterprises are too complex for their design and management to be left to chance or to rely solely on the wisdom of one individual.
- **Complexity makes enterprise alignment that much harder.** Achieving and sustaining high enterprise alignment is hard, especially in a rapidly changing operating environment. Complexity usually arises as the result of four primary factors: number of employees, variety of business lines, variety and expectations of differing customer groups, and geographical dispersal. Large, diversified, and geographically dispersed enterprises, in whichever sectors they compete, require the greatest amount of strategic effort by their leadership to be aligned. How complex is your enterprise, and how well-equipped is your leadership team to beat the alignment challenge?

- **Activity is mistaken for progress.** The killer questions outlined in the previous section require sound judgment, courage, time, and energy to answer. The frantic activity of business as usual can get in the way of the in-depth discussions and tough choices that need to take place regularly to lead a strategically aligned enterprise (and maintain it). Ensuring that the whole of the enterprise is as aligned as possible *should* be business as usual for enterprise leaders. Without an idealized vision and understanding of their best selves, many enterprises lack the direction, scale of ambition, or impetus required to fulfill their potential.

In summary, strategically aligned enterprises have a much better chance of winning in today's challenging business environment. To win, enterprise leaders must find their own distinctive approach to aligning their business strategies, organizational capabilities, valuable resources, and management systems to fulfill their enterprise's purpose. However, when confronted by the scale of their enterprise alignment challenge, we believe many leaders balk at the opportunity for positive but difficult change because of the unrelenting pressure for short-term results. The penalty is unsustainable performance and an uncertain future.

Jonathan Trevor is Associate Professor of Management Practice at Oxford University's Saïd Business School.

Barry Varcoe is an Associate Fellow at Oxford University's Saïd Business School.
