Importance of Strategy Execution in Influencing Sales Behavior

Executive Summary

This article describes an approach to strategy execution using lessons learned from improvement efforts to the sales compensation business process in Cisco Systems Inc. The reader can expect to grasp the basics of Strategy Execution, the 'white space' between business strategy definition and operations. Although the examples used in this article relate to sales compensation business processes, the lessons learnt can be applied to strategy execution in general. Strategy execution is a complex, iterative endeavor. Organizations have to establish a culture of continuous improvement to sustain momentum. By adding a roadmap to continue strategy execution in the sales compensation process, the authors hope to provide the vehicle needed for your organization to take a closer look at Strategy Execution and implement changes in your organization.

Audience

- Executives and Senior Managers who are accountable for executing strategy in organizations will grasp the basics of strategy execution
- CIOs and Senior IT Managers will identify guiding principles to execute strategy relating to information management efforts
- Sales compensation professionals will recognize and see an immediate relevance to their line of work

No background in Sales Compensation is necessary or assumed.

How It Worked

1. Introduction: What is 'Strategy Execution'? Understand the difference between 'Business Strategy', 'Operations' and 'Strategy Execution'
2. Introduction to the Sales Compensation Business Process. A brief overview of the process for developing sales compensation plans
3. Problem Statements and Business Needs. A description of the complexities and challenges in sales compensation
4. Process of Strategy Execution. The five (iterative) phases of strategy execution
5. Creating a Strategy Execution Map. The five step, iterative process to create a Strategy Execution Map
6. Benefits of a Strategy Execution Map. How the organization gains Clarity, Choice and Focus
7. Roadmap for Strategy Execution. Techniques to analyze capabilities and use portfolio and change management to select the 'executable chunks'
8. Continuous Improvement. Examples of how to take the organization to the next level in strategy execution

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Importance of Strategy Execution in Influencing Sales Force Behavior

By Dr. Sayan Chatterjee, Venkat Narayanan and William Malek

1. Introduction: What is 'Strategy Execution'?

Organizations formulate business strategies to differentiate themselves in sustainable ways and thereby attract more customers to sustain their vision and mission. A company's business strategy is visible in its unique value proposition, business model and value chain integration. The company's operations support the business strategy by delivering value to customers on an ongoing basis in processes such as order fulfillment, customer support and the back office activities that support the sales force. Business strategy definition and operations are well-established disciplines and whose importance is understood as critical to running an organization. A more recent area of focus for organizations is the transition from business strategy to operations. This is the field of 'Strategy Execution'.

Strategy Execution is the set of activities organizations perform in order to convert business strategy into operations (see Figure 1). The process of strategy execution breaks down business strategies into 'executable chunks'.

Figure 1 The relationship between Business Strategy, Strategy Execution and Operations

In many organizations, strategy execution is a 'white space'[i] or uncharted area. Ineffective or incomplete analysis and planning, and often, a lack of leadership to oversee handoffs characterize this 'white space'. Ignoring 'white space' can result in poor strategy execution because tasks between the key management interfaces fall between the cracks. The cost and implications of confusion, frustration and loss of morale may be difficult to quantify, but these are very real side effects.

Stressful operations, slower time to decisions and chaotic activity follow faulty execution. The result is poor customer service, which according to the service-profit chain results in lower customer satisfaction and ultimately less profitability. Lower employee satisfaction and productivity and increased employee turnover follows. In short, business strategy fails[ii]. Managers see these results and want to improve ongoing operations through improved strategy execution. However, a coherent approach is yet to emerge to guide managers in their efforts to execute strategy. The ideas presented in this article are the steps towards developing that coherent approach.

Based on experience in executing strategy, it is evident that 'Strategy Execution' is a discipline in itself and not a mere extension of business strategy or operations. It is the link that connects them.

This article illustrates how Cisco Systems sought to influence sales behavior by improving its sales compensation business processes. Based on the lessons learned, many guiding principles emerged for strategy execution. To preserve confidentiality, facts and examples have been disguised while retaining enough detail for it to be useful to the reader.

The focus of this article is the application of strategy execution techniques. It is not necessary for the reader to know sales compensation design in any detail[iii].

2. Introduction to the Sales Compensation Business Process

For the purposes of this article, the term 'sales force' refers to all the roles and players in an organization who are directly accountable for securing revenue. Complex selling situations requires companies to have a relationship with the buyers. Therefore, a sales force is needed to influence buyers in their purchasing decisions.

To meet the goals of their business strategy (i.e. sustained competitive advantage) in a fiercely competitive business environment while keeping the high cost of customer acquisition under control, organizations are constantly looking to[iv] keep the following two activities in sync:

- Fine-tune business strategies in a flat world[v] and
- Influence the sales force behavior in ways that improve their efficiency and effectiveness

Influencing the behaviors of the modern day sales force behavior is a complex task. However, due to the nature of the selling function, it is possible to quantify sales behaviors and achievement and link them to compensation. Therefore, sales compensation plans are considered to be an important lever in motivating the sales force (see Figure 2 some other levers[vi]) among other influences.

Figure 2 Various levers to motivate a sales force

Lets review a simplified version of the sales compensation process to understand how it is used to influence sales force behavior[vii].

Designing and effective sales compensation plan starts with definition of the business strategy. The business strategy outlines how the organization plans to gain a competitive advantage, typically including:

- Market segment: Who is the customer? For example, government, large enterprises, small business etc.
- Routes to market: How will the organization reach the customer? For example, direct, 2-tier, OEM[viii], retail etc.
- Product offering: What is the value the organization is going to offer? For example, products, services, solutions etc.
- Geographies: Where will the organization offer its goods and services? For example, countries, state, zip codes etc.

Once the business strategy is defined, the goals of the sales force in supporting an organization achieve its strategic outcomes are identified. For example:

- Acquire new customers
- Retain existing customers
- Up-sell and cross-sell products and services
- Sell more services when selling products

An effective sales compensation plan is derived from the business strategy and goals defined for the sales force, and captures the behaviors expected of the sales force (see Figure 3). The desired behaviors (when they can be quantified) are used to construct the business rules for sales compensation and are directly reflected in the sales compensation plan. Some example behaviors are:

- Meet dollar or units booking and revenue targets
- Increase customer satisfaction
- Sell more high margin products and services
- Sell a portfolio of both products and services (instead of focusing on just the "easy to sells")

Figure 3 Pre-requisites to defining a sales compensation plan

The next step is to define quotas or set sales targets. Taken together, the sales quotas and the sales compensation plan define the performance expectations of the sales force (see Figure 4).

As orders are booked, each order is credited to the sales person responsible for the sale. The sales compensation due is then calculated by triangulating the business rules in the sales compensation plan with the sales quotas and sales bookings.

Figure 4 Performance expectations of the sales force

3. Problem Statements and Business Needs

Executing strategies to influence sales force behavior can be a very complex effort. This section highlights some of the typical challenges faced by Cisco in defining and administering sales compensation programs. These were some of the drivers for the improvement effort described in this article. See Table 1 for a summary of challenges and their impact.

As mentioned earlier, defining a sales compensation plan for a global organization with a large sales force, sizable product list with complex routes to market is not easy. Cisco's intention was to manage all of its sales compensation plans as a portfolio. To optimize this portfolio, sophisticated modeling techniques and other capabilities were desired but were either not available or were difficult to build.

The complex environment made it difficult to understand the business drivers and precisely define how exactly a sales person influences a sale. This lack of understanding was reflected in sales compensation plans that did not truly reflect the behavior required of the sales force and hence the sales compensation plan did not motivate the desired sales force behaviors.

Cisco had a large sales force of around 15,000. The automation of business processes was essential to be able to administer sales compensation plans for such a large sales force. However, keeping IT systems current with the dynamic evolution of the business was too costly and complex. Because its IT systems could not support certain types of sales compensation plans, the following impacts were observed:

- The sales compensation plans were designed to fit the IT systems' capabilities. For example, sales plans had to be simple and straightforward and could not be fine tuned using advanced sales compensation techniques such as hurdles and accelerators[ix]. Not only did this create a real barrier to the efforts of the organization to influence sales behavior, it is counter to modern thinking in making sales technology effective[x]

- Many sales compensation plans had to be administered manually. This resulted in an increased error rates, the sales force lost motivation when their pay was negatively affected
- The manually-administered programs resulted in an uneven enforcement of audit controls increasing the legal exposure of the organization

The 'time to deploy' for new compensation plans took longer than expected, partly because of IT system limitations and partly due to lack of an end-to-end understanding of the business process. This frustrated the sales management who were now unable to fine-tune the sales compensation plans in a manner timely enough to drive the desired behaviors in the sales force.

Challenge	Impact
No sales compensation plan modeling	No visibility into a sales compensation plan's impact on sales force behavior
Lack of understanding of how a sales person influenced a sale	Complex sales compensation plans that were hard to understand and therefore did not serve to influence appropriate sales force behavior
IT systems not evolving with the business	New compensation plans take time to design and deploy Errors in paying sales compensation
New compensation plans taking time to design and deploy	Loss of flexibility and agility in influencing sales force behavior
No end-to-end understanding of business process to design and implement a sales compensation plan	Complex business rules are administered manually; error prone and failures during audit Lack of collaboration among stakeholders, thinking and doing happens in silos
Employee turnover due to loss of morale among the administrative staff	New hires take time to learn tasks and training is expensive Sales force frustration increased due to delays in responding to questions on their paycheck
Lack of data to measure success and to predict process performance	Decisions driven by instinct, not data Problems not addressed at the root Behavior not aligned to organization goals

Table 1 Challenges in defining and administering sales compensation plans

Growth in the business required new ways to motivate the sales force. For example, after a company was acquired, the sales force had to be provided incentives to sell products and services from the acquired company and complex selling situations required incentives plans to reward teamwork.

This in turn led to growth in the types of sales compensation plans. Due to the inability of IT systems to automate the new types of compensation plans, the organization hired more people to administer them manually. Since trained and experienced people are scarce, this resulted is a loss of internal productivity as new hires took on more responsibilities. Administering complex sales compensation plans manually sometimes resulted in late and inaccurate payments, leading to loss of sales force productivity as they allocated their time trying to understand their sales incentive payments instead of profitable time with customers.

Delays and confusion caused by disorganized or undocumented business processes and frequent complaints from the sales force resulted in frustration for administrators of the sales compensation plans, leading to higher employee turnover.

Multiple organizations collaborated in defining and administering sales compensation: Sales, Human Resources, Legal, Finance and IT. These teams worked in silos due to a lack of an end-to-end business process definition and the absence of clear success measures to unify efforts and establish super ordinate sales force goals. Handoffs were incomplete and imperfect, resulting in defects, longer cycle times, confusion and frustration.

There was no common understanding and rigorous definition of 'success'. The IT systems were not designed to cater to metrics collection; hence compiling success metrics was a tedious and manual effort. In addition, there was no clear ownership and accountability for the success metrics. This resulted in metrics collection being ad hoc and guesstimates. Investment decisions were taken based on gut feel and intuition and not on sound reasoning.

Due to the lack of understanding of the end-to-end business processes, upstream business processes often implemented business decisions without regard to the impact on downstream processes. This was especially visible in the area of sales crediting. Many sales compensation plans were adopted without considering system capabilities. This results in sales crediting being performed via an after the fact 'claiming' process[xi] because the IT systems could not automate the business rules. The outcome was conflicting claims and incorrect sales credits and a frustrated sales force due to:

- Delays in retiring the sales quotas
- Delays in and/or inaccurate payments.

The organization realized the need for a coherent and holistic approach for executing the strategies to influence sales force behavior, as described in the next section.

4. Process of Strategy Execution

Figure 5 shows the high level phases in strategy execution:

Figure 5 High-level steps in strategy execution

The process is iterative, not linear. There is a feedback loop from each phase to earlier phase(s). This is the self-correcting aspect to adjust for the realities of strategy execution. For example, an initial roadmap to improve sales compensation processes turned out to have a scope that was too much to implement with the given resources and too much change for the organization to implement. This roadmap was revised to de-scope certain items for implementation in a subsequent phase.

In an effort to speed up strategy execution, organizations develop the steps separately or in parallel in an unstructured manner (a bottom-up approach to projects). This need for speed can be counter productive. To create a coherent approach to strategy execution, the organization will do well to follow the high level steps described here to ensure consistency and alignment between the phases. The following sections describe how Cisco applied these steps to better influence sales behavior.

5. Creating a Strategy Execution Map

The framework driving this process is based on the premise that the starting point in any effort to execute strategy is the development of a Strategy Execution Map[xii]. This is a:

- A visual way to understand the capabilities and projects involved in strategy execution
- A cornerstone in guiding the systematic development of a roadmap for strategy execution

There are 5 steps in creating a Strategy Execution Map (see Figure 6):

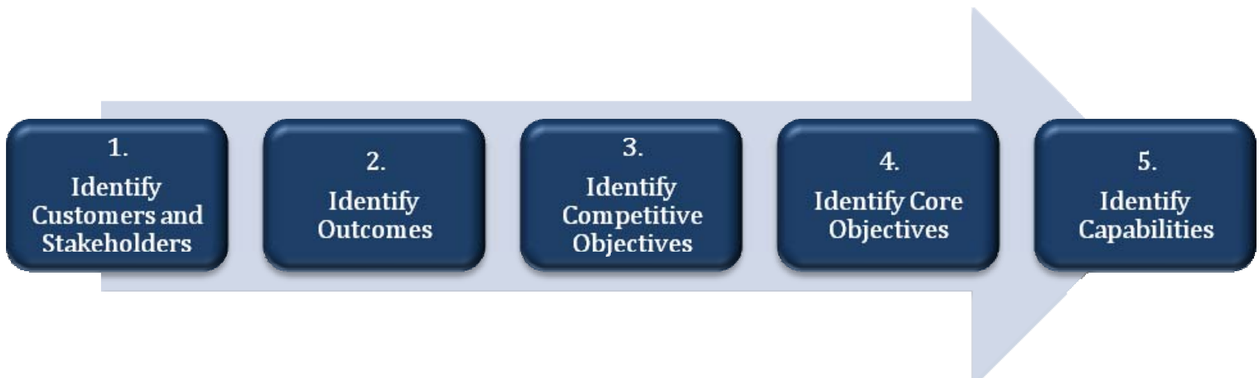

Figure 6 Steps in creating a Strategy Execution Map

Step 1: Identify Customers and Stakeholders

Customers and stakeholders are distinguished as follows:

- A customer is anyone who will directly benefit from the outcomes and outputs of strategy execution
- A stakeholder is anyone who enables or performs activities to provide the outcomes sought by the customer

It is very important to distinguish between the two entities. Without a focus on customers, it is easy to lose the focus of the customer and invest resources in making stakeholders happy. This is a very big reason for an organization losing its relevance and hence its competitive advantages.

Another reason for focusing on customers is to ensure that the organization has the means to directly monitor the customer outcomes. Otherwise, the stakeholders act as a proxy in defining customer outcomes. This is sub-optimal, as some stakeholder-defined outcomes could be self-serving and will base the final success criteria on opinions versus facts.

Teams and individuals represent customers and stakeholders. Identifying specific names and performing a stakeholder analysis is a starting point in change management. Plans and execution steps are not created in a vacuum; they often have to be tailored to cater to the unique circumstances and situation of the individuals and teams.

For its sales compensation process, Cisco identified the following 'customers':

- Sales force: Directly accountable for increasing the company's revenue by influencing the sale of products and services

The following stakeholders need to coordinate to execute sales compensation strategies:

- Sales Management: Accountable for the effectiveness and productivity of the sales force
- Human Resources (HR): Designs the sales compensation plans
- Finance FP&A: Monitors costs and implements the financial controls used in sales compensation
- Sales Operations: Administers the sales crediting process as well as other various back office activities relating to selling
- Finance Operations: Calculates the compensation owed to sales agents and generating payroll

Step 2: Define Outcomes of Customers and Stakeholders

Outcomes are what customers and stakeholders are ultimately seeking in terms of value or benefits[xiii]. An outcome is different from a need, requirement, want or desire.

The outcomes sought by the customers and stakeholders of Cisco's sales compensation process are shown in Figure 7.

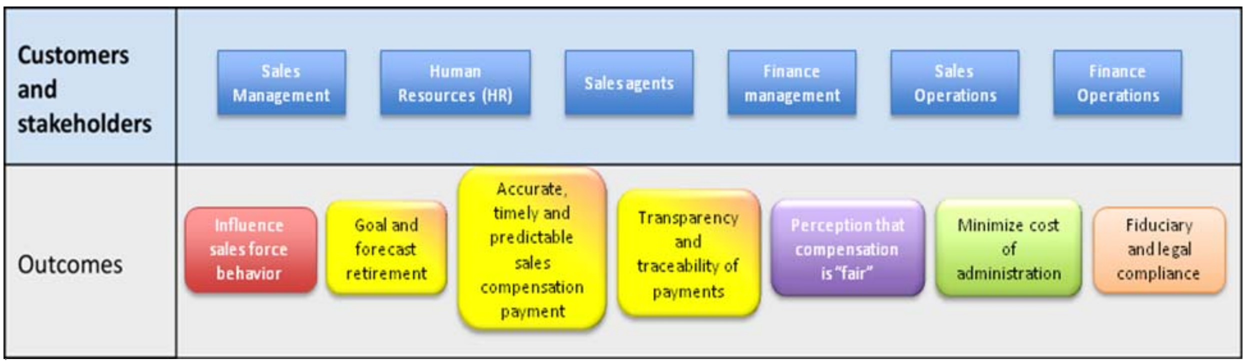

Figure 7 Customer and Stakeholder Outcomes

By defining outcomes, the organization gained clarity on the key themes in using sales compensation as a lever to influence sales force behavior. These themes are described in Table 2:

Key Theme	Notes
Influencing sales behavior	To achieve Go-to-Market strategy goals
Productivity	For the sales force this means spending lesser time sorting out issues with their paycheck For the administrators, this means getting more done in less time, at a lower cost and with fewer errors
Financial	Return on sales compensation paid to sales force and cost of administration
Equity	Paying a fair compensation to the sales force
Compliance	With local laws relating to compensation Fiduciary and legal compliance

Table 2 Key themes in executing strategies relating to sales compensation

In addition to gaining clarity, other benefits of defining outcomes are:

- Success was now clearly defined from the customer and stakeholder viewpoint. Multiple planning scenarios could be developed to discover/invent the optimal option based on core competencies and execution capabilities
- The organization realized that each theme required a different approach. For example, the activities required to achieve Go-to-Market strategies are different from those required to achieve productivity in administering sales compensation processes
- Stakeholders saw the need to collaborate to meet customer outcomes and this serves to eliminate goal conflict
- Success was now defined as attaining customer and stakeholder outcomes rather than execution of projects within the traditional 'triple constraints' (time, cost and quality). This provided a better guidance on when to invest in a struggling project and when to redeploy resources

Step 3: Define Competitive Objectives

After identifying the customer and stakeholder outcomes, the next step is to identify the competitive objectives. A 'competitive objective' is the means by which an organization gains a sustained competitive advantage in the marketplace. The competitive objectives identified for the sales compensation processes are shown in Table 3:

Competitive advantage	Notes
Agility and flexibility	The ability to define and change sales compensation plans in response to dynamic and competitive business environment allows organizations to outmaneuver the competition. Sales compensation plans can be quickly changed to reflect the new behaviors desired of the sales force.
Highly productive sales force	A sales force that can produce higher revenue at a lower cost will contribute better to the top line growth and bottom line profitability.
Attract and retain an effective sales force	Though not the sole motivator, the earning potential of a sales job is a big attraction. Therefore paying a competitive compensation is critical for attracting and retaining an effective sales force.
Lower operational costs of sales compensation	Organizations must look for ways to control the cost of compensating the sales force. This requires clarity on motivators and looking for non-financial ways to increase sales force effectiveness, e.g. training, pricing, advertising or marketing programs.
The organization is viewed as a company with integrity	Compensation is subject to local laws. Some countries have labor councils who monitor the process of defining and paying compensation to employees. In addition, in the USA, SOX regulations require public companies to adhere to specific financial and accounting controls. Staying clear of violations in this area is essential to avoid negative publicity and costly lawsuits.

Table 3 Competitive Objectives

By articulating the competitive objectives for the sales compensation processes, Cisco gained clarity on potential impacts of more effective or less effective implementation of sales compensation levers.

Figure 8 shows how competitive objectives align with the customer and stakeholder outcomes:

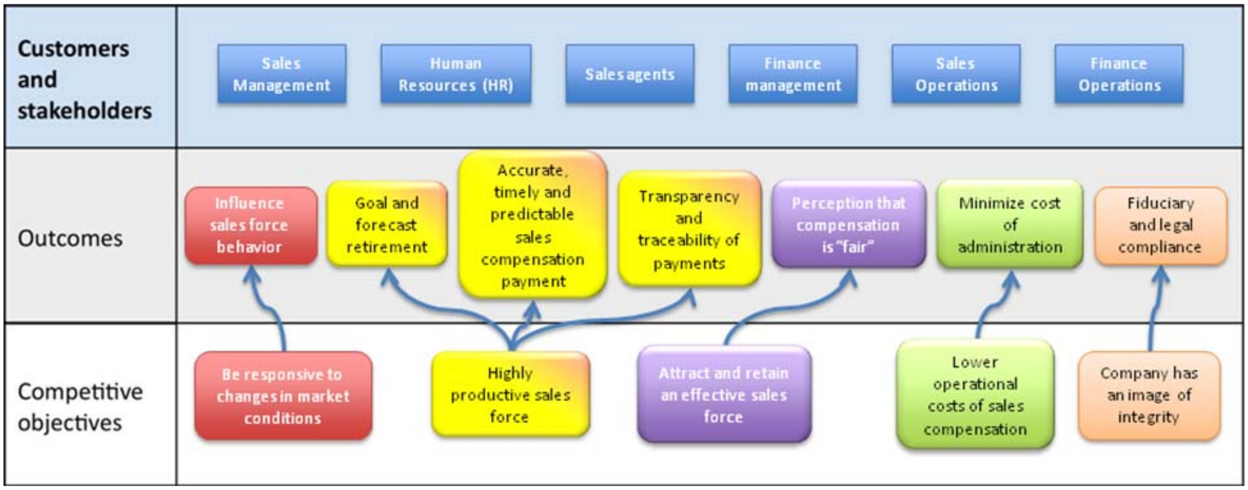

Figure 8 Alignment of competitive objectives to outcomes

The organization could now see visually why the investment had to match the outcomes. For example, time, money and effort spent on increasing the productivity of the sales force was unlikely to result in influencing their behavior. Also, if the sales compensation design did not influence their behavior, improvement of the accuracy and timeliness of payments would not help the organization meet its business strategy. Achieving legal and fiduciary compliance was a necessary activity but would not serve to influence sales force behavior in any way.

Step 4: Define Core Objectives

The organization now turned to the question of identifying 'success' in using sales compensation as a lever to influence the sales force behavior. The success measures are termed 'Core Objectives'.

The Core Objectives served as a platform to unify the various stakeholders who have to collaborate in meeting the customer outcomes. When teams realized that they were working towards a common goal, they understood the need to collaborate. In wanting to collaborate, the teams realized the interdependent nature of the effort required to achieve success in the sales compensation processes. This resulted in a 'virtuous cycle' of collaborative effort.

For example, the team designing the sales compensation plan realized that it needed to evaluate operational impacts *at the time of designing the plan*. A business rule for paying sales compensation on advanced technologies had to be further analyzed into how advanced technologies will be identified and how to differentiate such products from non-advanced (or core) technologies.

Otherwise, if implementation of a sales compensation plan proceeded without understanding the operational impacts, the ability to pay accurate and timely sales compensation would be compromised, negating any benefits gained by designing an effective sales compensation plan.

Table 4 shows the core objectives identified for the sales compensation process:

Core Objective	Notes
Sales Compensation Plan Effectiveness	This measures how well sales compensation plans influence sales force behavior It reflects an understanding of the business drivers, sales management expectations of the sales force and an understanding of sales compensation design principles
Speed	This measures how quickly new compensation plans can be introduced to the sales force (time to deploy) Once a decision has been taken on business strategy, swift implementation is essential, especially if sales compensation is a key lever to drive sales force behavior
Agility and flexibility	This measures an organization's ability to provide multiple types of sales compensation plans and modify them for specific offerings, markets or geographies. Organizations sometimes have the need to fine tune a compensation plan to fit specific business needs
Effective goals and quotas	If quotas are too low, the organization will pay too much in sales compensation. If they are too high, the sales force will be underpaid. This is a measure of how many in the sales force reach and exceed their sales target. After a quota is set, a performance range is specified to reward those who achieve and exceed their sales targets
Accurate and timely sales compensation payments	This is a measure of how well the sales compensation plans are administered
Total cost of ownership	This measure tracks both the compensation paid to the sales force as well as the cost of administration of the sales incentive plans
Equity	This is a measure of how the total target compensation for the sales force compares in the industry. Organizations typically target a percentile of what the market will pay for similar job functions
Compliance	This is a measure of how well the organization adheres to legal requirements in compensating its sales force. The metric can be tracked by monitoring how well legal and financial controls are implemented and by the number of incidents resulting from non-compliance

Table 4 Core Objectives for the sales compensation process

The following diagram (Figure 9) shows how the Core Objectives align with the competitive objectives and the customer and stakeholder outcomes.

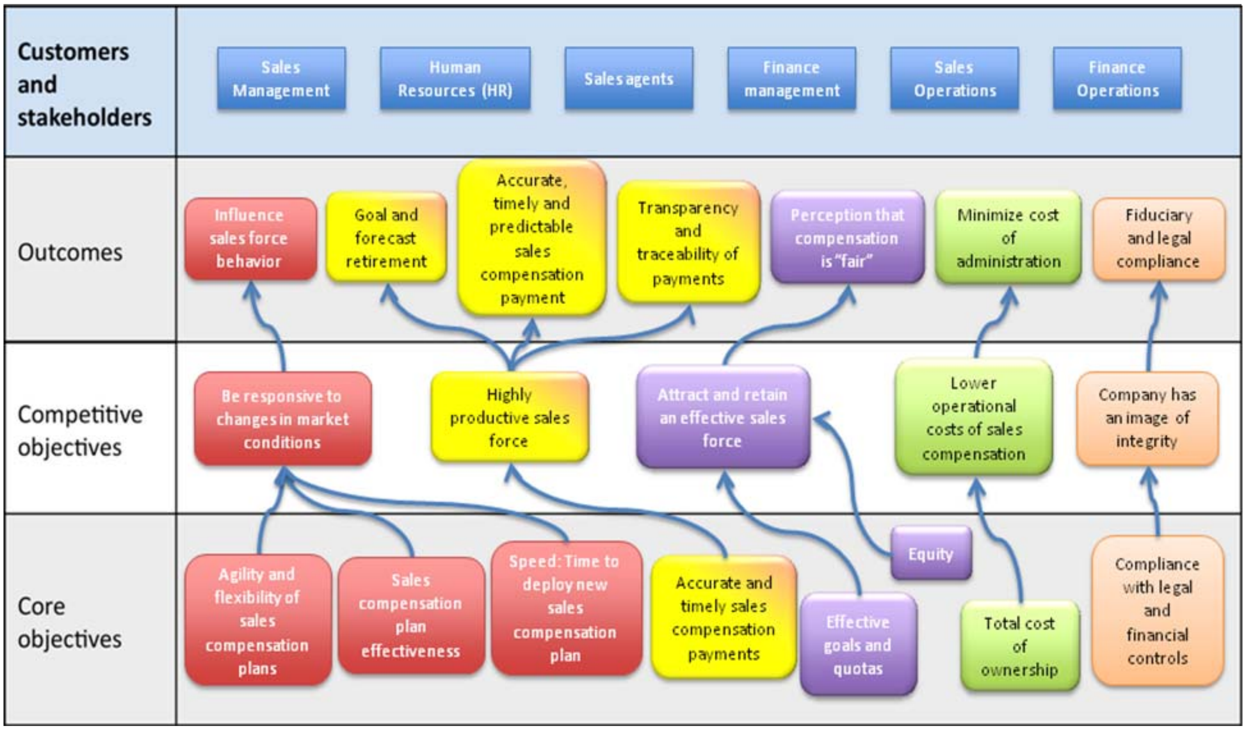

Figure 9 Alignment of core objectives with competitive objectives and outcomes

Step 5: Define Capabilities

After identifying customer and stakeholder outcomes, competitive objectives and core objectives, the organization now turned its attention to identifying the capabilities required to achieve success.

Figure 10 illustrates some of the capabilities needed to support a sales compensation process.

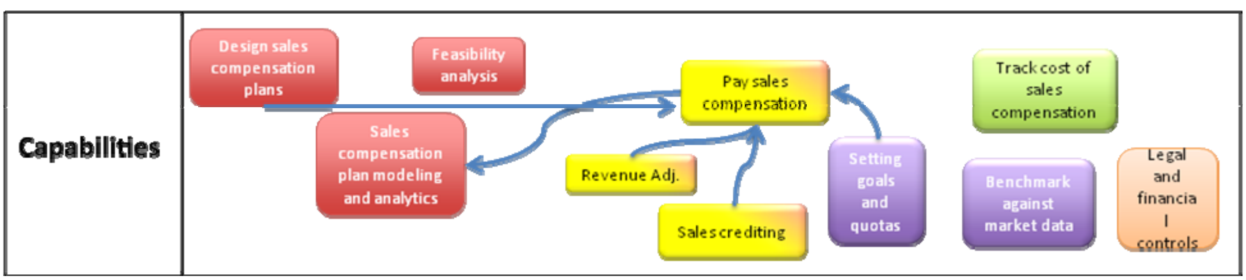

Figure 10 Capabilities needed to support the sales compensation process

The capabilities had some dependencies among each other as show in Figure 10. The organization then did the following analysis:

- By aligning the capabilities with the core objectives the organization knew which capability contributed to which core objective
- By knowing which capabilities were weak and which ones were strong (see section 7 later in this article for how this was done), the organization was able to make informed choices on program and project selection

The capabilities can be of the following 'types':

Capability Type	Notes
Policy	Business rules that are legal or financial control related
Process	Collection of interrelated tasks that transform inputs into outputs. Processes can be operational, support or management
Systems	IT capabilities needed by the organization
Data	Data elements needed for acting on the business rules
Organization	Team organization (hierarchical, matrix etc.) and the culture (e.g. command-and-control or collaborative)
Governance	Decision making process in the organization and norms for centralization and decentralization
People	Human resources needed to do the work involved in strategy execution

Table 5 Types of capabilities

The following is a completed strategy execution map for the sales compensation process:

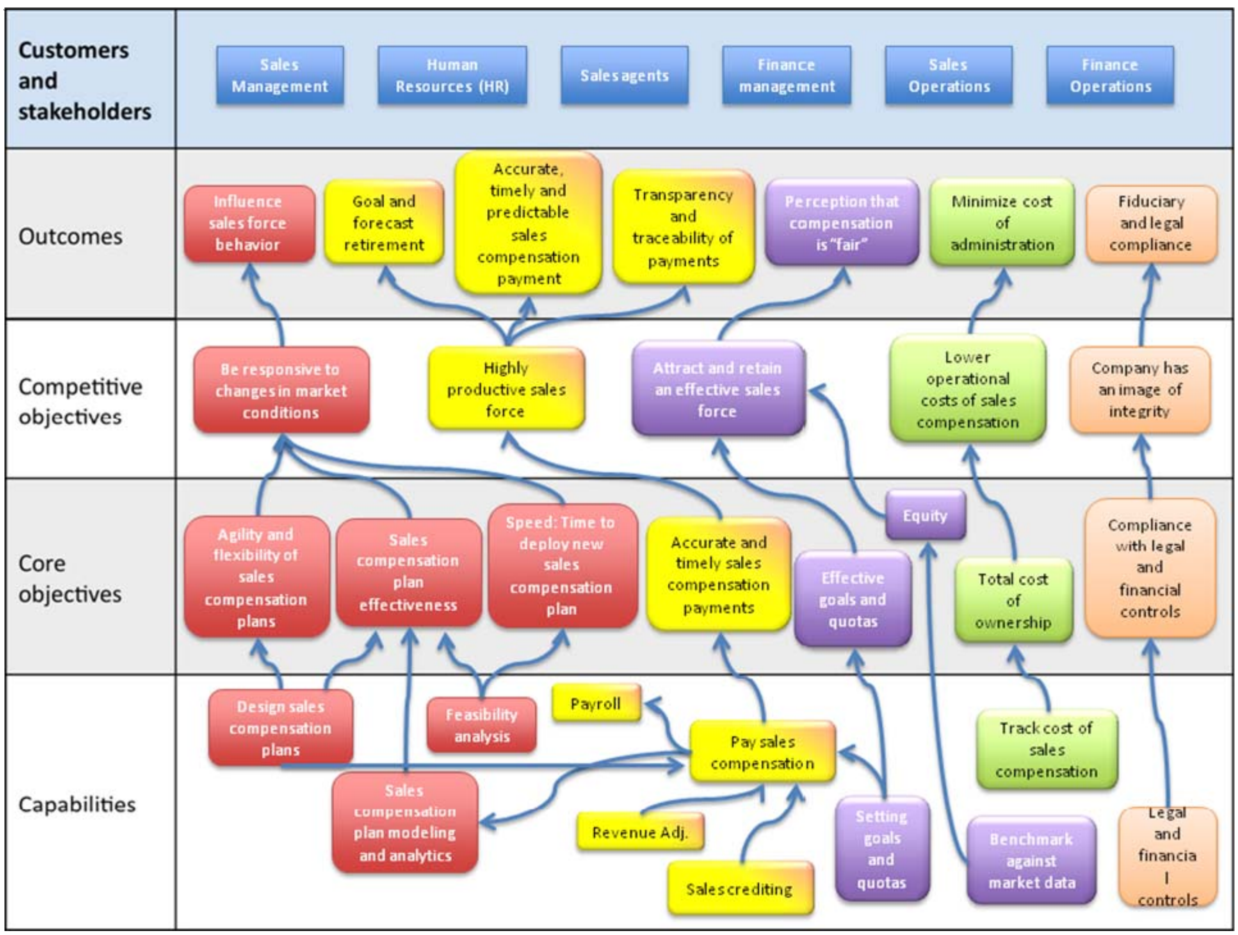

Figure 11 Strategy Execution Map for the sales compensation process

6. Benefits of a Strategy Execution Map

The Strategy Execution Map provided a blueprint for the organization to think through the execution issues and key activities inherent in defining and administering sales compensation plans.

It provided **clarity** by:

- Assembling the various components that are required for defining and managing sales compensation and showing how they are related. This eliminated the churn in discussions as participants could now clearly identify the cause and effect relationships between the components
- Crisply defining 'success' from the customer viewpoint. This made it easier for the organization to examine funding decisions by evaluating a project request against core objectives. For example, projects that improves sales force productivity was given priority over projects that improved the productivity of the employees who were administering sales compensation processes
- Showing the line of sight from a capability to an outcome. This provided an unprecedented basis for understanding the intent of the program and gaining commitment to a shared purpose. Every individual could now see exactly how their efforts were contributing to meeting customer and stakeholder outcomes

Figure 12 Relationship between clarity, choice and focus

The Strategy Execution Map provided **choice** by demonstrating how the organization could think about alternate ways to meet customer and stakeholder outcomes. For example, most issues in the sales compensation process were attributed to broken IT systems. While it was true that the IT systems had not evolved to keep pace with the business, there were other contributors to sales compensation issues. The organization realized it could improve its scorecard in meeting customer and stakeholder outcomes by investing in the following key business processes:

- A 'feasibility' process: This was required when a new sales compensation plan was proposed. This process examined the execution capabilities end-to-end to better prepare the organization to identify and track the tasks to implement the sales compensation plan. A cross-functional team was setup to receive all new requests for new compensation plans. This team followed a formal, structured process to analyze the request and recommend an implementation plan
- Governance: There was an increased appreciation for the fact that decision-making was slow, made in silos and not communicated to those who needed to know. Councils consisting of representatives from all impacted stakeholders were set up to address specific issues. Council members were able to collaborate by taking an organizational viewpoint and bring about the necessary alignment and change within their function

The Strategy Execution Map provided **focus** by:

- Highlighting the need to develop options that achieve outcomes
- Requiring the organization to collaborate in selecting options that met customer and stakeholder outcomes
- Stack rank and eliminate options that did not help in meeting customer and stakeholder outcomes or which were otherwise suboptimal

Once the options were narrowed down to those that should be implemented, the organization could then focus on the chosen opens. Additionally, the Strategy Execution Map eliminated the churn caused by incomplete understanding of why a decision was made and not understanding why certain options were eliminated.

7. Roadmap for Strategy Execution

After the capabilities were identified at a high level, the next step is to create an analytical framework as shown in Table 6 (table shows a partial list of capabilities):

Capabilities	Policy	Process	System	Data	Organization	Governance	People	Total
Sales Compensation Plan Modeling	1							
Design Compensation Plans					2	2		
Sales Compensation Plan Analytics			0					
Setting goals and quotas								
Feasibility analysis for new Sales Compensation Plans								
Pay compensation process			2					
Payroll process								
Sales crediting process	1	1	1					
Track costs of sales compensation				0				

Table 6 Capability Analysis

Each cell contains a score to reflect the state of the capability the following information:

- 0 (zero): The capability does not exist at all
- 1 (one): The capability needs to be improved
- 2 (two): The capability is good enough for meeting customer and stakeholder outcomes

The cells could be colored green, yellow or red for visual effect.

This analysis prepares the organization for the hands-on effort in executing strategy. To efficiently carry out the operational activities required for designing and administering sales compensation, the organization needs to:

- For cells with a '0' identify the specific capabilities that are missing
- For cells with a '1' identify the specific capabilities that need to be improved
- Perform a detailed analysis to identify programs and projects that will create or improve the capabilities. This list is a very key input to the strategy execution effort of the organization
- Select programs and projects to implement (see the section on 'Portfolio Management' below for some details on how to select a program or project)
- Monitor the core objectives to ensure the strategy execution stays on track (accountability)
- Build organizational processes to ensure continuous improvement

To monitor and improve the hands-on effort required to improve the strategy execution of the sales compensation process, the organization needed the following additional capabilities:

- Portfolio management
- Metrics
- Change management

7.1 Portfolio Management

The organization realized that it will always have more opportunities and problems than its resources will allow it to address. To manage[xiv] its portfolio of opportunities, the organization:

- Developed criteria for prioritizing programs and projects. The Strategy Execution Map provided many objective criteria for prioritization (e.g. customer and stakeholder outcomes, competitive objectives and core objectives).
- Selected the programs and projects to convert business strategy into operational activities. Each new capability requirement or effort to improve an existing capability translates into a program or project
- Determined the capacity of existing resources
- Matched the programs and projects to the available resources

As new opportunities arise, existing efforts become irrelevant. This means the 'portfolio' of opportunities must be monitored continuously to ensure relevance and effectiveness. To ensure portfolio relevance, the organization:

- Monitored the business priorities
- Refined the portfolio of programs and projects to keep them relevant as the business evolves evolved
- Dealt with an overload of qualified programs and projects

To deal with the political challenges of portfolio management, effective sponsorship is essential. Effective sponsorship is characterized by a strong vision, commitment that is passionate and objective, political savvy, shared accountability and empowerment.

In recognition of the multiple stakeholders involved in sales compensation, an Executive Committee and an Operating Committee was formed to provide the needed sponsorship.

7.2 Metrics

The organization recognized that usable and reliable metrics were hard to come by. In order to move to a culture of data driven decision-making, the organization recognized the need for the following actions:

- Operational definitions[xv] for each of the core objectives. This will ensure that there is agreement and alignment with the core objectives. This agreement and alignment is essential for achieving a common understanding of success measures
- Appointment of a 'steward' and 'trustee' for each core objective. The steward is accountable for moving the metric and will provide the sponsorship needed for removing barriers in collecting the data. The trustee will perform the actual data collection and ensure that integrity of processes that collect the data
- Identify the drivers of each core objective. These in turn will result in identification of further metrics that need to be collected. By doing so, the organization can identify and monitor the leading indicators to monitor strategy execution. Leading indicators will enable the organization to prevent problems in strategy execution, mitigating the 'fire fighting' that happens in reactive environments
- Publish the metrics via a dashboard and keep the data current

In order to be truly useful, metrics must drive business decisions. This will happen when the organization has a clear understanding of the drivers of the metric, agrees on a common definition and trusts the data.

Without a serious effort to collect metrics and use it for decision-making, organizations turn to using gut and unarticulated assumptions. This leads to a lack of trust, lowered morale and misaligned efforts in executing strategy.

7.3 Change Management

Improvements of any kind require people to stop some behaviors, start doing some behaviors or behave differently in some way. Change management is critical to success in today's dynamic work environment. Just because change is inevitable does not mean people will accept change. The organizations managed change using the following techniques[xvi]:

- Sponsorship
- Training
- Coaching
- Communication
- Readiness assessments
- Incentives and disincentives

The organization realized that poor change management practices are a significant contributor to failures in strategy execution and devoted significant energy and resources to this effort.

8. Continuous Improvement

Execution is a messy business, events rarely (actually never!) happen exactly the way the planners intended. To that effect, insights gained were used to develop a roadmap for continuous improvement.

By examining the Strategy Execution Map, the organization realized that improving strategy execution was a work in progress. Based on the improved understanding of the capabilities needed for executing strategy in sales compensation processes, here are some of the areas that were targeted for improvement, classified by the strategic themes listed earlier:

- Influencing sales force behavior
    - Sales Compensation Plan Modeling: to improve alignment of sales compensation plan design with the desired changes in sales force behavior
    - Sales compensation analytics: to track whether the sales force is being influenced by the sales compensation plans
    - Institution of a process to analyze feasibility of new compensation plans before the sales management officially commits to them
- Productivity (for the sales force as well as the administrators)
    - Clarity in roles and responsibilities
    - Improvement in understanding the handoffs and dependencies between the various business processes
    - Changes in organizational structure to make job functions more cohesive
    - Improvements in the support capabilities to reduce the time taken to resolve support cases as well as increase the quality of responses
    - Establishing a Program Management Office (PMO): to improve program and project management practices and improve the decision-making in strategy execution
    - Incentive systems for employees need to be aligned with the success criteria identified in the strategy execution map
- Financial (return on sales compensation paid to sales force and cost of administration)
    - Collecting and publishing metrics relating to sales compensation plan effectiveness
    - Improvements in the process for setting sales quotas
- Equity (paying a fair compensation to the sales force)

    - This process was deemed to be working well and it was decided to maintain the current level of investment
- Compliance (with local laws relating to compensation)
    - The current gaps in compliance were identified and plugged. The organization decided to maintain a minimum level of investment required to comply with legal and financial controls

The organization already knew about many of these problems, so it's not as if they had suddenly discovered something new! By following a structured strategy execution process, the organization addressed the following barriers to strategy execution:

- Problems being addressed in an ad hoc manner because the relationship between cause and effect was not understood
- Selecting projects whose contribution to a customer and stakeholder outcome was unclear
- Lack of alignment and collaboration among stakeholders
- Not knowing what 'success' means, tracking the wrong metrics and not having the data to predict performance

Hence, the Strategy Execution Map drives effective "change creation" in an organization.

9. Conclusion

This article may seem to imply that the strategy execution using a Strategy Execution Map to identify the 'executable chunks' is a straightforward process. In reality, strategy execution turns out to be a somewhat chaotic experience and is definitely not as structured as the management would like.

Cisco chose to upgrade its IT systems as the first step in improving its sales compensation effectiveness. This approach provided many critical system capabilities that were foundational to implementing strategies relating to influencing sales behavior. This forced an improvement of many business processes simply because the new IT systems performed differently. The organization discovered a number of areas that needed to be addressed in order to sustain improvement efforts. This formed the basis for building a roadmap for continuous improvement.

While this may make the purist cringe, it is necessary when an organization has a strong dependence on IT systems to execute its strategy. The organization is currently continuing its effort to improve its ability to influence sales behavior as described above.

At the start of this article, strategy execution was defined as the 'white space' between defining business strategy and operations. By following a structured and systematic process, organizations can implement a process for strategy execution that is effective and repeatable. It's important to note that flexibility is the key for success. In following any of the suggestions outlined in the article, don't lose sight of the outcome of strategy execution: to translate the decisions taken while defining business strategy into operations. As business strategy changes, elements of the strategy execution must change as well.

10. References

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[i] Rummler and Brache (*Improving Performance: How to Manage the White Space in the Organization Chart*) use the term 'white space' to describe areas between boxes on an organization chart and between functions in an organization. In this article, 'white space' is used to describe all the activities that fall in the realm of 'Strategy Execution'.

[ii] Heskett et al. 1994. Putting the Service Profit Chain to Work (*Harvard Business Review*)

[iii] The reader is pointed to excellent references available on the subject such as the one by David J. Cichelli (*Compensating the Sales Force*).

[iv] Organizations can do a lot more to gain a competitive advantage and control costs of customer acquisition, this article focuses on sales force productivity and use of sales compensation as a key lever.

[v] See *The World is Flat* by Thomas L. Friedman

[vi] Contrary to popular opinion, sales people are driven by considerations other than money! (*Compensating the Sales Force* by David J. Cichelli).

[vii] Footnote: The authors wish to remind the reader that this is not meant to be a complete or detailed treatise on the sales compensation process.

[viii] Original Equipment Manufacturer.

[ix] An 'accelerator' is when the commission rate increases after a sales target has been met. A 'hurdle' requires a sales person to achieve a target relating to one product before being eligible for compensation on a different product.

[x] Hunter, Gary K. and William D. Perrault, Jr., (2007) Making Sales Technology Effective (Journal of Marketing, 71, 1 January 2007, pp. 16-34)

[xi] When a customer places an order, the automated systems attempt to match the order to a sales person. If an automated match is not possible, sales agents have to go thru the list and 'claim' credit for an order.

[xii] The Strategy Execution Map described here is based on the work done by Dr. Sayan Chatterjee (*Failsafe Strategies: Profit and Grow from Risks that Others Avoid*).

[xiii] See article '*Why smooth execution depends on clear outcomes* ' by William Malek and Venkat Narayanan. This article can be found at http://www.iveybusinessjournal.com/article.asp?intArticle_id=752.

[xiv] *'Executing Your Strategy: How to Break It Down and Get It Done'* by Mark Morgan, Raymond E. Levitt and William Malek.

[xv] "An 'operational definition' is a procedure agreed upon for translation of a concept into measurement of some kind." W. Edwards Deming.

[xvi] See 'Change Management (People)' in http://www.wikipedia.org for a high level overview on the subject.