



# THE STATE OF EXECUTION 2021 REPORT

CEO INSIGHTS ON  
STRATEGY EXECUTION  
IN THE POST-PANDEMIC WORLD

Line-of-Sight<sup>SM</sup>

COMMON DIRECTION. UNCOMMON TOOLS.

# SUMMARY

In the first quarter of 2021, Line-of-Sight<sup>SM</sup> surveyed hundreds of CEOs across the United States, representing a range of industries. The goal was to understand how business leaders were executing their strategies as they eased their companies into the aftermath of one of the most severe economic disruptions in recent history.

After reading this report, you will understand what great execution looks like. You will appreciate how a company's growth and size impact CEOs' ability to improve execution, how different strategies demand different operational models, and how much execution excellence can positively impact business performance in the post-pandemic.

# TABLE OF CONTENTS

●	<b>Execution primer</b>	4
	Breaking down execution excellence What is your execution curve?	
●	<b>Growth &amp; execution</b>	6
	The sweet middle of execution The high-growth curse	
●	<b>Size matters</b>	9
	Differences in execution performance based on growth	
●	<b>Unique strategy, unique execution</b>	11
	Customer Intimacy Product Innovation Operational Excellence	
●	<b>Case study</b>	16
●	<b>Conclusion</b>	19

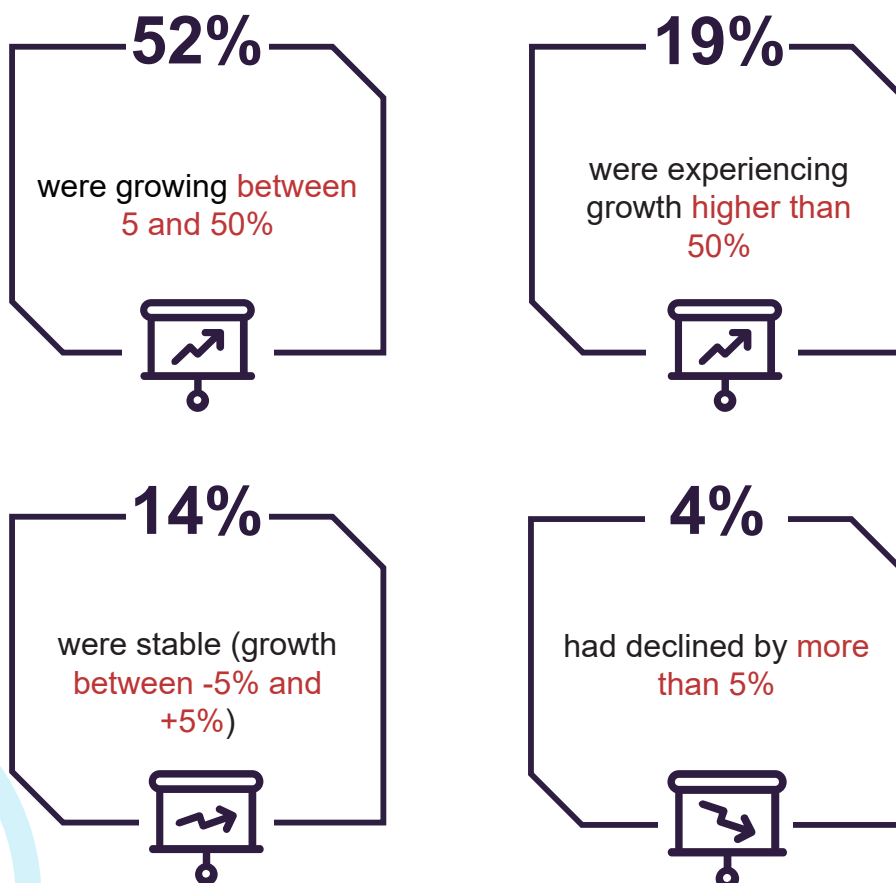


# ABOUT THE STUDY AND THE PARTICIPATING CEOS

Line-of-Sight<sup>SM</sup> led a survey of more than 150 CEOs to measure how they evaluated the execution capabilities of their organization. This survey took place in Q1 2021, when most businesses were transitioning to a post-pandemic world\*:



Businesses are coming out of the pandemic with very different levels of performance. From a growth perspective, the companies participating in the survey are as follows\*:



*\*Data on size was unavailable for 1% of the companies surveyed, and data on growth was unavailable for 11% of the companies surveyed; percentages may not add due to rounding*

# EXECUTION PRIMER

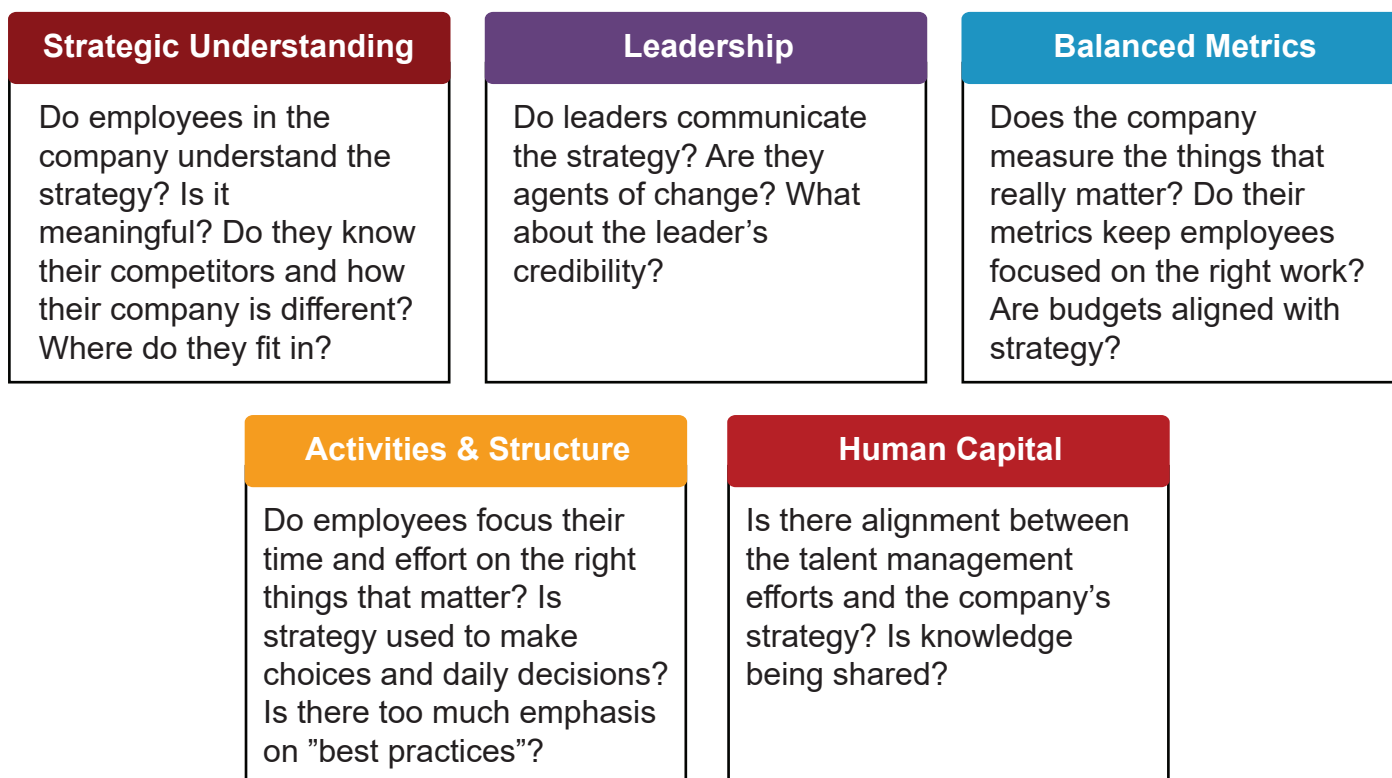


## BREAKING DOWN EXECUTION EXCELLENCE

Strategy lies at the intersection of **Value Proposition** (what customers buy from an organization) and **Value Chain** (what activities the organization performs to deliver value to customers).

A strategy is successfully executed when its value proposition and its value chain operate in harmony; when they do, the organization has reached **execution excellence**.

Line-of-Sight<sup>SM</sup> helps companies operate at a high level of execution excellence by measuring and managing five critical capabilities necessary for successful execution (or KSEs):



Line-Of-Sight<sup>SM</sup> also assesses **market discipline** - the ability to clearly articulate and deliberately follow the intended value proposition.

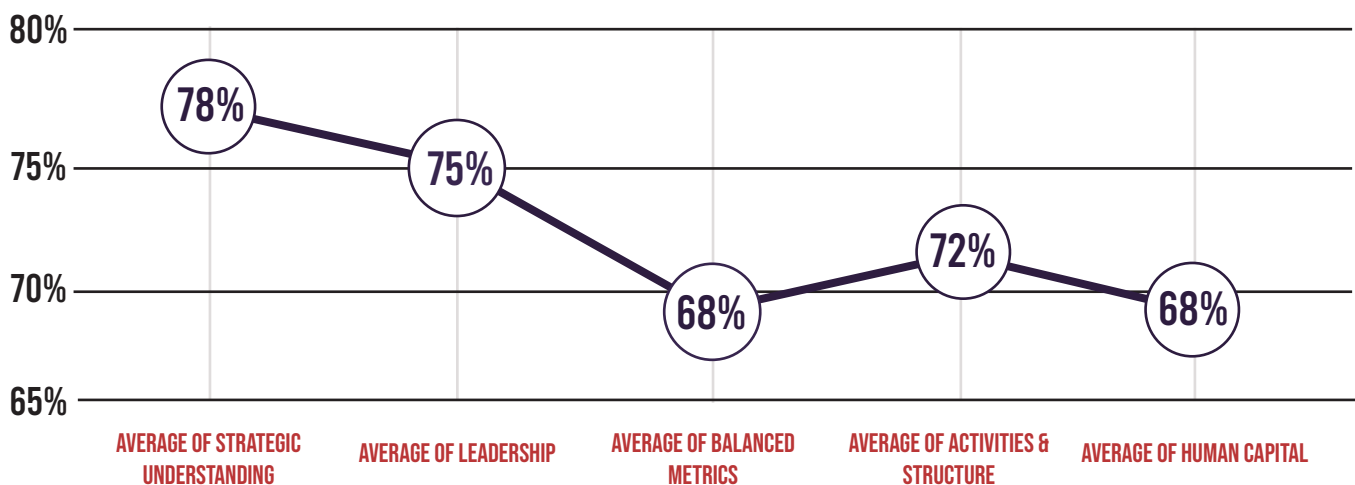
These factors are aggregated to form an overall Organizational Health Index measured on a scale from 0 to 100.

# WHAT IS YOUR EXECUTION CURVE?

The **execution curve** is what we call the visual pattern created by the evaluation of an organization's execution capabilities across the 5 Keys for Successful Execution.

The average execution curve of the CEOs from the survey shows a distinctive pattern with higher scores on Strategic Understanding and Leadership and lower scores on Balanced Metrics and Human Capital.

## AVERAGE KSE SCORES



In other words, CEOs rate their execution performance better on the “front office” - developing the strategy and being effective stewards of the strategy by clearly and broadly articulating it to the organization, and relatively weaker on the “back office” - setting up and operating the reporting, structure, and talent optimization practices that bring the strategy to fruition.





# GROWTH & EXECUTION

## THE SWEET MIDDLE OF EXECUTION

2021 was a challenging year for the companies impacted negatively by the pandemic, but also for those who benefited from shifts in consumer behavior and saw demand for their products and services explode.

As the economy picks up again, we see a concentration of economic activity in specific sectors: for example, spending on recreational goods **increased 26%** compared to what we could expect if the pandemic had not hit; computers and electronics are higher than normal **by 23%**; spending on cars and trucks is higher **by 16%\***. Many companies in these sectors are experiencing unusually high growth.

### **The survey warns of trouble ahead for companies experiencing high growth:**

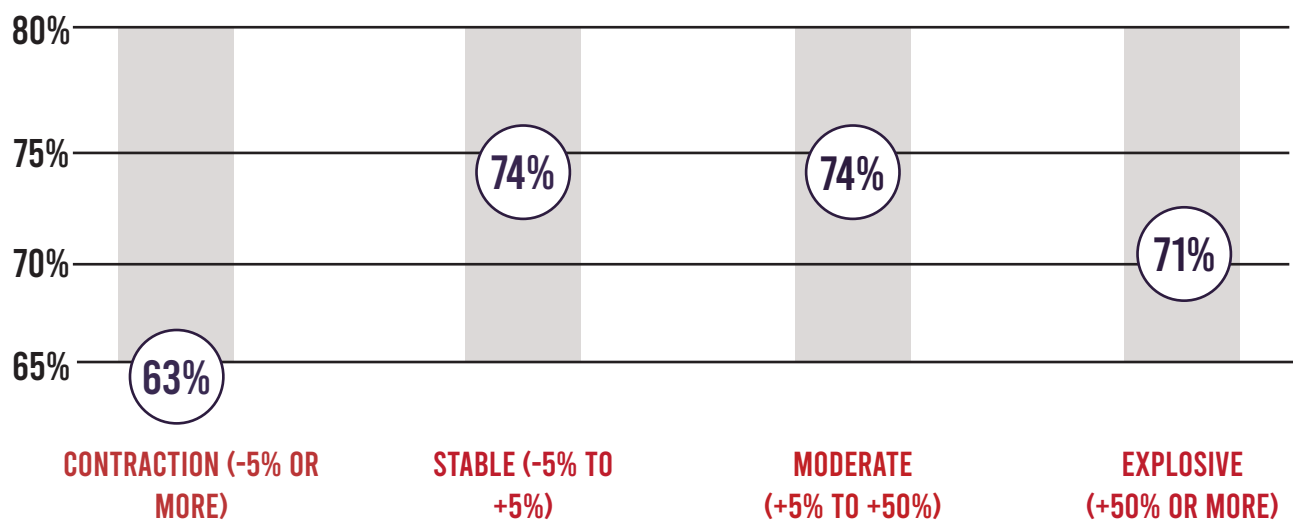
CEOs acknowledge lower execution performance when their rate of growth is either very strong (>50%) or very weak (contraction by 5% or more).

Especially for companies which enjoyed healthy growth in the pandemic, the data suggests a path to bring execution back under control - otherwise it may undermine the gains they registered in 2020.

*\*Source: The Economy is (Almost) Back, The Upshot/NYT, April 29, 2021*

Line-of-Sight<sup>SM</sup> research shows that high growth is taxing: CEOs experiencing highest growth (more than 50% year-over-year) gave themselves a score of 63 in the Overall Organizational Health Index compared to an overall average score of 73 for all CEOs.

ORGANIZATIONAL HEALTH SCORE BY GROWTH RATE

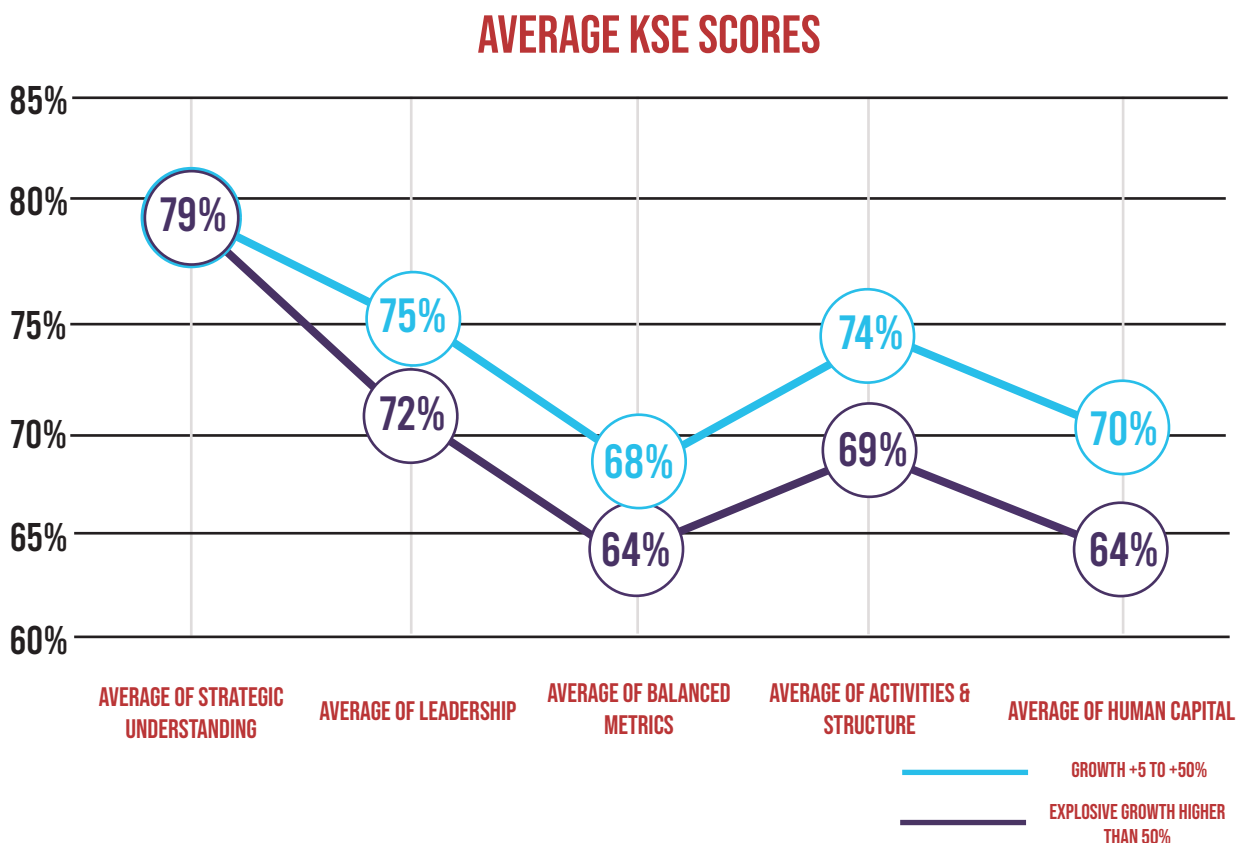


Data suggests that moderate growth would be a sweet spot for execution if only one KSE was not lagging for growing companies, and that is Human Capital. CEOs of both high-growth and moderate-growth companies rate their execution lower than average when it comes to managing talent. When you grow, finding the right people to fit the right roles is difficult, as is onboarding them, coaching them and developing them while the organization scrambles to allocate resources where they have the most impact.

In fact, human capital is a challenge for all CEOs, as CEOs on average give themselves the lowest evaluation on this particular execution capability.



# THE HIGH-GROWTH CURSE



High-growth CEOs' execution self-assessment is lower than their peers across KSEs; biggest gaps are in Human Capital (6 points lower) and Activities and Structure (5 points lower). Both gaps are understandable: high-growth stresses an organization's ability to hire in large volumes, to properly onboard and train new employees, to develop managers to help them lead larger teams, and to deliberately shape a positive culture.

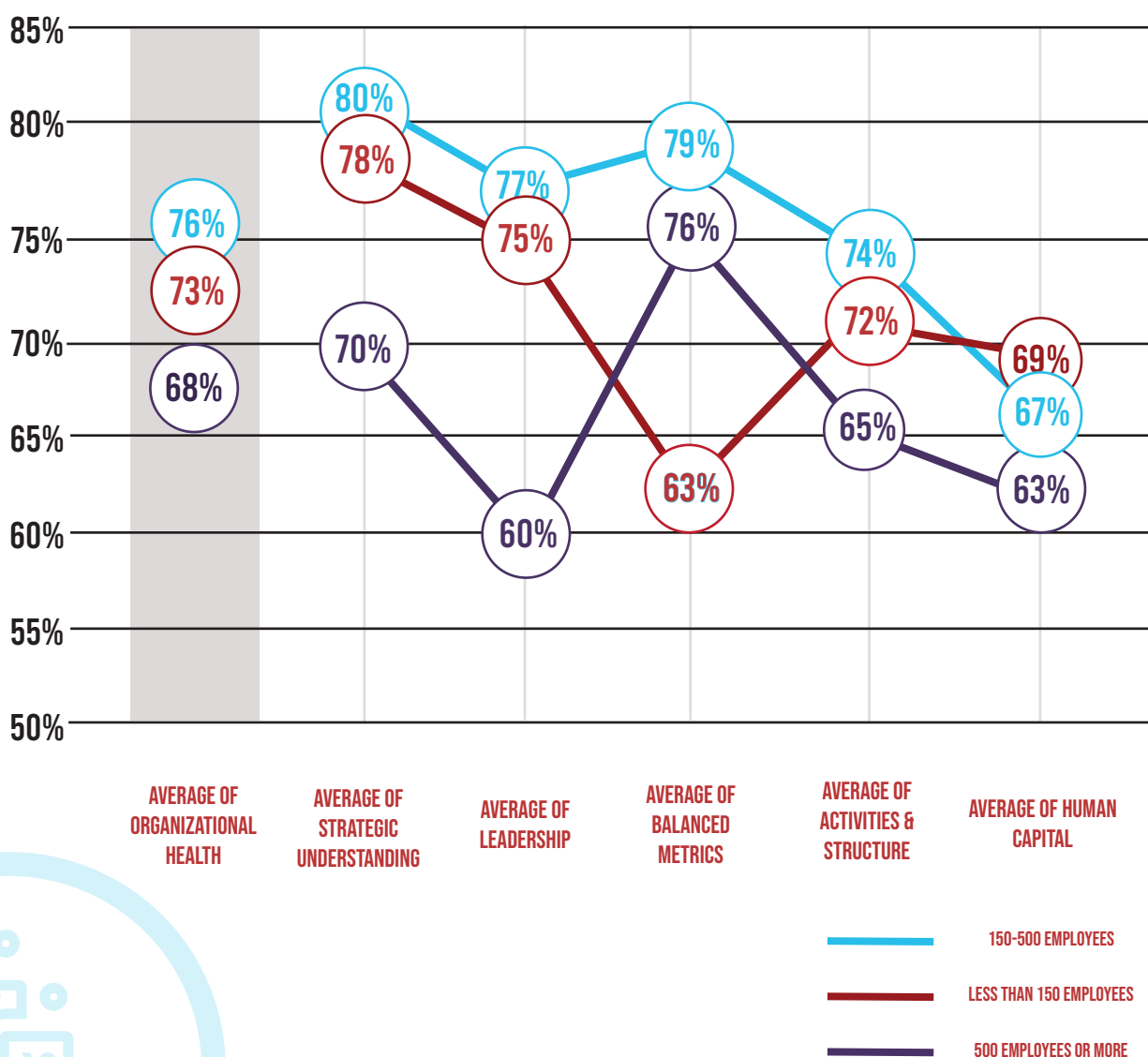
The gap in Activities and Structure is even less surprising: when growth is fast, employees are challenged to stay focused on priorities; reporting lags behind operations, leaving employees flying blind without accurate or timely data to confirm that they are executing the most critical tasks.

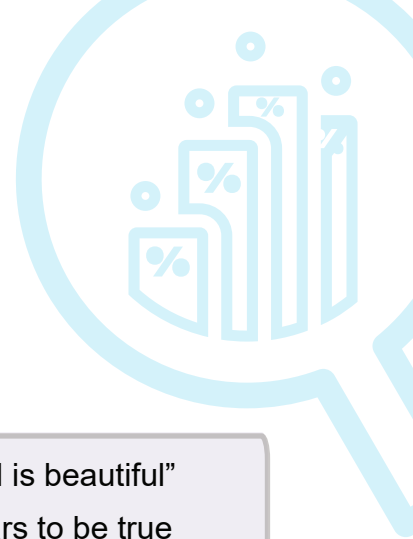
# SIZE MATTERS

The survey considered whether large companies (more than 500 employees) had any execution advantage compared to small to midsize companies.

Results are counterintuitive: the data actually suggests the opposite is happening. CEOs of mid-sized companies (150 to 500 employees) rate their own execution performance slightly higher than CEOs of small companies (less than 150 employees), and significantly higher than large companies.

## AVERAGE KSE SCORES





The edge that mid-size companies have over their smaller peers is admittedly small: their aggregate Organization Health Index is only higher by 3 points, at 76 vs 73. And data suggests that their index is only higher because of a large difference in balanced metrics in favor of mid-size companies.

It may be explained by the fact that size itself often compels companies to invest into more robust reporting systems, payroll and HRIS, and ERP; beyond 150 employees, it becomes simply too complex to manage the business based on personal connections with employees and the leadership's own detailed knowledge of operations.

“Small is beautiful” appears to be true when it comes to strategy execution, and CEOs of small and mid-size companies rate their execution performance significantly higher than their peers at the helm of larger organizations.

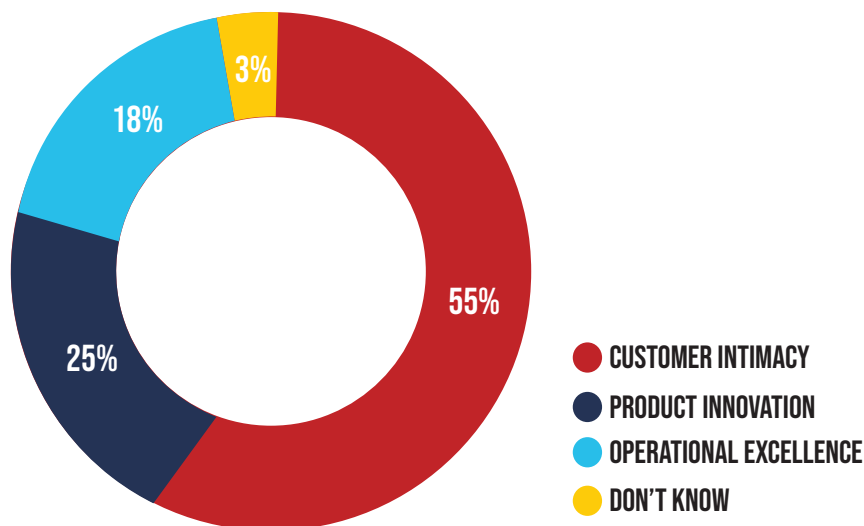
# UNIQUE STRATEGY, UNIQUE EXECUTION

Companies compete on the basis of three strategies:

Operational Excellence	Customer Intimacy	Product or Service Innovation
<b>Value Proposition:</b> To deliver a combination of low price, ease, speed, hassle-free use, and convenience.	<b>Value Proposition:</b> To deliver customized and tailored products and services that solve specific problems or fulfill specific customer needs.	<b>Value Proposition:</b> To deliver innovative, cutting-edge, unique products or services. Customer gets the latest and greatest.

The 2020 crisis forced many businesses to rapidly adapt their strategy to a radically shifting market demand, both from consumers and from business buyers. Therefore, it was to be expected that the strategies they pivoted towards would be in majority customer-centric.

## STRATEGIES PURSUED BY CEOs



Line-of-Sight<sup>SM</sup> data confirms this shift: 55% of CEOs surveyed are now pursuing a customer intimacy-based strategy (the survey did not baseline pre-pandemic strategies; it can be assumed that this percentage was substantially lower). Indeed, companies have had to be attuned to rapidly changing demand patterns to adapt all aspects of their execution: sales, customer support, marketing, product development, supply chain, and fulfilment - in addition to moving to a fully or partially remote work environment.

# HOW TO EXECUTE A CUSTOMER INTIMACY STRATEGY

Now that post-pandemic economic growth is here again, deep customer intimacy will continue to be a key factor of resilience as the business environment remains unpredictable. McKinsey recently outlined that B2C and B2B companies should continue to maintain a deep understanding of their customer behavior because “both business-to-consumer (B2C) and business-to-business (B2B) companies expect to see meaningful shifts in the shape of future demand.”

If you are the CEO of a company whose strategy is based on customer intimacy, execution will continue to be key.

Indeed, CEOs pursuing customer-centric models rate all aspects of their execution consistently high: from strategic understanding, leadership and balanced metrics, to activities & structure and human capital. CEOs pursuing alternative strategies tend to acknowledge and tolerate gaps in their execution (for example, companies pursuing operational efficiencies tend to rate the human capital part of their execution significantly lower than any other dimension).

Below are 3 right practices that CEOs should consider implementing to be better attuned to customer demand:

## 1. Make your strategy clear across your organization

Your employees need to all be aligned on your strategic intent. As CEO, your top role is to make it clear to all.

Line-of-Sight<sup>SM</sup> data is unequivocal: CEOs who are unsure about their go-to-market approach rate their execution performance at mediocre to abysmal levels, at least 26 points lower than CEOs whose strategy is explicit.

## 2. Let your customers know they are valued

Walk the walk on telling your customers that their feedback and input are valued and appreciated.

You can do this by appointing customer advisory boards, creating a forum for your customers to communicate, or reaching out to high-value customers and partners before product launches to get their input and ideas; selectively reach out to customers providing NPS scores to understand in depth what drove their ratings.

### 3. Over-invest in your human capital

There is a reason why CEOs pursuing customer intimacy-based strategies rate their execution in the area of human capital 5 points higher than their peers, with a score of 71 vs. an average of 68: employee satisfaction drives customer satisfaction and builds the long-lasting relationships that enable intimacy.

It was true before the pandemic and it is even truer now, because employees need extra support to heal the mental toll resulting from the crisis, and better economic prospects will unleash massive job-hopping in 2021 unless companies invest in employee development to prevent turnover.





# HOW TO EXECUTE A PRODUCT INNOVATION STRATEGY

The pandemic compelled many companies to rapidly pivot and develop new delivery models, products, or services to meet massive changes in customer behavior. So we would expect many CEOs to continue to follow product innovation strategies in 2021; in fact, only about a quarter of them (25%) do.

In many segments, however, customer behavior shifts did require new offerings. And as the economy settles into more predictable patterns in the post-pandemic, we believe that more and more companies will shift to product innovation strategies - because there is greater certainty about demand patterns and less risk in investing to meet these patterns with new offerings.

For any CEO pursuing a product innovation strategy or planning to invest in innovation again this year, the Line-Of-Sight<sup>SM</sup> CEO survey highlights what it takes to be a successful innovator when it comes to execution:

- CEOs pursuing innovation have higher execution scores on leadership: 77 points vs 75 for the average.
- They are more focused on their human capital: 68 points vs. 63 for companies pursuing operational excellence strategies.
- They do not perform as well as their best peers when it comes to using balanced metrics to manage their operations.

## ***These are the 3 ingredients of a successful Product Innovation Strategy:***

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### **Leadership:**

Line-Of-Sight<sup>SM</sup> assesses Leadership from an execution standpoint by evaluating the perceived credibility of the CxO team, their ability to lead and manage change, and their ability to consistently, clearly, and actionably communicate the strategy. These are indeed necessary ingredients to provide the impetus and direction that fosters creativity.

### **Human Capital:**

Innovation is an inherently human-driven process: it relies on creativity, problem-solving, and teamwork. So it also makes sense that innovative companies manage their human capital better. Line-Of-Sight<sup>SM</sup> assesses human capital performance by measuring knowledge exchange (which is paramount in the creative process), training and development (which keeps employees motivated and high-performing) and the ability to attract and retain top talent (since innovation requires the right combination of skills, behavior, and cognitive capabilities).

### **Balanced Metrics:**

The lower performance of innovative companies when it comes to balanced metrics is deliberate and can also be explained by the inherently chaotic nature of innovation: metrics are normally used to keep employees focused on the right activities; the survey suggests on the contrary that some measure of freedom from tight metrics enhances innovation.

Innovation also requires speed, and it can be challenging to constantly adapt reporting systems to a changing set of data. As a result, innovators use metrics to manage overall risks whereas companies pursuing operational excellence use metrics to manage day to day operations.

These insights are critical for companies who postponed product or service development during the pandemic and reactivate it now.

Yet any organization must evolve to adapt to their operating environment, and the best practices of innovative companies, including good leadership, thoughtful management of their human capital, and deliberate use of metrics to balance focus with flexibility, are also lessons in adaptation for all organizations.



# HOW TO EXECUTE AN OPERATIONAL EXCELLENCE STRATEGY



Operational excellence is a strategy aimed at delivering a combination of low price, ease, speed, hassle-free use, and convenience.

Only 18% of CEOs surveyed are following an operational excellence strategy.

At first glance, it makes sense that the two other paths to competitiveness be more popular in 2021: indeed, in the post-pandemic, the most popular strategy appears to be customer intimacy (55% of CEOs), followed by product innovation (25%).

In many sectors however, competing based on price or service was also a matter of survival; companies which experienced extreme growth in the pandemic (defined as growth higher than 50% year over year) had to be extremely disciplined about their operations and margins to deliver their products and services consistently and profitably.

It turns out that CEOs competing based on operational excellence have a unique execution model compared to their peers:

- They rate their performance on activities and structure higher: **82 points vs. 72% average of all companies**
- They rate their leadership performance slightly lower: **75 points vs. 77 for innovators**
- They rate their performance on human capital significantly lower: **63 points vs. 68 on average**

Taken together, these data points paint the picture of how these companies compete:

- They run organizations in which priorities are clearly spelled out, ensuring that employees are not wasting time on secondary tasks
- They communicate a clear strategy that determines resource allocation up and down the organization
- Their organization structure is simple and closely mirrors the value chain steps
- Knowledge is built into processes rather than employees

All this is aligned with the way the Institute for Operational Excellence defines it as “the point at which each and every employee can see the flow of value to the customer and can fix that flow before it breaks down.”

***CEOs pursuing operational excellence strategies should consider the unique circumstances and risks of the post-pandemic:***

Employees in the post-pandemic have higher expectations when it comes to the purpose of their organizations. It is therefore concerning when CEOs give themselves low marks on their own leadership, since this is the leaders' job to articulate.

There is pent-up demand for job changes this year since many employees postponed transitions due to the adverse environment. If companies do not invest in their employees training and development, promote knowledge sharing, or make their company attractive for hiring and retention, they will experience much greater turnover than pre-pandemic - and high turnover is disruptive to businesses built on stability.

The economic environment will remain chaotic for the foreseeable future. It is therefore indispensable to build flexibility and resilience in operations, especially if they are built on scale and efficiency to deliver stable, mature products. If CEOs are reluctant to disrupt their stable core business, they should consider setting up separate teams or units tasked with creative adaptation to shifting demand - as Harley Davidson did in April 2021 by setting up a separate division for its electric motorcycles.



# CASE STUDY: HOW TO REACH EXECUTION EXCELLENCE



## BACKGROUND

A well-established, medium-sized trucking company with over 2,000 drivers had grown consistently over the past 20 years by establishing long-term relationships, including at the CEO level, built around custom solutions for their customers.

For many years, this customer intimacy strategy and their market reputation always got them the last look in competitive bids on new projects with existing accounts and prospective customers.

Over the past four years, however, the company had lost their competitive edge, losing requests for proposals and sometimes failing to be invited to bid. In addition to the negative impact to the top line, increasing distrust in the leadership led drivers to leave the organization in record numbers, and their reputation as one of the best places to work was eroding.

The CEO engaged with Line-of-Sight<sup>SM</sup> to conduct an initial organizational health scan on the company.

# USING DATA TO ASSESS ORGANIZATIONAL HEALTH

The health scan showed strengths in organizational structure and solid visibility into the performance metrics used to run the company.

Analytics also highlighted vulnerabilities surrounding the company's strategic intent, management of its human capital, and leadership. Based on the data, the CEO and the Line-of-Sight<sup>SM</sup> team developed an action plan aiming for improvement within 18 months:

- To address the strategic intent vulnerability, the executive team went back to having quarterly off-site planning sessions, a ritual that had served them well in their growth years, but had gone by the wayside.
- In their first session, they dusted off and updated the company's vision, mission and strategic intent; they developed a crystal-clear value proposition - why customers buy from them vs. the competition.
- Armed with these redefined messages, the CEO held a series of Townhall meetings with all employees to present and discuss their simple value proposition. The message was continually reinforced through the company's formal communication channels; all company meeting agendas started with a reminder of "why people buy from us vs. the competition."
- To address the turnover issue, the company used a psychometric assessment to optimize the management of drivers to improve retention; it also developed a formal leadership training program for all frontline managers and senior leaders.

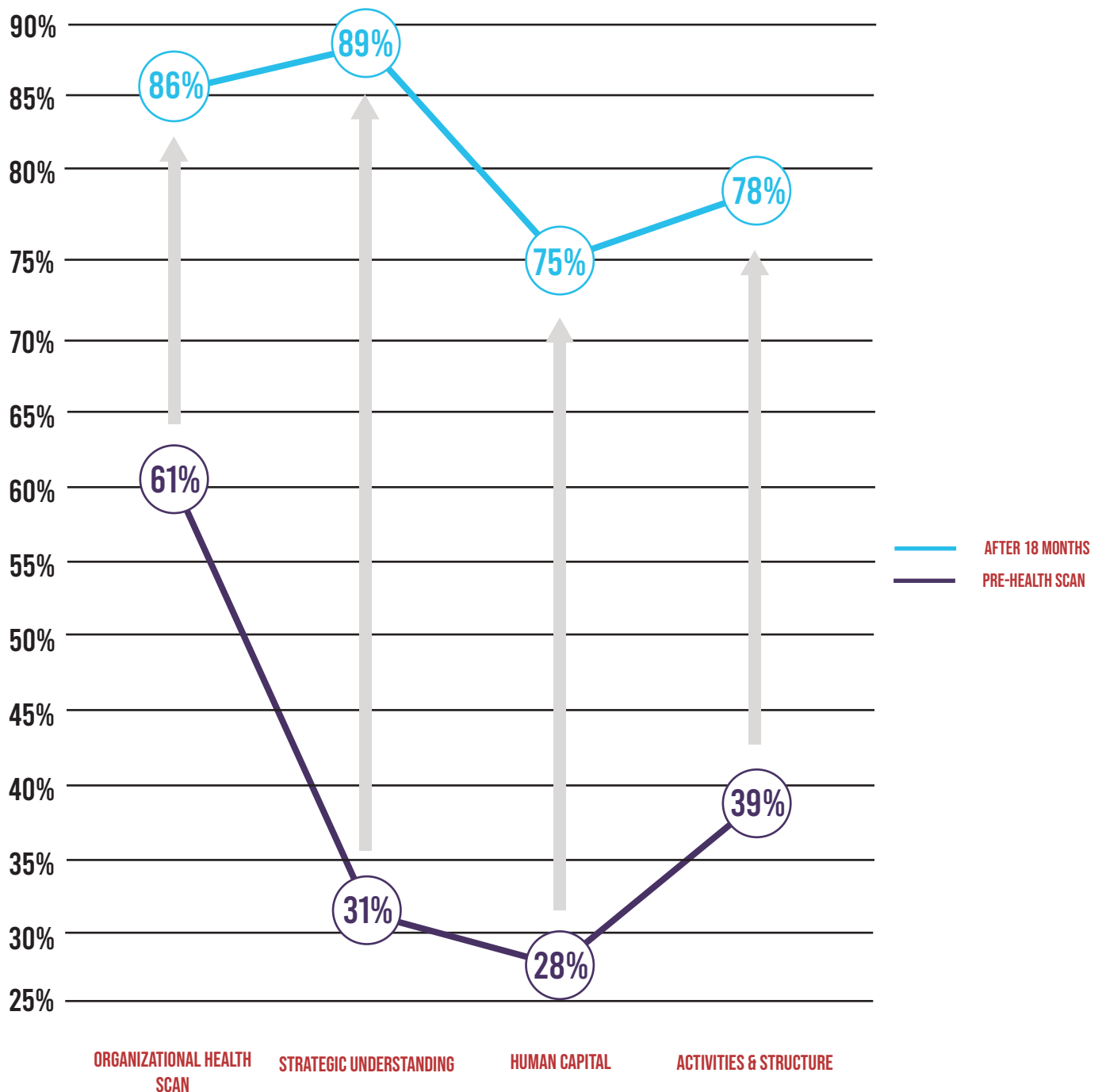


# RESULTS

Progress on the action plan was measured on a monthly basis to make ongoing adjustments in an agile model. Over the next 18 months, the issues identified with execution were systematically addressed:

- Top line erosion was stopped and reversed, with revenues growing 9%
- The company saw a 27% improvement in driver retention
- Leadership credibility improved by 39%
- New leadership development programs produced even more high-potential leaders than anticipated, allowing the company to fill most open management positions from within.

## EXECUTION PERFORMANCE BEFORE & AFTER LINE-OF-SIGHT INTERVENTION



# CONCLUSION

For CEOs, having data to measure their execution capabilities is as critical as having budgets and monthly reports to measure their financial performance. In this report, CEOs show that excellent execution in the post-pandemic is a matter of data and of deliberate intent. Despite the continued uncertainty, leaders can measure, understand, control, and optimize the levers that add up to a healthy organization and financial performance.

How well is your business executing? Are you leading your organization in a way that is consistent with the strategy you are pursuing?

To find out, please reach out to one of our Line-of-Sight<sup>SM</sup> partners and initiate an assessment of your organizational health and execution capabilities.

