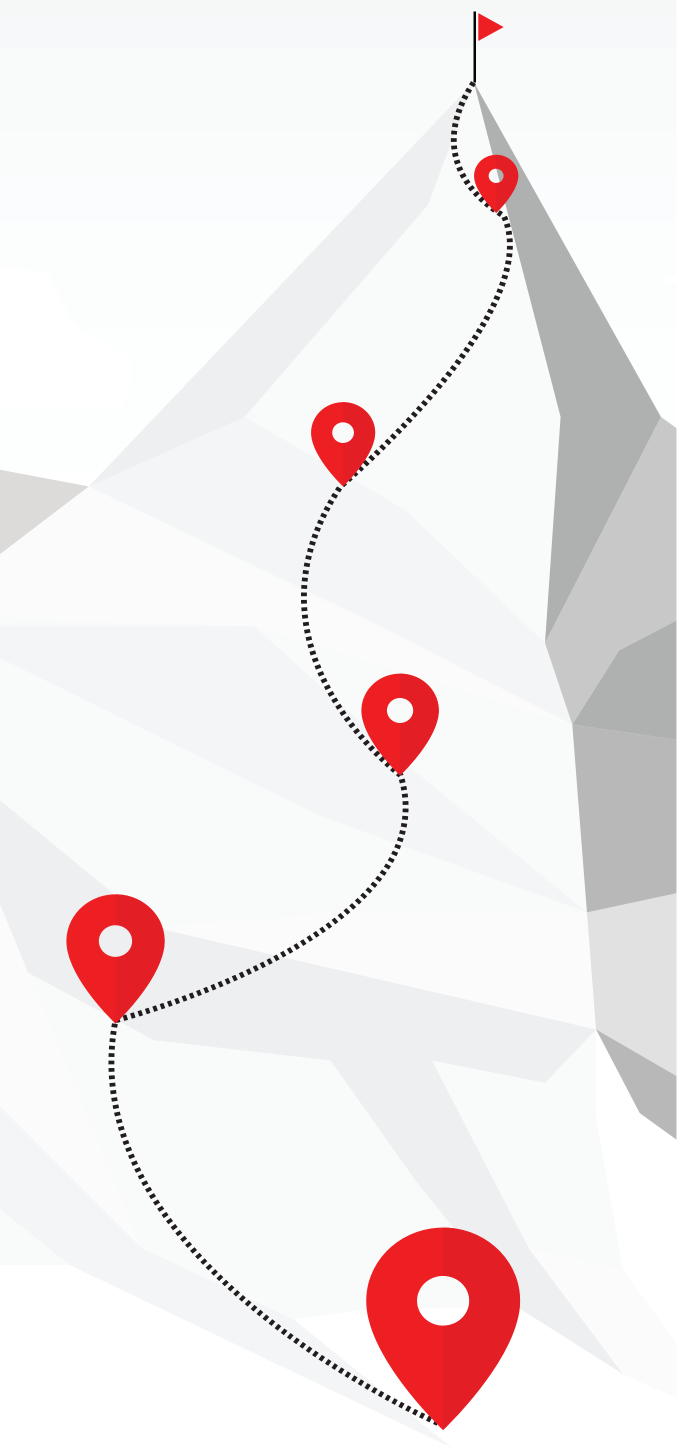
MIT Sloan Management Review

SPECIAL COLLECTION



FROM THE LEADERSHIP ARCHIVE

The Strategic Agility Project

Discover how organizations can translate strategic complexity into simple and flexible guidelines and achieve strategic objectives.

CONTENTS

SPECIAL COLLECTION

The Strategic Agility Project

INTRODUCTION

What are the best ways to set direction and move forward? This collection of articles from *MIT Sloan Management Review* explores how organizations can improve strategic alignment, translate strategic complexity into simple and flexible guidelines, and achieve strategic objectives.

From "How to Develop Strategy for Execution":

- Strategic priorities often fail to align activity throughout the organization. Too often, objectives are rendered toothless by vague or generic terms or are riddled with buzzwords.
- Effective strategic guidelines get three things right: They link to the corporate vision, identify critical vulnerabilities, and focus on what matters most.
- When setting strategic priorities, teams should pull together data on each of the vulnerabilities so that all members of the team work from the same facts and keep discussion anchored in the critical weaknesses.
- Before debate begins, teams should agree on basic rules for how discussion will be organized, including guidelines describing the proper way to discuss alternatives, who gets to speak when, and how to select among multiple options.

From "No One Knows Your Strategy — Not Even Your Top Leaders":

- Most organizations fall far short when it comes to strategic alignment. One analysis of 124 organizations found that just 28% of executives responsible for executing strategy could list three of their company's strategic priorities.
- C-suite executives often assume that the entire company is on the same page when it comes to strategy, but this assumption is usually wrong. Most top teams studied by the authors failed to agree among themselves on company-wide priorities.
- Strategic alignment falls steeply from the organization's top executives to their direct reports and then continues to decline, more gradually, among lower-level managers.
- To increase the odds that strategy is understood throughout the company, top executives need to make sure their direct reports understand the objectives and that they communicate what corporate priorities mean for the company overall.

From "Turning Strategy Into Results":

- Describing a strategy favors complexity, but executing a strategy requires simplicity. To influence day-to-day activities, strategies need to be simple enough for leaders at every level of the organization to understand, communicate, and remember.
- Rather than boiling strategy down to a pithy statement, it's better to develop a small set of priorities that everyone can get behind to produce results.
- Strategic priorities should be forward-looking and action-oriented. They should tackle head-on the most difficult trade-offs facing the company.
- Strategic priorities should focus on the midterm outlook — three to five years, rather than one year. And they should highlight the handful of choices that will matter most to the organization's success over that period of time.

From "With Goals, FAST Beats SMART":

- When setting goals, most managers follow a well-established set of practices: Hold one-on-one goal-setting meetings with subordinates, then review performance against those objectives at the end of the year, linking performance to promotions and bonuses.
- That's the SMART approach to goal-setting, which involves goals that are Specific, Measurable, Achievable, Realistic, and Time-bound.
- But individual goals will only drive strategy execution when they are aligned with strategic priorities, account for critical interdependencies across silos, and enable course corrections as circumstances change.
- There's an alternative approach to goal-setting that goes by the acronym FAST: Goals should be embedded in Frequent discussions, Ambitious in scope, Specific in their metrics, and Transparent to everyone in the organization.

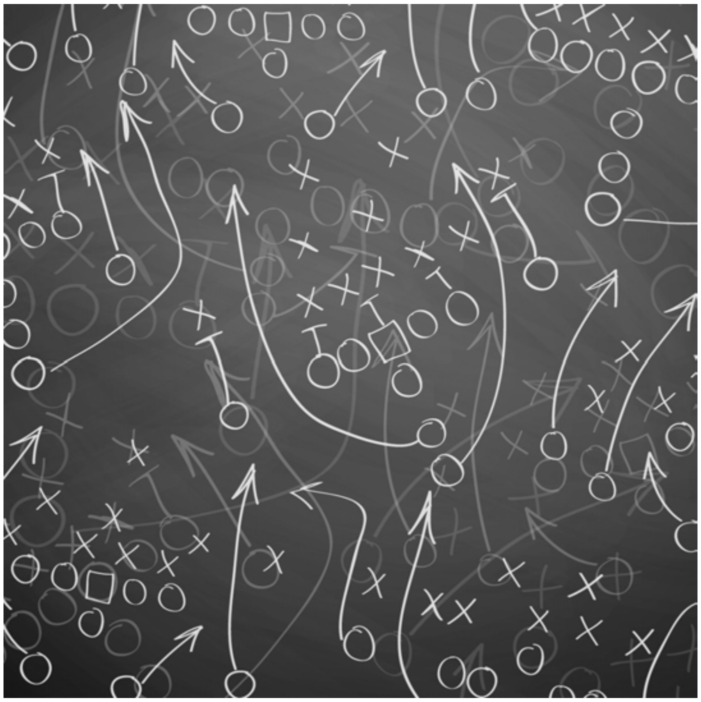
From "How to Recognize a Strategic Priority When You See One":

- A publicly traded company's financial reports can provide critical insights into its strategy.
- Strategy is often mentioned in a company's Form 10-K report, its annual report, letters from its chairman and/or CEO, the investor relations section of its website, and its analyst calls.
- A large company could have hundreds of worthwhile goals around financial, market, operational, human resources, and social matters, but those that qualify as strategic priorities are often listed as a small number of "objectives" (versus a long list of strategic "factors") — evidence that managers have prioritized those goals.
- The presence of action verbs (grow, improve, increase) distinguishes strategic priorities from financial or market-share targets that provide no guidance on the actions required to achieve them.

How to Develop Strategy for Execution

DONALD SULL, STEFANO TURCONI, CHARLES SULL, AND JAMES YODER

Effective strategic guidelines get three things right. They link to the corporate vision, identify critical vulnerabilities, and focus on what matters most.



Strategy is not about choice, it's about choices. Few companies succeed based on a single big bet. They win through a series of trade-offs — about target customers, product, scope, and resources — that reinforce one another to create value. Attempting to describe every important choice in detail, however, leads to information overload. Any strategy that tries to address every decision that matters will be far too complex to communicate, remember, or use as a guide for day-to-day action. In strategy development, complexity is unavoidable. But when it comes to execution, complexity kills.

To implement their strategy, many companies commit to a handful of company-wide objectives that clarify the choices that will matter most over the next few years. These strategic priorities serve as guardrails to keep different parts of the organization moving in the same direction. They are a common tool to execute strategy, particularly among large companies. In our research, we found that 71% of S&P 500 companies reported an explicit set of priorities. [1]

In many cases, however, strategic priorities fail to align activity throughout the organization. Too often the objectives are rendered toothless by vague or generic terms (such as being "best in the industry") or they are riddled with buzzwords (such as "cloud-based" or "crowd-sourced"). The most effective strategic priorities share several characteristics (described in our earlier article "Turning Strategy Into Results"). Many companies do well on a few of the dimensions, but few excel on all of them.

Over the past few years, we have worked with dozens of leadership teams to help them set and implement priorities. [2] When developing a strategy for execution, managers often want to dive right into setting their strategic priorities. The impulse to cut to the chase is understandable, but it is a mistake. The first step in developing effective priorities is to clarify whether strategy should live on the corporate or business unit level, or both. (In a companion piece, "Four Logics of Corporate Strategy," we describe a process for clarifying where strategy should live in your company.) Once that is clear, management teams should address three questions: What is our vision? What are our critical vulnerabilities? And what should we prioritize?

1. What is our vision? Hard-nosed managers typically dismiss corporate vision as fluff that's peripheral to the nuts and bolts of execution. However, we have found that linking strategic priorities to a long-term aspiration — whether it's framed as a vision of a better future or a corporate mission — can improve the odds that the company will implement its strategy. Too often, leadership teams get trapped in the present when setting strategic objectives. They discuss what is working, assess current challenges, project the legacy business forward a few years, and prioritize activities that will keep the business running pretty much as usual. [3]

The temptation to anchor strategy in the status quo is understandable. Legacy businesses can be predictable, comfortable, and often profitable. Unfortunately, it encourages executives to prioritize incremental improvements to win the last war as opposed to preparing for the next one.

In dynamic markets, the objectives that add the most value are often novel or nonroutine: launching disruptive innovations, for example, or embedding digital capabilities throughout the company. Corporate visions can help managers step out of their status quo mindset and force them to think more broadly and creatively about the steps required to achieve their desired future. Elevating novel initiatives to the status of strategic priorities increases the odds they will receive the sustained focus and investment required to succeed.

Corporate visions or missions should describe the future they aspire to in bold and vivid terms. For example, Charles R. Schwab founded his brokerage business "to empower individual investors to take control of their financial lives, free from the high costs and conflicts of traditional brokerage firms." [4] Contrast that vision to TD Ameritrade's more generic mission "to be the better investment firm for today's investor." [5] A vivid picture helps leaders visualize the desired future and think about what actions will help them get there.

Linking strategic priorities to the company's mission also makes it easier to communicate the priorities through the ranks. Employees often experience strategic priorities as yet another disconnected mandate — on top of the steady stream of key performance indicators, success factors, values, and initiatives — handed down from headquarters. By describing the strategic priorities as stepping-stones along the path to a desired future, executives can embed the objectives in a larger, more compelling, and enduring narrative.

Employees who buy into the company's aspirations are more likely to commit to priorities that support that vision. It is easy for a nonprofit like Habitat for Humanity to inspire employees with its vision of "a world where everyone has a decent place to live." [6] Profit-oriented companies that can articulate how their offerings make life better for their customers or other stakeholders also have opportunities to inspire employees. IKEA's vision, for example, is “to create a better everyday life for the many people,” which it pursues by offering a wide range of functional and stylish furniture at prices most consumers can afford. [7] To resonate with employees, the corporate mission should grow out of the organization’s distinctive history and culture. Google, for example, aspires “to organize the world’s information and make it universally accessible and useful.” [8]

Before diving into a discussion of priorities, leaders should pause to consider their corporate vision, mission, or purpose. Is it vivid enough to counterbalance the specificity of the here and now? Is it inspirational and distinctive enough to communicate priorities to employees, secure their commitment, and motivate them to push ahead when times get rough? If not, executives should invest the time to articulate a vision that can help to break the shackles of business as usual and infuse their strategic priorities with meaning.

2. What are our critical vulnerabilities? Any strategy that attempts to describe every choice that matters will be too complex to guide action. To propel the company toward the desired future, leaders must navigate the treacherous shoals of strategic complexity. Many teams get so bogged down in the sheer number of strategic choices and interdependencies among them that they end up drowning in detail. Other teams veer to the opposite extreme, ignoring complexity and establishing objectives based on little more than gut feel. Neither is an ideal approach.

Instead, teams should acknowledge strategic complexity but work to achieve simplicity. One practical way to bridge the divide is to create a visual map of the company’s key choices. This highlights the things that matter most. An easy way to do this is to write your organization’s strategic choices on Post-it notes and arrange them on a whiteboard. You will want to capture the key attributes of target customers (one per note), the benefits of your value proposition to target customers, the required capabilities and resources, barriers to entry, and any other choices that are critical to the company’s future success. In our experience, the more the merrier, at least initially. You can circle back later to consolidate and prune items.

The next step is to draw lines to show the interdependencies among the various choices. The goal is to identify critical vulnerabilities — elements of your strategy that are most important for success and also most likely to fail in execution. Identifying critical vulnerabilities requires judgment and intuition — you cannot treat it as a tick-the-box exercise. However, a few broad guidelines can help the team pinpoint the most promising intervention points on the strategy map.

We have found that the most critical elements of a strategy tend to be the ones that are most densely connected to other choices. So, a good place to begin is to identify the spots on your strategy map with the most connections. As the team assesses which elements are most critical to success, question which elements contribute the most to value creation and capture: How does a particular choice increase customers’ willingness to pay? How does it decrease costs? How does it deter new entrants or help the company seize the most promising new opportunities? An order-of-magnitude estimate of financial impact, even if it's based on incomplete information, will be better than relying on gut feel.

A few simple techniques can help teams assess which elements of their strategy are most vulnerable. One exercise is to put yourself in the shoes of a startup bent on disrupting your business. Looking at your business from its perspective — what is the weakest link? Where would the competitor attack you? Likewise, how would a well-funded competitor attack your business from an adjacent market? A "premortem" exercise can be a quick and effective way to identify weaknesses and obstacles. [9] This can be done by dividing a group of managers into small groups and asking them to envision how things will look in five years if the company fails to execute its strategy. Looking "back from the future," they can pinpoint the factors that could derail the strategy.

In many cases, zeroing in on critical vulnerabilities will be an iterative process that extends over several sessions, which will give team members time to gather and analyze data, test hypotheses, and work through interdependencies among the choices. The process can help teams identify critical vulnerabilities that will inform their choice of strategic priorities.

3. What should we prioritize? Once a team has recognized its most serious vulnerabilities, it needs to figure out how best to address them. For every solution there will always be uncertainty about the time and resources required, the competitive response, the technical feasibility, and the odds of success. Questions about interdependencies will further complicate which approaches to take. Launching a digital business might preempt new entrants, for example, but it may also cannibalize profits in the legacy business. Recall how Netflix's move into the online streaming business rendered the company's DVD rental business largely obsolete.

Teams sometimes respond to a wide range of options by throwing a lot of things against the wall in the hope that some of them will stick. Among companies we have studied, this approach is fairly common. [10] However, the danger of this approach is that spreading corporate chips over too many objectives can starve the critical initiatives of the resources required for success. [11] In a survey of managers in more than 300 organizations, only 10% of respondents believed that all of their organization's strategic priorities had the funds, people, and management support needed to succeed. [12] The rest said that some or most of their company's strategic priorities would fail — not because of market shifts or competitors — but due to a lack of resources.

To avoid dissipating time, effort, and resources, leaders need to make trade-offs among competing and potentially conflicting objectives. Discussions about how to resolve the trade-offs are always difficult because they produce "winners" (who receive more resources and attention) and "losers" (who may see their pet projects killed and their personal importance to the company diminished). Leadership teams often try to do a number of things to avoid conflict — for example, juggling multiple priorities, agreeing to vague generalities, requesting endless additional analysis, or waiting for complete consensus to emerge. However, when it comes to setting strategic priorities, the absence of conflict is typically an indicator of failure rather than a sign of a healthy discussion.

In working with numerous companies over the years, we have developed a few expedients to help teams make difficult calls when setting strategic priorities:

- Keep the discussion anchored in the critical vulnerabilities to stay focused on the most pressing problems to be solved.
- Before discussing priorities, pull together a data pack on each of the vulnerabilities so that the team members work from the same facts.
- Before debating potential priorities, have the team agree on basic rules for how the discussion will be organized.[13] For instance, companies can establish rules about how to discuss alternatives, who gets to speak when (for example, senior leaders weigh in only after everyone else has spoken), or how to select among multiple options. Such rules can serve as guardrails to course-correct when the discussion starts going off track.

Strategic priorities can ensure that employees at every level of the organization work on the most critical activities. The most effective priorities are consistent with the corporate strategy, linked to a broader vision or mission, and targeted at critical vulnerabilities. The questions and tactics in this article can help leaders develop strategic priorities that can maximize the odds that people are working on what matters most.

About the Authors

Donald Sull, who tweets @simple_rules, is a senior lecturer at the MIT Sloan School of Management. Stefano Turconi is a teaching fellow at the London Business School. Charles Sull is a partner and James Yoder is chief data scientist at Charles Thames Strategy Partners LLC.

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1. D. Sull, S. Turconi, C. Sull, and J. Yoder, "Turning Strategy Into Results," Sept. 28, 2017, http://sloanreview.mit.edu.

2. For a description of research, see D. Sull and K.M. Eisenhardt, "Simple Rules: How to Thrive in a Complex World" (New York: Houghton Mifflin Harcourt, 2015), chap. 5.

3. In the strategy field, the tendency to extend the status quo in business is known as "exploiting" current knowledge, capabilities, and resources, and is contrasted with "exploring" more distant and uncertain technologies or processes. See J.G. March, "Exploration and Exploitation in Organizational Learning," Organization Science, vol. 2, no. 1, February 1991: 71-87. While both are necessary for long-term success, established organizations tend to favor exploitation and incremental extensions to their existing operations. For a review of the empirical evidence, see E.L. Chen and R. Katila, "Rival Interpretations of Balancing Exploration and Exploitation: Simultaneous or Sequential?" in "The Handbook of Technology and Innovation Management," ed. S. Shane (Chichester, England: John Wiley & Sons, 2008), 192-214.

4. J. Westlake, "Charles Schwab Team Thrives on a Culture of Service to Clients and Community," June 1, 2017, www.azcentral.com.

5. "Vision & Values," accessed Oct. 25, 2017, www.amtd.com.

6. "Everyone Deserves a Decent Place to Live," accessed Nov. 2, 2017, www.habitat.org.

7. "This Is IKEA," accessed Oct. 25, 2017, www.ikea.com.

8. Google mission statement, accessed Oct. 25, 2017, www.google.com.

9. G. Klein, "Performing a Project Premortem," Harvard Business Review 85, no. 9 (September 2007).

10. In a survey of 133 organizations, we asked managers whether their company has a clearly stated list of corporate priorities, and if so, how many. Nearly half said their company lacked a handful of objectives, 7% reported the company had 15 or more objectives, 14% said that the company lacked any priorities.

11. A portfolio approach to strategic objectives can work, but only if each initiative requires modest resources to succeed. If a critical vulnerability could be solved with a quick fix, the odds are high it would already have been sorted. Most strategic priorities — like building new capabilities, entering an adjacent market, or commercializing an innovative product — require sustained effort, investment, and attention.

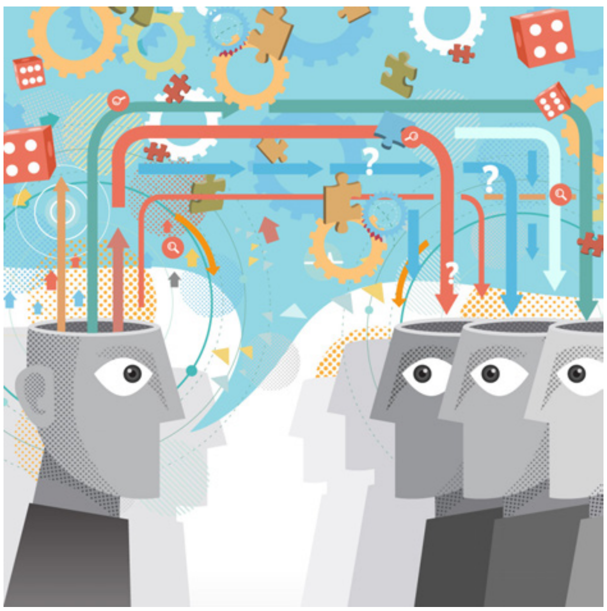
12. Results from an online survey designed to assess an organization's capacity to execute its strategy administered to 302 organizations between 2012 and 2017.

13. See Sull and Eisenhardt, "Simple Rules," for discussion of simple rules to produce better decisions.

No One Knows Your Strategy — Not Even Your Top Leaders

DONALD SULL, CHARLES SULL, AND JAMES YODER

New research reveals three surprising reasons managers don't know their company's strategy.



The CEO of a large technology company (let's call it Generex) recently reviewed the results of her company's annual employee engagement survey and was delighted that strategic alignment emerged as an area of strength. [1] Among the senior leaders surveyed, 97% said they had a clear understanding of the company's priorities and how their work contributed to corporate objectives. Based on these scores, the CEO was confident that the company's five strategic priorities — which had not changed over the past two years and which she communicated regularly — were well understood by the leaders responsible for executing them.

We then asked those same managers to list the company's strategic priorities. Using a machine-learning algorithm and human coders, we classified their answers to assess how well their responses aligned with the official strategic priorities. [2] The CEO was shocked at the results. Only one-quarter of the managers surveyed could list three of the company's five strategic priorities. Even worse, one-third of the leaders charged with implementing the company's strategy could not list even *one*.

These results are typical not just in the technology industry, but across a range of companies we have studied. Most organizations fall far short when it comes to strategic alignment: Our analysis of 124 organizations revealed that only 28% of executives and middle managers responsible for executing strategy could list three of their company's strategic priorities. [3]

When executives see these results, their first instinct is to schedule more town hall meetings or send another email blast describing the corporate strategy. The impulse to double down on existing corporate communication strategies is understandable, but unlikely to solve the problem. Our research has uncovered three nonintuitive causes of strategic misalignment and concrete steps that top leaders can take to improve how well the strategy is understood throughout the organization.

1. Acknowledge you have a problem. The first step in solving a problem is recognizing you have one. C-suite executives often assume that the entire company is on the same page when it comes to strategy, but this assumption is usually wrong. [4] Our strategy execution survey includes a series of questions designed to measure whether a company has a shared set of strategic priorities, how well those objectives are understood, and whether they influence resource allocation and goal setting throughout the organization. [5] Top executives rate their company higher on all of these dimensions than managers lower down the organization do.

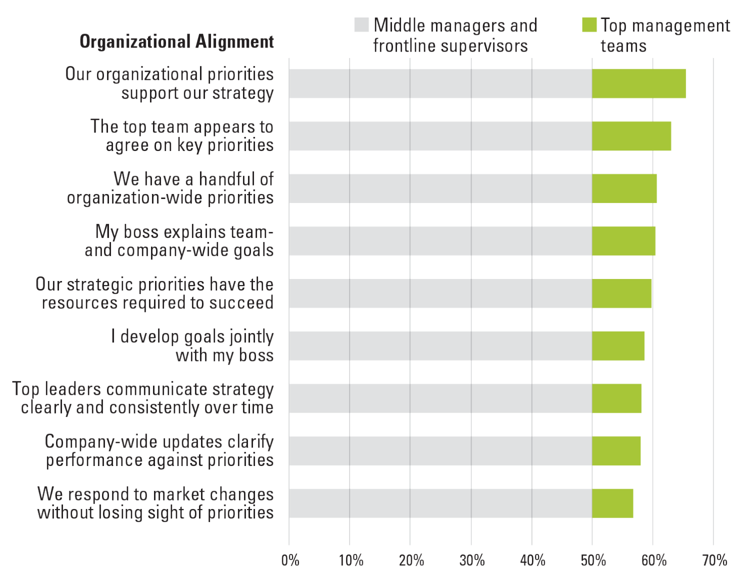
The exhibit "Top Teams Overestimate Alignment" summarizes the strategic alignment gap. To interpret this chart, start with the first assessment statement, "Our organizational priorities support our strategy." If supervisors, managers, and executives outside the C-suite assess their company as average (the 50th percentile in this figure), the typical top team will rate their company at the 67th percentile — well above average. The pattern repeats across every single measure of strategic alignment. [6]

2. Agree at the top. Lack of strategic alignment often starts at the top. In developing strategic priorities, the top team should agree on a single set of objectives for the business as a whole, rather than each leader pursuing his or her own agenda. Unfortunately, most top teams we have studied fail to agree among themselves on company-wide priorities. For the typical organization we studied, just over half of senior executives converged on the same list of strategic objectives. Bear in mind, we did not

Top Teams Overestimate Alignment

This chart summarizes the gap in perception between frontline supervisors and middle managers (reflected in gray) and C-suite executives (green) when it comes to assessing strategic alignment. If supervisors, managers, and executives outside the C-suite assess their company as average (the 50th percentile in this figure), the typical top team will rate the company higher on every measure (as shown by the green bars).

Based on data from 4,012 respondents across 124 companies, with high response rates at each level, who took the survey between 2012 and July 2017. Scores of middle managers and frontline supervisors are normalized to the 50th percentile.



measure whether the team members were committed to achieving the strategic priorities; we measured only whether they agreed on what they were.

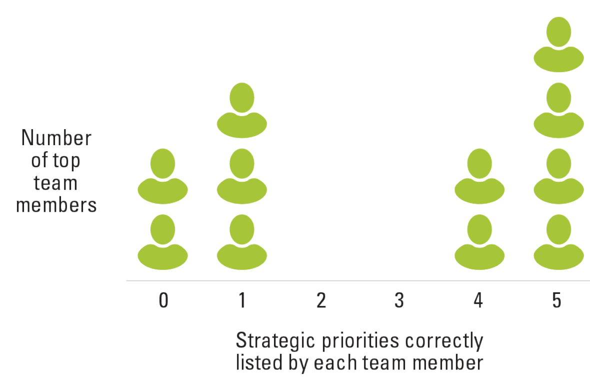
The results from Generex were typical of the companies we have studied. Just over half of the top team could list all or all but one of the company's five official priorities. But the other half of the team was completely out of touch. (See "Lack of Agreement on Strategy at the Top.") Three of the top team members could list only one of the company's strategic priorities, and two executives did not get a single objective correct — despite having five tries. Between them, these C-suite members listed a total of eight additional priorities that were not among the company's official objectives.

Of course, not every top team shares Generex's problem of half the members flying blind. Some teams we have worked with produce a more normal distribution, where most of the senior executives know some of the priorities with a few executives (usually including the CEO) knowing all of them, and others who can name a few or none. The Generex example does, however, underscore the importance of checking whether everyone in the C-suite is on the same page strategically. If executives are not aligned, it is critical to understand why not and address the issues before communicating the strategy more broadly throughout the organization.

3. Bring level two along. Strategic misalignment often starts at the top, but it doesn't end there. Managers' ability to correctly list their company's strategic priorities continues to drop as you move further down the organization, but the rate of decline is not what you might expect. You might predict a steady decrease in alignment as you move down the organizational hierarchy, or perhaps a sharp drop-off among the frontline supervisors who are furthest from the C-suite. In fact, our data suggests the opposite — the sharpest plunge in alignment occurs between the top team and their direct reports, and is more gradual thereafter.

Lack of Agreement on Strategy at the Top

A large technology company (which we call Generex) had five official strategic priorities. This figure shows how many of those priorities each member of the top team could list. Among Generex's top 11 executives, just over half of the team knew the strategy, but the other half had no clue about the company's official priorities.



"Alignment Plummets Between Top Executives and Their Direct Reports" plots the average number of managers, at each level in the organization, who can list the company's top priorities. For the typical company, just over half of top team members can do so. It is pretty bad when only half the C-suite agrees on the same objectives, but things look even worse for their direct reports. Strategic convergence drops off a cliff between the top team (51% agreement) and senior executives who report to the top team (22%).

The gap between the top team and its members' direct reports is less surprising than it seems at first glance. Top team members oversee their own function, business unit, or geography, but also serve on the enterprise-wide leadership team that charts the course for the company as a whole. Their direct reports, in contrast, are not privy to discussions in the C-suite, and tend to view the world through the lens of the organizational silo they are charged with managing.

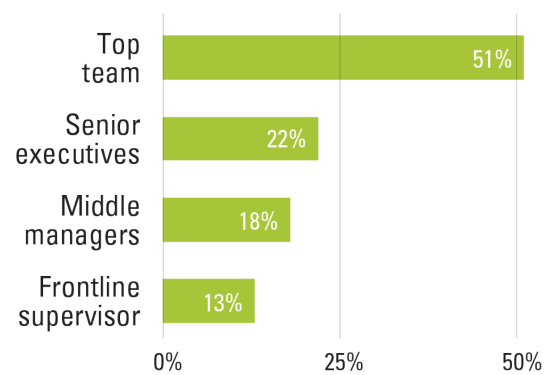
Rather than hosting another town hall, top executives should focus first on their direct reports, making sure they understand the company's overall strategy and how their function, geography, or business unit fits into the bigger picture. One powerful way to do this: Each top executive should consistently explain why his or her unit's objectives matter for the team *and* for the company as a whole.

In our sample, half of executives who reported directly to a top team member said that their boss consistently explained how their goals supported the company's overall agenda. Of the rest, 37% said their boss framed their activities in terms of their team's objectives without reference to corporate strategy, or their boss struggled to explain why their priorities mattered (12%). Many top team members need to do a better job explaining to their direct reports how their department, function, or regional goals fit into the company's overall strategy.

Alignment Plummets Between Top Executives and Their Direct Reports

Strategic alignment falls off a cliff from the organization's top executives to their direct reports and continues to decline, although more gradually, among lower-level managers.

Based on data from 4,012 respondents across 124 companies, with high response rates at each level, who took the survey between 2012 and July 2017.



Percentage of leaders at each level in an organization who can list their company's top three priorities.

To communicate strategic priorities throughout the organization, leaders at every level in the hierarchy should explain why their team's goals matter — both for their team and for the organization as whole. Across 69 items included in our execution survey, the single best predictor of strategic alignment was how consistently managers — from top executives to frontline supervisors — explained their team's priorities in terms of their unit and the entire company. [7]

To quantify the impact of this behavior, imagine a company that is average on every survey item except for one — all the managers explain why goals matter for their unit and the company. A high score on that single item would propel an average company to the top quartile in terms of strategic alignment.

A shared understanding of strategic priorities among key leaders does not guarantee successful execution. But it is a good first step. Widespread confusion and disagreement about what matters most undermine the prioritization and coordination across teams necessary to implement strategy. If managers do not understand what the company as a whole is trying to achieve over the next few years, they cannot align their actions with the organization's overall direction.

To increase the odds that their strategy is understood throughout the company, top executives should acknowledge that they may have a problem with alignment, agree as a team on strategic priorities for the entire company as a whole, make sure their direct reports understand these objectives, and ensure that leaders at every level in the organization communicate what corporate priorities mean and for the company overall.

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About the Authors

Donald Sull, who tweets @simple_rules, is a senior lecturer at the MIT Sloan School of Management. Charles Sull is a partner and James Yoder is the former chief data scientist at Charles Thames Strategy Partners LLC.

References

1. These are actual results of an anonymized U.S.-based technology company with more than 10,000 employees. As part of this research, the CEO and chief human resources officer identified 132 leaders who they deemed most critical for executing the company's strategy. The leaders they selected included 11 members of the top team, their direct reports (52), a selection of middle managers (51), and key frontline supervisors (17). These executives represented 1.2% of the company's total employee base.

2. Over 80% of companies we studied had between three and five strategic priorities. To accommodate different numbers of top priorities, each respondent in our survey could list up to five. We defined strategic convergence as a respondent listing any three of the five top strategic priorities. This approach produces higher estimates of strategic convergence than if we had required a respondent to list all of the top objectives. In a company with three strategic priorities, respondents had five tries to list those three. In companies with four or five strategic priorities, respondents had to list only three correctly.

3. See D. Sull, S. Turconi, C. Sull, and J. Yoder, "Turning Strategy Into Results," Sept. 28, 2017, https://sloanreview.mit.edu.

4. Our findings are consistent with other research that has found managers tend to overestimate their own effectiveness. See R. Sadun, N. Bloom, and J. Van Reenen, "Why Do We Undervalue Competent Management?" Harvard Business Review 95 (September-October 2017): 120-127. McKinsey & Co., "How to Beat the Transformation Odds," exhibit 4, April 2015, accessed Jan. 2, 2017, www.mckinsey.com.

5. This data is from a survey on execution developed by Donald Sull and Rebecca Homkes and designed to assess how effectively an organization's strategic alignment, structured practices (for example, resource allocation, incentives), and culture support strategy implementation.

6. These differences in means were highly significant, with p-values less than 0.001 for all variables.

7. Because many of the 69 survey questions were correlated with one another, we used lasso regressions to identify which questions best predicted strategic alignment. We ran a series of lasso regressions using randomly selected combinations of eight variables at a time, and selected those features that consistently added predictive power independent of what other variables were included in the model. Two questions were robust predictors of strategic alignment across alternate model specifications: "My boss consistently explains why our priorities matter for the company as a whole and also for our unit or team" and "Top leaders communicate strategy clearly and consistently."

Turn Strategy Into Results

How can leaders translate the complexity of strategy into guidelines that are simple and flexible enough to execute? Rather than trying to boil down the strategy to a pithy statement, it's better to develop a small set of priorities that everyone gets behind to produce results.

BY DONALD SULL, STEFANO TURCONI, CHARLES SULL, AND JAMES YODER

STRATEGY, AT ITS HEART, is about choice. Few companies succeed by making a single big bet. Most winning strategies are based on a bundle of choices about, among other things, the customers to serve, the scope of the business, product offerings, and capabilities that interact with one another to help a company make money.[1] Consider Trader Joe's Co., the U.S. grocery retailer based in Monrovia, California. It focuses on educated, health-conscious customers, which influences where it locates its stores, which products it stocks, and the type of employees it hires. The company's choices reinforce one another to increase customers' willingness to pay, reduce costs, and thereby drive profitability. The dense interdependencies among the choices prevent rivals from imitating Trader Joe's winning strategy. Piecemeal imitation of a few elements — for example, the store format or the focus on private labels — wouldn't work. Instead, a rival would need to replicate the full set of interconnected choices.

Strategy is inherently complex. We see this in the thick reports and complex frameworks that companies use to describe their strategic choices and how these connect with one another. Describing a strategy favors complexity, but executing it requires simplicity. To influence day-to-day activities, strategies need to be simple enough for leaders at every level of the organization to understand, communicate, and remember — a strategy that gathers dust on a shelf is nothing

THE LEADING QUESTION
How do you translate strategy for effective execution?

FINDINGS
- **Resist the urge to distill strategy to a single statement.**
- **Articulate a few actions the company must take to execute its strategy over the next three years.**
- **Focus on priorities that are forward-looking and measurable.**

more than an expensive bookend. A strategy for execution must provide concrete guidance while leaving managers with enough flexibility to seize novel opportunities, mitigate unexpected risks, and adapt to local conditions. The act of codifying past choices into an explicit strategy, moreover, reinforces historical commitments and locks a company into inertia.[2] Complex strategies, particularly those that include detailed plans, tend to be long on guidance but short on flexibility.

Strategy Made Simple

How can leaders translate the complexity of strategy into something simple and flexible enough to execute? Your first instinct might be to boil down a complex set of choices to a handful that matter the most. Indeed, a series of strategy experts have argued that managers should do just that by distilling their strategy to a concise statement (fewer than 35 words) summarizing a few core choices.[3] The strategy distillation approach hinges on a few fundamental strategic categories — such as the choice of target customer or core competencies — that can summarize the heart of any company's strategy. The authors illustrate this approach with strategies they have inferred from observing what has worked in the past at successful companies such as Southwest Airlines Co. or Ikea.

We have learned, however, that this approach works best with companies that have relatively straightforward strategies to begin with. Part of our research on strategy execution included a four-year action research project in which we worked with top management teams of eight to 12 companies per year in formulating strategies for execution.[4] The teams used a framework that boiled down their company's strategy to three elements: target customers (who), the value proposition (what), and how the company would deliver, sell, and distribute products or services (how).[5] The approach worked well for a subset of the companies, including a low-cost regional airline, a single-format retailer, a restaurant chain, and a producer of steel girders. Although operating in different industries, the companies shared three characteristics: They focused on a single business, they offered a standard value proposition to a clearly identified customer segment, and their strategy was stable over time.

Executives in companies that didn't fit this mold, by contrast, struggled to boil down their strategy to a few key choices. An online job site in Eastern Europe, for example, could not identify just one target

ABOUT THE RESEARCH

The data on prevalence of strategic priorities among large corporations draws on an analysis of how large, publicly traded companies described their strategy in public documents. Our sample consisted of 494 companies included in the 2014 Standard & Poor's 500 Index (S&P 500) that were still publicly traded at the end of 2015. We examined each company's filings with the U.S. Securities and Exchange Commission and other formal communications to investors, and used a five-pronged test to identify strategic priorities: They were presented as an explicit set; they were prioritized; they were expressed as actions; they described how a company planned to execute its strategy; they focused on the mid-term (in the range of three years) as opposed to quarterly or annual targets.

We then classified the strategic priorities by topic. To create our initial topics, we focused on four approaches to strategy: dominant logic, market positioning, resources and capabilities, and stakeholder theory. We reviewed the relevant literature to identify concepts commonly associated with each approach to strategy, such as customer intimacy and operational excellence (dominant logic), low price and differentiation (market positioning), brand and intellectual property (resource-based view of strategy), and regulatory compliance (stakeholder theory). We independently hand-coded 500 strategic priorities selected at random, adding new categories to accommodate strategic priorities that did not fit into the initial topic classes, and in the end, there were 43 topics (including an "other" category for nine strategic priorities that could not be otherwise classified). For more details, see our online companion piece "How to Recognize a Strategic Priority When You See One."

Our discussion of simplifying strategy is drawn from an action research project done in conjunction with the Young Presidents' Organization (YPO). Between 2011 and 2014, four cohorts of 10 member companies from the YPO participated in a program to help them translate their broad vision or mission into a strategy and concrete priorities, and then develop simple rules to ensure these guidelines shaped important activities and decisions within their company. The CEO and top team of each company went through a structured process to articulate their strategy and convert it into a set of mid-term priorities to guide execution. For more details, see chapter 5 in *Simple Rules: How to Thrive in a Complex World* (New York: Houghton Mifflin Harcourt, 2015).

The survey data cited in the article is from a survey designed to measure an organization's ability to execute its strategy, developed by Donald Sull and Rebecca Homkes. Between 2012 and 2017, the survey was administered to 11,017 managers in 423 organizations. The online survey consists of 69 questions designed to assess how well strategic priorities are understood throughout the organization, the strength of corporate values and norms, and how well management practices such as resource allocation and incentives support strategy execution.

customer because it served job seekers, employers, advertisers, and partners that listed jobs in multiple countries. Leaders elsewhere found it difficult to combine corporate and business unit strategies into a single formula. One company ran an online high school and a separate division that developed digital content, which it sold to other educational institutions (including other high schools). The two divisions were deeply interwoven, but the leadership team never managed to articulate a single strategy that worked for both parts of the business.

Strategies in transition posed another challenge. Combining choices that drove historical success with those required to win in the future resulted in convoluted statements that left employees baffled as to where they should focus. Simple strategies, we found, don't work for companies that compete in multiple businesses, serve multiple customers, or are in the midst of a strategic transition.

Distilling a strategy into a few core choices sounds great in theory but often derails in practice. You might think the issue was the specific framework we chose, but the roots of the problem go much deeper. To differentiate a company from rivals, the strategy should be specific to the company's history and context, which implies the list of potentially strategic choices is long. Any short list of essential factors is likely to exclude choices that are critical to some companies.[6] To be clear, this critique is not meant to devalue the work of the strategy scholars who created these frameworks but rather to underscore the difficulty of reducing the inherent complexity of strategy into simple statements. Many companies simply cannot cram 10 pounds of strategic complexity into a 3-pound bag.

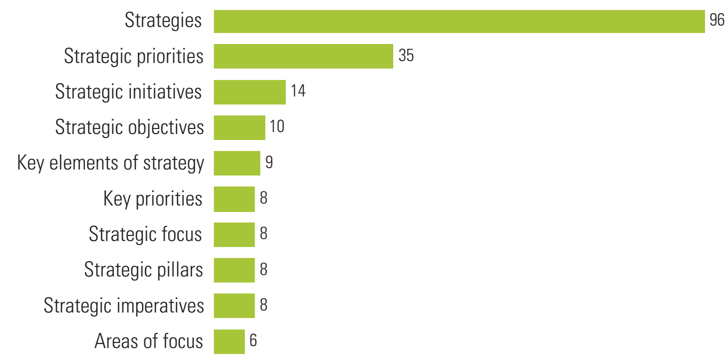
If boiling down a complex bundle of choices to a few key elements doesn't create a strategy for execution, what does?

Strategic Priorities

Instead of trying to summarize their strategy in a pithy statement, managers should translate it into a handful of actions the company must take to execute that strategy over the medium term. Strategic priorities should be forward-looking and action-oriented and focus attention on the handful of choices that matter most to the organization's success over the next few years.

COMMON NAMES FOR STRATEGIC PRIORITIES AMONG S&P 500 COMPANIES

S&P 500 companies used a variety of terms to describe the handful of key actions designed to implement their strategy.



Source: Analysis of 494 S&P 500 companies operating in 2014 and 2015. We identified strategic priorities for 351 (71%) of the 494 companies.

Many complex organizations that compete across multiple industries, product lines, and customer segments rely on strategic priorities to advance strategy. In the materials we examined from S&P 500 companies (see "About the Research"), for example, more than two-thirds of the companies published explicit mid-term objectives intended to help implement their strategy.

What companies call their corporate objectives doesn't matter; S&P 500 companies use a variety of labels, ranging from the mundane (strategic priorities, areas of focus, strategic objectives) to the exotic (Microsoft Corp. referred to "interconnected ambitions" and retailer Kohl's Corp. talked about "greatness agenda pillars"). (See "Common Names for Strategic Priorities Among S&P 500 Companies.")

Whatever terminology companies use, their objectives share a few characteristics. They typically extend three to five years — shorter than that is too tactical, longer too visionary. They are limited to a handful — of S&P 500 companies publicizing their objectives, 78% listed a total of three to five. (See "Strategic Priorities Among S&P 500 Companies," p. 28.) And they are strategic in the sense that they describe specific actions that will help the company execute its strategy, as opposed to achieving financial targets or acting on corporate values.

Many executives tell us that they use strategic priorities but report that the approach isn't working as well as they had hoped. To set the strategic agenda and drive implementation effectively, we have found that strategic priorities need to balance guidance with flexibility, counterbalance the inertia of business as usual, and unify disparate parts of the business. Crafting strategic priorities that do all of these things — and do them well — is a tall order. The remainder of this article will describe the seven characteristics of effective strategic priorities, explain why they matter, and suggest practical diagnostics managers can use to assess their company's strategic priorities. The exhibit "How Effective Are Your Strategic Priorities?" summarizes the seven factors.

1. Limit the number of priorities to a handful. Restricting the number of strategic priorities to three to five has several advantages. Most obviously, a small number of them will be easier to understand, communicate throughout the organization, and remember.[7] Rather than overwhelming employees with the full set of all choices and interdependencies that make up a company's strategy, communicating a few strategic priorities can focus attention, effort, and resources on the things that matter most now. The best priorities serve as strategic guardrails. If they know the parameters they must work within, managers and employees can fill in the blanks based on their local knowledge and circumstances.

Having too many priorities is a mistake, but having too few can be a problem as well. One wholesale energy company we studied declared a single strategic priority: "to manage risk and preserve value." This was a worthy goal, to be sure, but one that was far too abstract to provide useful guidance to employees. A single priority in isolation is rarely enough to drive a strategy that requires multiple initiatives to work together.

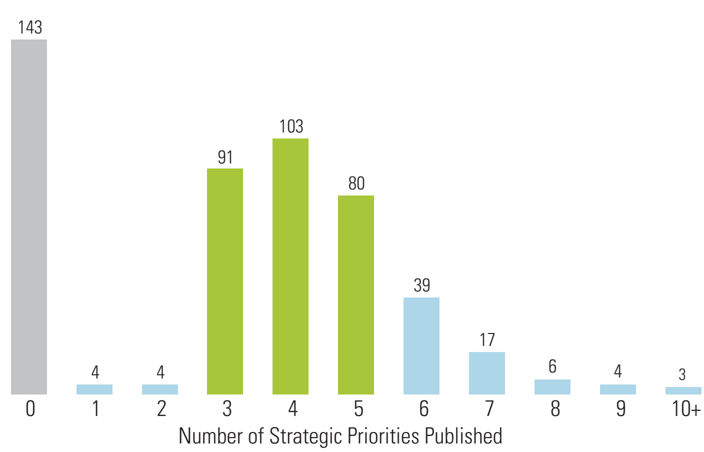
2. Focus on mid-term objectives. Strategic priorities act as a bridge between long-term aspirations — embodied in a vision or mission — and annual or quarterly objectives. The types of initiatives that have the biggest impact (for example, building data analytics capabilities, integrating online and physical stores, or entering a new market) typically take a few years. Of course, there are exceptions: A financial turnaround, for example, would require an immediate focus on short-term cash generation and debt reduction. But in general, we've found a good rule of thumb is "three to five in three to five" — three to five strategic priorities that can be accomplished in three to five years.

Once you've set mid-term priorities, it's important to stick to them. When a team announces five-year priorities and changes them a year later, employees dismiss those objectives (and their successors) as the "flavor of the month" that they can safely ignore. British fashion retailer Burberry Group plc offers a good example of staying the course.[8] When Angela Ahrendts joined Burberry as CEO in 2006, she announced five strategic priorities (including intensifying non-apparel sales, accelerating retail-led growth, and investing in underpenetrated markets) and selected quantitative metrics for each. Ahrendts stuck with the priorities for seven years, updating employees and investors regularly on progress toward each goal, which reinforced the message and the company's commitment to achieving those objectives. During this period, Burberry's share price handily outperformed competitors' and the broader market.

3. Pull toward the future. Strategy should guide how a company will create and capture value going forward, rather than codifying how it made money in the past. In dynamic markets, ongoing success typically requires innovation and change. The things that position a company for the future — for example, entering unfamiliar markets, building innovative business models, or developing new capabilities — differ from business as usual. Both are critical, but they often pull in opposite directions.

STRATEGIC PRIORITIES AMONG S&P 500 COMPANIES

Among S&P 500 companies, 71% published strategic priorities, and most listed between three and five priorities.



Source: Analysis of 494 S&P 500 companies operating in 2014 and 2015.

Maintaining a healthy balance between the status quo and innovation is hard work. Well-oiled capabilities, established resources, organizational structure, metrics, and rewards favor a company's legacy business, and employees will naturally default to activities that are familiar and straightforward and produce predictable results.[9] Keeping the trains running in the core business is necessary for success, but these routine activities will usually take care of themselves without having to be prioritized at the corporate level.

Innovation and change, by contrast, require ongoing attention. New activities are difficult, frustrating, and uncertain, and they require sustained effort and monitoring to be successful. This is where strategic prioritization can help. Prioritizing forward-looking initiatives can tip the scales in favor of the activities that can ensure future vitality but are most likely to fail without sustained effort.

Striking the right balance between sustaining a legacy business and building for the future requires judgment — there is no cookie-cutter template for getting it right. To gauge whether things are in balance, we suggest leaders look at the mix of priorities in terms of those that support and refine the current business model (for example, cost reduction, operational excellence, serving current customers, extending existing products) versus the objectives that take the company in a new direction (for example, entering new markets, building digital capability, undertaking non-incremental innovation). Leaders can also ask how different the business would look in three to five years if they were to achieve all their objectives. No mix of priorities is right for every company, but we have found that leadership teams that don't examine their strategic priorities tend to overvalue business as usual.

4. Make the hard calls. Apple Inc. CEO Steve Jobs often stood at a whiteboard during strategy retreats and personally led discussions among the company's top 100 leaders to set strategic priorities.[10] The assembled team would generate a long list of possibilities, and after much wrangling and discussion, they would whittle them down to a rank-ordered list of 10, at which point Jobs would strike out the bottom seven to ensure the company focused on the most critical priorities.

In organizations of any size, there will be dozens or hundreds of competing and often conflicting priorities. The discipline of whittling down priorities to a handful can force a leadership team to surface, discuss, and ultimately make a call on the most consequential trade-offs the company faces in the next few years. When executives make the hard calls and communicate them through the ranks, they provide clear guidance on the contentious issues likely to arise when executing strategy. But making trade-offs among competing priorities is difficult — they are dubbed "tough calls" for a reason. Prioritizing different objectives results in "winners" and "losers" in terms of visibility, resources, and corporate support. Many leadership teams go to great lengths to avoid conflict and, as a result, end up producing toothless strategic priorities.

A common way to avoid conflict is to designate everything as "strategic" — one S&P 500 company, for example, listed a dozen strategic objectives. Another way leadership teams resist making difficult calls is by combining multiple objectives into a single strategic priority. A large retailer, for example, listed six key business priorities. So far, so good, but when you dug into the so-called priorities — "focus on the fundamentals of the business," for example — the apparent discipline proved illusory. "Focus on the fundamentals" included, among other items, inventory management,

HOW EFFECTIVE ARE YOUR STRATEGIC PRIORITIES?

The checklist below can help managers assess whether their strategic priorities will be effective in setting a shared strategic agenda for their organization and driving implementation of that agenda.

Characteristics of effective strategic priorities

✓ **Limit objectives to a handful**	Limiting strategic priorities focuses on what matters most and can serve as a forcing mechanism to drive difficult trade-offs among conflicting objectives.
✓ **Focus on the mid-term**	Strategic priorities typically require three to five years to accomplish. Annual goals are too tactical, and longer-term goals too abstract to provide concrete guidance.
✓ **Pull toward the future**	Strategic priorities should focus on initiatives that position the company to succeed in the future, not reinforce business models or strategies that worked in the past.
✓ **Make the hard calls**	Strategy is about choice, and strategic priorities should tackle head-on the most consequential and difficult trade-offs facing the company.
✓ **Address critical vulnerabilities**	Strategic priorities should address the elements of the strategy that are most important for success and most likely to fail in execution.
✓ **Provide concrete guidance**	Guidance should be concrete enough that leaders throughout the organization could use the strategic priorities to decide what to focus on, what not to do, and what to stop doing. Metrics matter.
✓ **Align the top team**	Strategic priorities should provide a framework for how the company as a whole will succeed. To do so, they must be agreed upon by all members of the top leadership team.

cost cutting, customers, product categories, in-store experience, execution, speed, agility, lead-time reductions, and developing and retaining staff. If leaders dodge the hard trade-offs, their priorities provide little useful guidance to the troops.

Leadership teams also avoid prioritization by burying their strategic priorities among competing mandates and guidelines. The CEO of a large European bank (not one of the S&P 500), for example, was pleased when his team agreed on four strategic priorities during their strategy retreat. That was the good news. The bad news was that the team tacked them onto what the bank was already attempting to do, using three transformation initiatives, a four-part declaration of principles, four customer service priorities, five core beliefs, eight rules of conduct, nine corporate values, 20 promises to stakeholders, and 120 key performance indicators. Baffled employees ignored the latest directive and carried on with what they were already doing.

5. Address critical vulnerabilities. Even when you recognize the importance of making the hard calls, it's often difficult to know where to focus. Strategy is inherently complex, and the sheer number of possible objectives can overwhelm teams. So how can executives move from a complex strategy to a handful of strategic priorities?

A key insight comes from military strategists, who have long acknowledged the complexity of armed conflict.[11] Military planners often visualize the field of operations as a complex system of enemies, allies, infrastructure, popular support, and other features that collectively influence who wins and who loses a war. They then home in on the so-called "centers of gravity" — the parts of the system that are both critical to the enemy's success and most vulnerable to attack.[12]

Business leaders can deploy a similar approach by identifying "critical vulnerabilities" — the elements of their own strategy that are most important for success and most likely to fail in execution. In for-profit organizations, pinpointing the most important actions means thinking through — and, ideally, quantifying — how the objective would help create and capture economic value. How much would a potential priority increase customers' willingness to pay? How much would it decrease costs to serve target customers? How much would a priority deter new entrants or competitors by building a moat around the fortress? What new revenue streams would a proposed objective open up?

Some elements of a company's strategy — for example, a well-known brand or well-honed capabilities — will be critical to success but may not require sustained attention or investment. While important, these may not be priorities. Instead, companies should prioritize initiatives or activities that are at the greatest risk of failure without the sustained focus and investment support that strategic priorities can provide. When identifying critical vulnerabilities, it's important to look at both the elements of strategy that are at risk due to external factors (such as shifting customer preferences, disruptive technologies, or new entrants) and internal challenges (need for culture change, organizational complexity, or need to build new competencies).

6. Provide concrete guidance. A company's strategic objectives should be tangible enough that leaders and employees throughout the organization can use them to prioritize their activities and investments (and also to help them decide what to stop doing). Unfortunately, many leadership teams agree on vague abstractions that everyone can get on board with, confident that the resulting platitudes will not constrain their options. American Airlines, for example, listed strategic imperatives including "focus on our customers' needs and wants," "be an industry leader," and "look to the future." Clearly, a company's

VAGUE VERSUS CONCRETE STRATEGIC PRIORITIES

Strategic priorities must provide concrete guidance to the troops. American Airlines' Five Imperatives for 2014 were so vague that they could have applied to any industry. By contrast, Southwest Airlines' Strategic Initiatives were concrete enough to guide action and investments.

American Airlines *Five Imperatives*	**Southwest Airlines** *Strategic Initiatives*
1 Focus on customers' needs and wants.	1 Integration of Southwest's and AirTran's network and operations
2 Be an industry leader.	2 Fleet modernization
3 Engage our team members.	3 Continued incorporation of the larger Boeing 737-800 aircraft into the Southwest fleet
4 Provide a return for our investors.	4 International capabilities and new reservation system
5 Look to the future.	5 Continued growth of Southwest's Rapid Rewards frequent flyer program

strategic priorities are too vague when you can't guess the company (or even the *industry*) by reading them. (See "Vague Versus Concrete Strategic Priorities," which contrasts the vague strategic priorities of American Airlines with the concrete priorities of Southwest Airlines.)

Many associate concrete guidance with financial targets. Revenue and profitability goals are indeed specific, but they quantify where management wants to end up without providing direction on how the company should get there. Using financial targets as strategic priorities, then, is the business equivalent of a coach telling the team what the final score should be without explaining how to beat their opponents.

Rather than relying solely on financial targets, leaders should start with the key actions required to execute their strategy, and translate these into metrics that provide concrete guidance on what success would look like. By tracking progress against metrics, leaders can maintain a sense of urgency over the months or years required to achieve the goal, identify what's not working to make midcourse corrections, and communicate progress along the way — even before financial results are in — to keep key stakeholders on board.

Top executives can quickly assess whether their strategic priorities are sufficiently concrete by asking middle managers what they would stop doing based on the priorities. The answers will quickly expose fuzzy objectives. Leaders can also test concreteness by taking each strategic priority, stripping it of flowery prose and buzzwords, and seeing what's left. For example, once you remove the marketing spin and buzzwords from a statement like "We put muscle behind innovation, making a step change in the pace of commercialization," there's not much substance left.

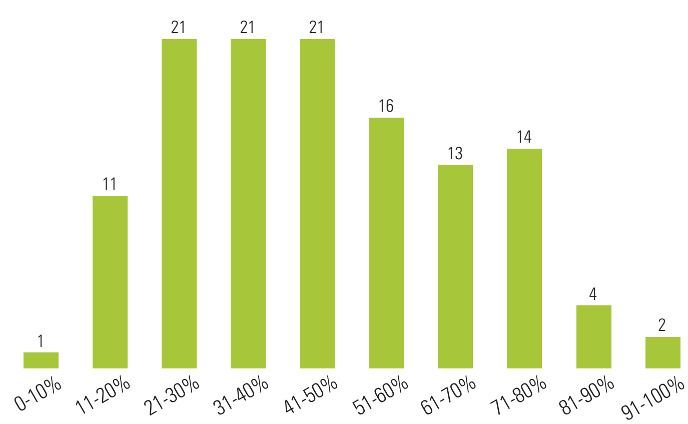
7. Align the top team. Unfortunately, lack of agreement on company objectives is fairly common among top teams. As part of our research on strategy execution, we surveyed more than 10,000 managers across more than 400 organizations. When asked how closely members of their company's top executive team agreed on key priorities, nearly one-third said senior executives focused on their own agendas or that there were clear factions within the top team.[13]

The reality is actually worse than the survey results suggest. In addition to asking senior executives if they agree on the company's priorities, we asked them to list their company's key priorities over the next few years. In the typical company, barely half of the executives voiced the same company-wide priorities.[14] Indeed, in terms of shared strategic priorities, we found that two-thirds of the top executives were on the same page in just 27% of the companies we studied — hardly a recipe for successful execution among the rest. (See "Most Top Teams Disagree on Priorities.")

Executing strategy often requires different parts of the company to work together in new ways (such as when a company moves from selling stand-alone products to integrated solutions, or when a retailer blends online and in-store sales). Strategic priorities should reinforce one another to ensure the different parts of the company are moving in tandem. At a minimum, the priorities shouldn't conflict with one another or pull the organization in opposing directions. The best strategic priorities hang together and tell a coherent story about how the company as a whole will create value in the future. They should also provide guidance on how to adjudicate the conflicts that will inevitably arise as different parts of the organization try to execute the strategy in the trenches.

MOST TOP TEAMS DISAGREE ON PRIORITIES

We asked the top teams of 124 companies to list their key priorities over the next few years and then analyzed the overlap in their responses. In the chart below, the ranges at the bottom indicate the amount of overlap in executives' agreement on top priorities. The figures above the bars indicate the number of companies that fell into each range.



Sample of 124 companies at which four or more top team members listed strategic priorities. Histogram of companies by percentage of top executives who can list three of their company's top five strategic priorities. Companies have a median of 4,843 and a mean of 33,390 employees.

Read more from our series on Strategic Agility at *sloanreview.mit.edu/strategic-agility*.

Strategic priorities should lay out what matters for the company *as a whole* to win and reflect the interdependencies among the choices. If senior executives pursue goals that aren't aligned with one another, the disagreements will filter down the silos, and the various teams will work at cross-purposes.

Management teams sometimes diverge because each function wants to promote its own pet objective. Human resources might want to say something about "world-class talent," for example, while finance might want to highlight how the company delivers "industry-leading shareholder returns." Rarely is anyone considering the trade-offs among these objectives, their interdependencies, or whether meeting unit-level objectives will affect the company's ability to succeed. These priorities can reinforce, rather than break down, organizational silos.

Executives rightly focus on how to craft a great strategy but often pay less attention to how their strategy can be implemented throughout a complex organization. To steer activity in the right direction, a strategy should be translated into a few guardrails that provide basic guidance while leaving scope for adaptation as circumstances change. Strategic priorities are a common tool to drive execution, but in many cases, these objectives are not as effective as they could be. By following a few guidelines, executives can articulate a strategy that can be communicated, understood, and executed.

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5. The who/what/how framework was initially formulated by D.F. Abell in "Defining the Business: The Starting Point of Strategic Planning" (Englewood Cliffs, New Jersey: Prentice Hall, 1980) and refined and elaborated by Markides, "Six Principles of Breakthrough Strategy."

6. The strategy simplification approach deals with this problem by cramming many choices into a few overarching categories or omitting choices that will be crucial for some companies. A company's scope — one of three factors in the Collis and Rukstad (2008) framework — includes choices about target customers, product offering, geographic markets, and vertical integration.

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13. Sample of 363 organizations that took the execution survey between 2012 and 2017.

14. To measure agreement on strategic priorities, we asked top team members to list their company's top three to five priorities over the next few years. We then grouped their free-text responses into categories of strategic priorities to create a matrix in which each row represents a manager and each column a strategic priority. We then calculated the five most frequently listed priorities, and calculated how many of the top team members list at least three of the top five strategic priorities. For a fuller discussion of our methodology and robustness tests, see "How to Recognize a Strategic Priority When You See One" online.

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With Goals, FAST Beats SMART

DONALD SULL AND CHARLES SULL

To execute strategy, leaders must set ambitious targets, translate them into specific metrics and milestones, make them transparent throughout the organization, and discuss progress frequently.

In 1954, management guru Peter Drucker introduced "management by objectives," an approach where employees would agree with their boss on a set of goals and work toward achieving those objectives throughout the year. [1] Not even a visionary like Drucker, however, could have predicted how thoroughly goals would come to dominate the modern workplace. In 95% of organizations, according to a recent survey, employees set goals for themselves or their teams. [2]

When it comes to setting goals, most managers follow a well-established set of practices. They hold one-on-one meetings with their subordinates to set goals, and then they review performance against those objectives at year end and link their appraisal to promotion and bonus decisions. [3] These same managers aspire to make their goals SMART, by ensuring they are specific, measurable, achievable, realistic, and time-bound. [4]

The conventional wisdom of goal setting is so deeply ingrained that managers rarely stop to ask a fundamental question — does it work? The traditional approach to goals — the annual cycle, privately set and reviewed goals, and a strong linkage to incentives — can actually *undermine* the alignment, coordination, and agility that's needed for a company to execute its strategy. Expecting employees to hit 100% of their targets to earn their bonus, for example, creates strong motivation for them to "sandbag" by setting conservative targets they are sure to achieve. And when goals are kept private, employees don't know what colleagues in other teams are working on.

Goals *can* drive strategy execution but only when they are aligned with strategic priorities, account for critical interdependencies across silos, and enable course corrections as circumstances change. If these conditions aren't met, every employee could achieve their individual goals, but the organization as a whole could still fail to execute its strategy.

If the traditional approach to goals cannot ensure successful strategy execution, what's the alternative? Over the past few decades, a handful of leading companies including Google, Intel, and Anheuser-Busch InBev have pioneered and refined an alternative approach to harness the power of goals to drive and align action. To understand how this new approach works, we studied these companies and others, analyzed a proprietary data set of more than half a million goals, and reviewed the academic literature on goal setting.

We found that four core principles underpin effective goal systems, and we summarize these elements with the acronym FAST. (See "Make Goals FAST, Not SMART.") Goals should be embedded in **frequent** discussions; **ambitious** in scope; measured by **specific** metrics and milestones; and **transparent** for everyone in the organization to see.

FAST goals help organizations improve along multiple dimensions at the same time. By making goals transparent, for example, companies enable employees to align their activities with corporate strategy and to coordinate more effectively across silos. What's more, FAST goals work well across a wide range of industries. Technology companies such as Google, Intuit, and Netflix use an approach called objectives and key results (OKRs) to put these principles into action. FAST goals are also used in companies in more traditional industries, including AB InBev, Burger King, and Kraft Heinz. (Find out if your company's approach to goal setting passes the FAST test by taking our interactive quiz below.)

Make Goals Transparent

When Marcel Telles took the reins at a struggling Brazilian beer-maker named Companhia Cervejaria Brahma, he had no inkling that he would help pioneer a new approach to managing goals. Prior to joining the company as CEO in 1989, Telles had been a trader, and he wanted to bring the transparency of the trading floor to the century-old brewer. He tore down walls and cubicles

Make Goals FAST, Not SMART

According to conventional wisdom, goals should be specific, measurable, achievable, realistic, and time-bound. But SMART goals undervalue ambition, focus narrowly on individual performance, and ignore the importance of discussing goals throughout the year. To drive strategy execution, leaders should instead set goals that are FAST — frequently discussed, ambitious, specific, and transparent.

	Definition	*Benefits*
Frequently discussed	Goals should be embedded in ongoing discussions to review progress, allocate resources, prioritize initiatives, and provide feedback.	• Provides guidance for key decisions. • Keeps employees focused on what matters most. • Links performance feedback to concrete goals. • Evaluates progress and course corrects.
Ambitious	Objectives should be difficult but not impossible to achieve.	• Boosts performance of individuals and teams. • Minimizes the risk of sandbagging. • Forces broader search for innovative ways to achieve goals.
Specific	Goals are translated into concrete metrics and milestones that force clarity on how to achieve each goal and measure progress.	• Clarifies what employees are expected to deliver. • Helps identify what is not working and quickly course corrects. • Boosts performance of individuals and teams.
Transparent	Goals and current performance should be made public for all employees to see.	• Makes use of peer pressure to perform on goals. • Shows employees how their activities support company goals. • Understands other teams' agendas. • Surfaces activities that are redundant or unaligned with strategy.

and created an open office where managers posted their goals and current performance for all to see. [5]

As it has grown — through a series of mergers and acquisitions — into AB InBev, the largest and most profitable beer-maker in the world, the company has maintained the practice of making employees' goals public. Google follows a similar approach, posting all employees' current and past goals on its internal employee directory right beside their title and contact information.

Some executives assume that transparency is fine for AB InBev or Google but would never mesh with their corporate culture. Our research, however, suggests that employees across a wide range of organizations prefer transparent goals. We have analyzed metadata from more than 600,000 goals from customers of BetterWorks, an enterprise software company in Redwood City, California, that's funded by John Doerr, the chairman of venture capital firm Kleiner Perkins Caufield & Byers and the leading proponent of OKRs. [6] BetterWorks provides a platform for users to set and manage their own goals as well as view or comment on colleagues' objectives. Each time employees create a goal, they have the option of making it visible to all users on the system. Those who are reluctant to make their goals public can keep them private. [7]

Aggregating these individual choices across a range of companies, we found that users made more than 90% of their goals public. The percentage of public goals, moreover, was virtually the same whether an organization was public or private, small or large, a Silicon Valley technology company, or a more traditional enterprise. To be sure, some goals should remain private (particularly those dealing with sensitive personnel decisions, legal issues, or pending acquisitions). But in the vast majority of cases, users believe the benefits of transparency outweigh the costs.

Making goals public can boost performance by introducing peer pressure, showing employees what level of performance is possible, and helping them locate colleagues in similar situations who can provide advice on how they can do better. When Telles extended public goals from Brahma's headquarters to its individual breweries, for instance, managers of underperforming plants reached out to their counterparts in higher performing facilities for tips on how to improve efficiency.

When employees can see top-level goals, they can align their individual and team objectives with the company's overall direction. Clarity on how their work contributes to the success of the organization as a whole, moreover, is one of the top drivers of employee engagement. [8] Unfortunately, corporate goals are poorly understood in many companies. In a recent study of 124 large organizations, we found that less than one-quarter of middle managers knew their company's strategic priorities. [9] Making the goals public can help. Nearly all of BetterWorks' customers make corporate priorities visible to all employees, and the typical user views them more than twice per quarter.

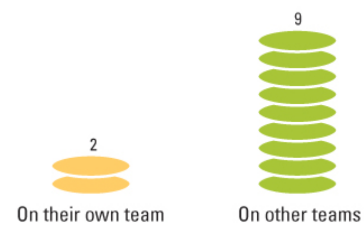
Sharing company goals publicly cannot guarantee that employees will align their objectives to the company's strategy. But transparent goals do make it easier for employees to check the objectives of their department, function, or business unit against those of the company as a whole. When goals are public, senior executives can easily review them to spot objectives that are out of line with the company's overall direction. Transparency, in short, can foster strategic alignment without resorting to a time-intensive process of cascading goals down the chain of command.

When goals are kept private, employees are often in the dark about what people on other teams are doing. We have administered a strategy execution survey to more than 400 organizations (mostly large U.S.-based companies) to assess how well they implement their strategic priorities. [10] In our sample, only one-quarter of the managers said that their goals were understood by their counterparts in other divisions, functions, or business units. When employees don't know one another's goals, they are more likely to make unrealistic demands, focus on activities that don't support their colleagues, or duplicate effort.

Yet when goals are made public, our data suggests that employees take advantage of the transparency to view their colleagues' objectives. The BetterWorks platform, for example, allows employees to view, follow, and comment on other users' goals. You might think that employees would use these social features to keep tabs on how their own team is doing. And indeed, the typical user checks in on his or her teammates' goals twice a month. Surprisingly, though, users check in on the goals of colleagues on other teams more than twice as frequently as they check on their own teammates. Employees in larger companies are even more likely to keep tabs on other teams. In companies with more than 10,000 employees, the typical user views the goals of colleagues on other teams more than twice a *week*. (See "Viewing Colleagues' Goals.")

Viewing Colleagues' Goals

In most organizations, goals are private. When goals are made public, employees use the transparency to keep tabs on colleagues on other teams. In large companies, employees viewed the goals of colleagues on other teams four times as often as they checked in on their own team members.



How many times a month employees checked on their colleagues' goals

Based on a sample of 79 BetterWorks customer companies' activity in the first quarter of 2017. We defined large companies as those with more than 10,000 employees. Views include passive views as well as links and comments on other employees' goals.

Many companies rely on frequent meetings, highly structured processes, or frequent email blasts to make sure employees' goals align with the company's strategic direction and the objectives of other parts of the business. When goals are public, employees can connect the dots for themselves to see how their work supports the strategy and colleagues in other teams.

Make Goals Specific With Metrics and Milestones

In the early 1970s, Intel was making the transition from memory chips to microprocessors. Andrew Grove —then the chipmaker's executive vice president of operations — read about management by objectives and operations — read about management by objectives and immediately saw the concept's potential to help Intel implement its new strategy. 11 Grove implemented Intel Management by Objectives, which required employees to translate their goals into concrete actions and metrics to clarify how they would achieve their targets and measure progress along the way.

As an Intel employee, Doerr was deeply impressed by Grove's system. When he joined Kleiner Perkins in 1980, Doerr refined Intel's approach into OKRs, which were tailored to the needs of the firm's portfolio companies. Eventually, Doerr introduced OKRs to companies he backed, including Amazon.com, Intuit, and Google, and the methodology has spread widely throughout Silicon Valley's technology ecosystem.

OKRs consist of two parts. Objectives are short descriptions of what you want to achieve. Each objective should include a handful of key results — typically quantitative metrics or milestones that specify the steps required to achieve the goal and measure progress. Don't get hung up on the terminology of OKRs. Many Silicon Valley companies refer to goals as objectives, while other companies refer to them as targets. (We use the terms *goals*, *objectives*, and *targets* interchangeably.) Likewise, some companies use metrics or key performance indicators (KPIs) instead of key results. Regardless of the terminology, the important thing is that employees translate their goals into clearly defined tasks and concrete measures of progress.

Some companies, particularly those run by engineers, insist that *every* key result be quantifiable. Our experience working with companies, however, suggests that relying exclusively on quantitative measures is neither necessary nor optimal. For a fast-growing startup, for example, the qualitative milestone of hiring a new chief technology officer can be every bit as important as any quantitative KPI. Among BetterWorks users, about half of key results are quantitative.

The power of specific, ambitious goals to improve the performance of individuals and teams is one of the best documented findings in organizational psychology, and has been replicated in more than 500 studies over the past 50 years. Compared to vague exhortations like "Do your best," a handful of specific, ambitious goals increases performance of an average team or individual to the 80th percentile of performance. [12] Adding a set of metrics for each goal and providing frequent feedback on progress can further improve results. A meta-analysis of 83 interventions in organizations including the U.S. Air Force, high-tech manufacturing plants, and hospitals found that setting a handful of objectives, assigning metrics to each goal, and providing regular feedback improved performance enough to move an average team to the 88th percentile of performance. [13]

The discipline of translating goals into metrics and milestones can enhance the performance of individuals or teams in several ways. For big-picture thinkers, breaking goals into concrete tasks and metrics helps them think through the details of how to achieve their objectives. Conversely, more tactically oriented employees can link their activities and KPIs to the outcomes that matter most for the company as a whole. Working through concrete actions and metrics, moreover, helps employees understand exactly what their boss and colleagues expect from them, and decreases the odds that they will agree on broad generalities that each interprets in their own way.

Defining specific metrics and milestones for each goal can also enhance agility. Key results can be treated as hypotheses: "If we do this, then we will accomplish our goal." The more specific the hypotheses are, the easier it is to test them, determine which ones are (or aren't) working, and make midcourse corrections. "Truth," as Sir

Francis Bacon noted, "emerges more readily from error than from confusion." Translating general goals into testable hypotheses surfaces errors more quickly and precisely, which accelerates the pace of learning and adjustment.

Linking goals to key results makes it easier to adjust as circumstances change, without losing sight of the company's must-win battles. The marketing manager of a startup might have a goal to attract 1 million unique visitors per month to the company's website. To support that, however, she might have several key results — for example, "gain 100,000 followers on Twitter" or "restructure website architecture to optimize for search." While the same objective might extend over several quarters, the key results will change as the team accomplishes them or learns that other approaches or metrics are more relevant.

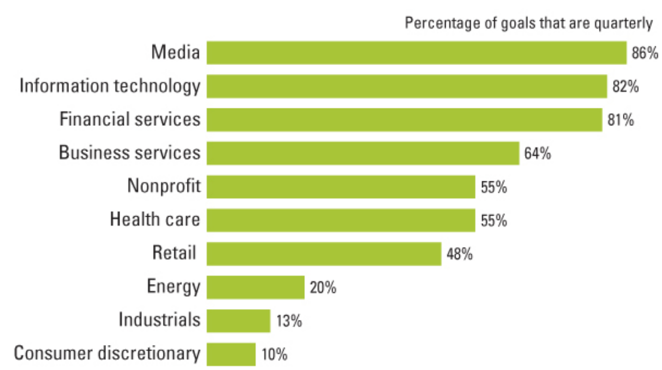
Discuss Goals Frequently

When we ask managers how often they look at their goals, most say twice per year — once when they set their objectives and again when they write up their performance self-appraisal. For many organizations, goal setting is an annual ritual that begins with a one-on-one meeting between an employee and his or her boss to agree on objectives for the year. [14] Employees dutifully enter their goals into a spreadsheet or performance management tool, and largely forget about them until year end. Come December, they revisit their objectives and are often surprised by the tenuous relationship between their stated goals and what they actually did in the meantime.

Even the most finely crafted objectives will have little impact if they are filed away for 363 days of the year. To drive strategy execution, goals should serve as a framework that guides key decisions and activities throughout the year. One way to make goals more relevant is to set them quarterly rather than annually — quadrupling the number of times teams evaluate progress, discuss unexpected challenges, and make real-time adjustments. We have found that companies in dynamic sectors (for example, media and information technology) often use quarterly goals, while companies in more stable industries tend to set annual goals. [15]

Companies in Dynamic Sectors More Likely to Set Quarterly Goals

Setting and reviewing goals on a quarterly basis provides more opportunities to make course corrections throughout the year. In our sample, companies in dynamic sectors such as media, information technology, and financial services were most likely to set quarterly goals. More stable industries favored annual goals.



Based on a sample of 79 BetterWorks customer companies' activity in the first quarter of 2017. Quarterly goals defined as those with a target completion date of 90 days or less when they are set.

Resetting goals on a quarterly basis can be useful. But it is not the only way to embed objectives in ongoing discussions. Employees at AB InBev, for example, set their targets annually, and Google, for its part, recently moved from quarterly to annual goals. 16 What really matters is not whether goals are set quarterly or annually, but whether they shape the key discussions for getting work done. LinkedIn CEO Jeff Weiner, for example, meets weekly with his executive team to discuss how his team members are doing against their goals and metrics. [17] Goals can also provide the framework for making difficult trade-offs regarding which initiatives to prioritize, how to allocate resources, and how to respond to requests from colleagues in other teams.

Feedback and coaching sessions provide another opportunity for managers and employees to discuss goals on an ongoing basis. Some 70% of the managers we surveyed said they want monthly updates on how they were doing against their goals. Unfortunately, less than half receive monthly feedback. Several high-profile companies, including Microsoft, IBM, and Accenture, have recently transformed their traditional performance appraisal process to incorporate ongoing discussions on how employees are doing against their goals, which keeps these objectives top of mind throughout the year. [18]

Set Ambitious Goals

A core tenet of the SMART framework is that goals should be achievable and realistic. Several recent articles have argued against stretch goals and recommended incremental targets instead. [19] The widespread practice of requiring employees to achieve 100% of their goals to earn a bonus or a positive performance review reinforces employees' tendency to set conservative goals that they are sure to achieve.

The temptation to play it safe when setting goals is understandable but often misguided. Recall that employees pursuing ambitious goals significantly outperform colleagues with less challenging objectives.

The pioneers of FAST goals, moreover, emphasize the critical role of ambition in setting effective goals. In a new book titled *Measure What Matters*, Doerr discusses the value of pursuing order-of-magnitude improvements as opposed to incremental gains, supported by case studies from Google Chrome, YouTube, and the Bill & Melinda Gates Foundation. [20]

Ambitious goals minimize the risk that employees will sandbag by committing to overly conservative goals they are sure to achieve. The typical image of sandbagging is a sales representative setting a goal of $1 million when he is confident he could sell twice that amount. Sandbagging, however, manifests itself in more insidious ways that undermine experimentation and learning. When bonuses are tied to hitting targets, employees may opt for cost-reduction initiatives that are fully under their control, as opposed to growing sales, which depends on the actions of customers, partners, and competitors. Or they might attempt to wring incremental improvements out of existing products or business models rather than pursue a novel technology that offers a higher payoff in the long run. When the gap between the goals being set and current reality is wide, organizations need to search for creative or innovative ways to achieve their ambitious, overall objectives. [21] Insisting that employees achieve 100% of their goals, in contrast, can also deter employees from the trial-and-error experimentation required to innovate. [22]

When it comes to setting goals, more ambition is not always better — at some point, the objectives enter the realm of delusion. Striking the balance between ambition and achievability is a difficult but essential task for leaders at every level in an organization. "My biggest challenge," AB InBev's Telles said, "is setting the right targets that are almost impossible but not impossible." [23]

Ambition is fiendishly difficult to measure. You can usually observe only what was achieved not what was possible. We have used multiple measures to estimate organizational ambition, and all point in the same direction — the typical company should focus on setting more ambitious goals. Our survey of more than 400 organizations asked managers what advice they would give a newly hired colleague on setting goals. They could advise new managers to (1) make conservative commitments they are sure to achieve, (2) set ambitious goals even if they are not sure how they'll achieve them, or (3) avoid committing to objectives whenever possible. In the typical organization, nearly two-thirds of managers would advise a new colleague to play it safe.

In the same survey, we asked respondents to choose three factors that most influence promotion decisions (from a randomly ordered list of 10 factors). Past performance, the most commonly cited factor, was selected by 61% of respondents. Setting ambitious goals, at 13%, was second from last, just ahead of innovating (12%). (See "How to Get Promoted.")

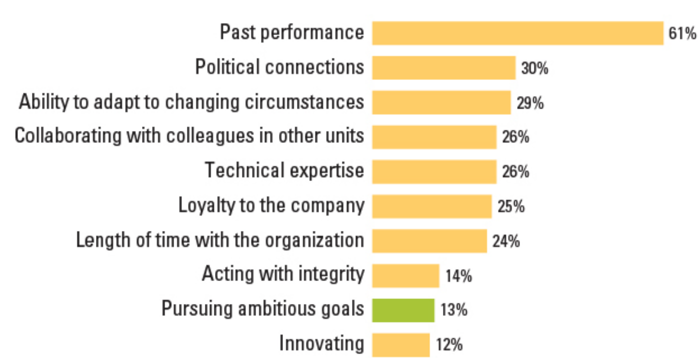
How can leaders inspire people to set more ambitious goals? In Silicon Valley many companies encourage employees to set goals that they are unlikely to achieve in full. Google, for example, expects employees to achieve an average of 60% to 70% of their key results. In the eyes of Google executives, asking for more would prevent employees from thinking big enough when setting their objectives.

Google deliberately decouples goal attainment from performance reviews and compensation decisions, which may seem like heresy to managers steeped in traditional performance management philosophy. But it's consistent with research that shows financial rewards are not the only way to boost performance of an individual or team. Indeed, specific, ambitious goals (recall the research we mentioned earlier) spur performance on their own, without the need for financial incentives. A recent meta-analysis found that in motivating people to complete complex tasks that involved creativity, intrinsic motivation was nearly six times more effective than external incentives in motivating people to complete complex tasks that required creativity. [24]

Although Google's approach is common among Silicon Valley technology companies, it is not the only way to foster ambitious goals. At AB InBev, bonuses are tightly linked to targets for reducing costs, improving operations, and optimizing pricing. The brewer injects ambition by

How to Get Promoted

In our execution survey, we asked managers to choose the three factors (from a randomized list of 10) that most influenced promotion decisions in their organization. Pursuing ambitious goals came second to last.



Based on a survey of 8,812 respondents in 363 companies.

setting challenging objectives for the company as a whole, hiring highly motivated employees, and rapidly promoting those who deliver on their stretch targets. When it comes to injecting ambition, one size does not fit all.

Goals are a powerful tool to drive strategy execution. To harness their potential, leaders must move beyond the conventional wisdom of SMART goals and their entrenched practices. Instead, they need to think in terms of being FAST, by having frequent discussions about goals, setting ambitious targets, translating them into specific metrics and milestones, and making them public for everyone to see.

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How to Recognize a Strategic Priority When You See One

DONALD SULL AND STEFANO TURCONI

A company's financial reports can provide critical insights into its strategy — if you know where to look.

As part of our research on strategy for execution, we analyzed how large, publicly traded companies described their strategy in public documents. Our sample consisted of 494 companies included in the 2014 Standard & Poor's 500 Index (S&P 500) that were still publicly traded at the end of 2015. (See our first article in the series, "Turning Strategy Into Results.")

To identify a company's strategic priorities, we examined its filings with the U.S. Securities and Exchange Commission and other formal communications to investors.

- For each of the 494 companies, we obtained the full text of the 2014 fiscal year Form 10-K report. To identify a company's strategic priorities, we read through the description of the business in the 10-K (Part 1, Item 1) and management's discussion of their operations (Part 2, Item 7). These are the two sections of a 10-K where management is most likely to discuss its strategy and corporate objectives. If we did not identify strategic priorities in either of these two sections, we searched through the entire document for any occurrence of the words "strategy," "strategies," or "strategic" and other terms (for example, "pillars," "imperatives," "focus") that might indicate strategic priorities, and analyzed the surrounding text for occurrence of strategic priorities. We identified strategic priorities for 239 companies (48% of the 494 companies) in their 10-Ks.
- If we could not find strategic priorities in the 10-K, we obtained the full text of the company's annual report and read the letter from the chairman and/or CEO and the report's full text to see if it specified the company's strategic priorities. We identified strategic priorities for 72 companies (15% of the companies) in their annual reports.
- For the remaining 183 companies, we searched the investor relations section of their websites for presentations to investors, transcripts of calls with analysts, and other official presentations of strategy for fiscal year 2014. We searched the document texts for discussions of strategy or its related terms and analyzed the surrounding text. We identified strategic priorities for an additional 40 companies (8%) in these documents.
- We could not identify strategic priorities for 143 companies (29%) in any of the data sources mentioned,

either because the companies did not have strategic objectives or chose not to make them public.

We define strategic priorities as an explicit set of prioritized actions to execute strategy over the mid-term, and we used a five-pronged test to identify strategic priorities in the documents we reviewed. A set of objectives had to pass all five filters to qualify as strategic priorities.

- *Explicit set.* Rather than inferring strategic priorities from the text, we looked for cases where the company explicitly called out a set of objectives. A group of priorities was considered explicit if it was named. The most common names in our sample were strategies (96 companies), strategic priorities (35), strategic initiatives (14), and strategic objectives (10). A set of objectives was coded as explicit if it was broken out separately from the main body of the text, highlighted in bold or italics, or presented using bullet points or a numbered list. In a small number of cases, priorities were embedded in the body of the text, but we excluded these from our analysis to minimize subjectivity.

- *Prioritized.* A large company could have tens or hundreds of worthwhile financial, market, operational, human resources, social, and other goals. To qualify as strategic priorities, we looked for a small number of objectives (versus a long list of "strategic" factors) as evidence that managers had prioritized those goals. Of the 351 cases where we identified strategic priorities, 321 (91%) listed six or fewer objectives. We also coded a set of objectives as prioritized, regardless of the number, if the company labeled them with a term that denoted prioritization. Companies could signal prioritization through nouns (for example, priorities, pillars, imperatives, areas of focus) or modifiers (such as big 5, fundamental, key, major, core, primary) used to describe the set of objectives.

- *Actions.* The objectives are described using a verb (grow, improve, increase) or a gerund (achieving, cutting) to achieve an end. The presence of action distinguished strategic priorities from financial or market-share targets that provided no guidance on the actions that were required to achieve them. We excluded general descriptions of how a company operates (for example, lists of competitive strengths, broad business philosophy), industry trends, and risk factors that did not imply specific actions.

- *To execute strategy.* We coded priorities as strategic if they described how a company planned to execute its strategy. We coded a set of objectives as strategic if they included the term "strategy" or one of the variants of the term, or if they followed immediately after and referred to a separate and explicit description of the company's strategy. The most common location for these discussions of strategy were in overview of business or management discussion sections of the 10-K or the Chairman's letter in the annual report.

- *Mid-term.* Strategic priorities typically require a few years to achieve, and we saw them as distinct from quarterly or annual targets. We collected data on annual goals when available, but excluded them from our analysis.

We then classified the strategic priorities by topic. To ensure consistency in data quality, we limited our analysis to those objectives reported in a company's 10-K or annual report, and identified 1,508 strategic priorities across 311 companies. To create our initial topics, we focused on four approaches to strategy: dominant logic, market positioning, resources and capabilities, and stakeholder theory. We reviewed the relevant literature to identify concepts commonly associated with each approach to strategy, such as customer intimacy and operational excellence (dominant logic), low price and differentiation (market positioning), brand and intellectual property (resource-based view of strategy), and regulatory compliance (stakeholder theory). [1]

We independently hand-coded 500 strategic priorities selected at random, adding new categories to accommodate strategic priorities that did not fit into the initial topic classes. The authors discussed and reconciled their coding to create an agreed-upon set of categories for subsequent coding, and added a few new categories as they classified the entire data set. In the end, there were 43 topics (including an "other" category) for nine strategic priorities that could not be otherwise classified. (See "Classification of Strategic Priorities by Topic.") The authors independently hand coded the 1,508 strategic priorities, agreed on 1,409 (93%) of their classifications, and discussed and agreed to a classification for the remainder.

In addition to coding the content of the strategic priorities, we also assessed how well each company communicated its objectives. We created six binary variables to measure priorities on six elements of effective communication.

- *Focused.* Communicating a small number of priorities signals the importance of the priorities relative to other objectives and makes them easier to communicate and remember. A company received a score of 1 if it listed five or fewer strategic priorities and 0 if it listed six or more. Of the 311 companies we analyzed, 244 (78%) named five priorities or less.

- *Explanation.* In some cases, companies simply listed short phrases summarizing their strategic priorities without further explanation of what these objectives meant. Other companies elaborated on their headline objectives, and their explanations typically ranged between a sentence and a paragraph per strategic priority. A strategic priority receives a score of 1 if any explanation (regardless of length) is provided about the priority, and a score of 0 if no explanation is provided. Of the 1,508 strategic priorities we identified, 1,087 (72%) included an explanation.

- *How to.* Leaders can further clarify their objectives by providing examples of initiatives or programs that could help achieve the objective; 834 (55%) of the strategic priorities included concrete examples of steps the company has taken or could take in the future to achieve the goal.

- *Why it matters.* Executives can highlight the importance of their priorities by explaining why they are important to achieving their strategy. Several companies in our sample, for example, listed cost cutting as a priority and explained why cost reductions were critical to fund investments in innovative products or technologies; 661 (44%) of all priorities included some explanation of why the goals matter.

- *Communicating progress.* Companies can clarify their objectives by reviewing past progress. Priorities received a value of 1 if their description included quantitative measures of progress; 267 (18%) of goals included numerical measures of progress.

- *Specifying targets.* Companies can also make their priorities more tangible by committing to concrete targets to measure progress; 91 (6%) of the strategic priorities included quantitative targets.

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