

Measuring the



Factor

**Is your company
poised for business
execution?**

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IS YOUR COMPANY POISED FOR BUSINESS EXECUTION?

Companies must do two things exceptionally well in order to be consistently successful:

1. Identify the right strategies to achieve their business goals and
2. Execute those strategies better and faster than the competition.

There is no question about the value of having good strategies. But it is the second, Business Execution that makes the difference between having good strategies and achieving great results.

Despite the importance of Business Execution, most companies have little insight into their Business Execution capability. Imagine your company had to radically change its strategic direction in less than 3 months. Are you confident you could refocus the workforce around a new set of goals in such a short amount of time? Could you realign the talents of your employees on a different set of strategic initiatives in a matter of weeks? This is the sort of change many companies faced when the recession started in 2008. Quite a few discovered too late that they were not up to the challenge.

Measuring the capability to execute: Evaluating the X Factor

Business Execution capability reflects a company's ability to utilize its assets to achieve results (see figure 1). Defined as the "X Factor", Business Execution capability reflects how well the company is leveraging its resources to achieve results. The X factor also provides insight into a company's ability to redeploy its resources to meet future business challenges.

Assets - > X Factor (Business Execution Capability) -> Results

Figure 1

Traditional business metrics emphasize company assets and results, but pay less attention to the X factor that links these two.

Asset metrics measure what a company owns or possesses, but provide less information on how well these assets are being used. These include common accounting metrics such as operating capital, equipment and machinery, inventory and employee costs. While these metrics provide a lot of information about what a company possesses, they provide much less information about what a company is *doing* with these possessions. The most expensive asset in most companies is its workforce. Employees typically represent over 60% of the total cost of assets for most companies. Because employees are such a large part of assets, they are the primary area to focus on when evaluating a company's X factor. Specifically, does the company possess the employees it needs to effectively deliver its strategic goals and is it utilizing these employees in the most effective manner?

Result metrics measure what a company has accomplished. They include financial metrics such as market capitalization, revenue, profit, and market share. There is little doubt that these are the most important metrics for evaluating a company's value. They will always remain front and center for business leaders and company shareholders. But results metrics are "lagging indicators" of Business Execution capability. They reflect what the company has *done in the past*, but provide less insight into what the company is capable of doing in the future. Just because a company was successful in last year's market is no guarantee it will be successful adapting to next year's market challenges. Results metrics tell us what a company has accomplished, but do not indicate whether these accomplishments were due to flawless execution, brilliant strategy, dumb luck, or a mixture of all three. Wall Street provides many examples of companies with strong portfolios that "looked good on paper" but lacked the execution capabilities required to remain successful over the long-term. Just because a company's share price has increased does not mean the company is well run. Nor is past performance a guarantee that a company will be able to quickly change its future business direction to meet new market challenges.

As the pace of market change increases, it is becoming critical to evaluate and manage companies based on their ability to rapidly adopt and execute business strategies to meet unforeseen opportunities and challenges. This requires developing a new set of metrics that collectively reflect a company's business execution capabilities. These metrics should evaluate how well a company is utilizing its assets to create results. They should also provide insight into a company's ability to execute new strategies, including identifying gaps in existing assets that must be addressed for these strategies to be successful. Because employees represent the largest cost for most companies, most of these metrics will focus on utilization of talent either directly or indirectly. Historically, these sorts of metrics were difficult if not impossible to collect. But the advent of business execution software has changed this.

Defining the X Factor: 6 business execution questions every CEO should be able to answer

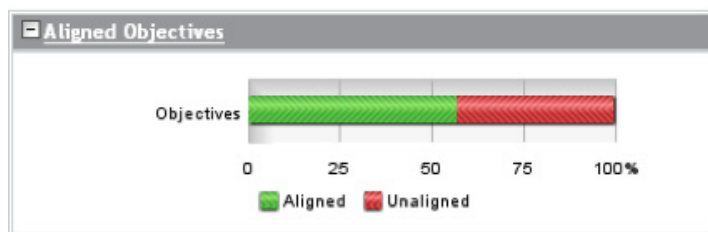
Business Execution is fundamentally a function of two things:

1. **Optimizing business alignment** – ensuring employees are working on the right tasks.
2. **People performance** - ensuring everyone is working at their full potential.

Evaluating a company's Business Execution capabilities (its X Factor) requires understanding at a detailed level who works for the company, what they can do, what they are supposed to be doing, what they are actually doing and how well they are doing it. There is no single metric or measure that fully captures the concept of the X Factor. Understanding a company's X factor requires looking at a range of metrics related to six key areas:

1. **Alignment: Are people focusing on the things that matter for delivering our strategy?**

This question gets at the heart of business execution. Does everyone in your company know what goals they are expected to accomplish? Do they understand why these goals are important to the company's overall strategy? Alignment reflects your company's ability to



rapidly and systematically communicate business goals to employees through the organization so they see the connection between high level strategies and how they spend their time at work.

2. **Achievement: Are people doing what we asked them to do?**

When evaluating business execution, it is important to differentiate between measures of alignment and measures of achievement. Achievement reflects operational accountability and performance, while alignment is fundamentally about strategic communication. In other words, there is a difference between knowing what you should do and actually doing it. Achievement depends on leaders holding employees accountable for results and employees being willing and able to create these results.

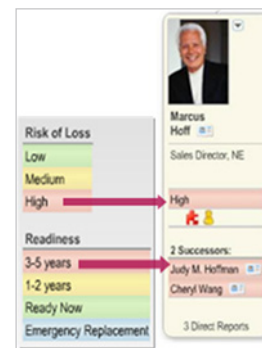


3. Efficiency: Are we efficiently utilizing the people in our company?

It is one thing to achieve results. It is another to achieve these results using the minimal possible resources. Efficiency comes from having people with the right skills in the right positions, recognizing and encouraging superior performance, appropriately managing poor performers, and allocating rewards and resources in a way that maximizes productivity.

4. Sustainability: Are we at risk of losing key performers within the company?

One of the biggest threats to business execution is the unplanned loss of critical talent required to achieve key strategic goals. Determining if a company's results are sustainable over time requires understanding whether key people in the company are highly engaged and fully committed to the organization. It also requires insight into the talent available to replace critical employees if they leave.



5. Scalability: Do we have processes in place to ensure a steady supply of the talent needed to execute our strategies?

Scalability is a key element of business execution when companies are in growth mode. But it is also important for maintaining existing operations. Employees constantly change positions for a variety of reasons. Even the most engaged and committed employees will turnover at some point. Effective businesses must be able to scale their workforces to manage changes in size, strategic focus, and time. This requires measuring and managing processes to attract, develop, and retain the people needed to support the companies evolving business needs.

6. Risk Management: Is anyone in the company doing things that could create significant liabilities for our business?

There are many stories of highly successful companies suffering significant financial losses or even ruination due to inappropriate behavior by a few employees. Building long term business execution capabilities requires creating methods to ensure people are not doing things that put the company at significant risk or long-term disadvantage. This includes things such as systematically excluding certain demographic groups of employees from career benefits and opportunities, achieving short term results through inappropriate methods, or engaging in highly negligent or unsafe behavior.

Managing the X Factor: tracking key indicators of business execution

SuccessFactors' technology provides access to crucial data for evaluating a company's X Factor. By combining this data into different high level metrics, it is possible to create an X Factor Dashboard that gives leaders insight into the overall state of business execution in their organization. These indicators can serve as "warning lights" to call attention to areas of the organization where there may be a risk to a company's overall business execution capability.

The availability of the metrics in this dashboard will vary depending on how companies are using the SuccessFactors system. Due to the emerging nature of Business Execution software, many of these metrics are still at a relatively early stage in terms of the analysis that has been conducted to test their reliability and validity. But that does not diminish the power these metrics provide for calling attention to critical areas of business execution that are largely ignored by historical business metrics that focus primarily on fixed assets and past business results.

Conclusion

In today's marketplace, the difference between success and failure depends on a company's ability to execute. With the advent of business execution software, leaders now have access to a rich set of metrics for tracking and diagnosing the business execution capability within their organizations. The metrics described in this paper and the tools that are used to generate them represent the starting point for a new and powerful approach for ensuring companies are optimally leveraging their resources to achieve business goals.

About SuccessFactors

SuccessFactors is the global leader in business execution software. The SuccessFactors Business Execution Suite improves business alignment and people performance to drive breakthrough results for companies of all sizes. More than 5 million users and 2,800 companies leverage SuccessFactors every day.

To learn more, visit: www.successfactors.com.