

# THE HALO EFFECT

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## Is Success 10% Strategy and 90% Execution? Or the Other Way Around?

There's a phrase going around the business world today: *Success is 10% strategy and 90% execution.*

I'm not sure who said it first. Maybe it was Percy Barnevik, the former chief executive of ABB. In the early 1990s, when ABB was consistently rated among the world's most admired companies, Barnevik was hailed as a genius whose brilliant strategy was responsible for ABB's success. Humbug, he retorted. Barnevik put it succinctly: *In business, success is only 10% strategy, but 90% execution.*

Other top executives say much the same thing. Last year, I attended a talk by one of today's best CEOs, Guerrino de Luca of Logitech, who used almost the same words. Was Logitech successful because of some great strategy? Not at all, said de Luca. Its great results were due to hard work, day in and day out, by thousands of employees. After all, he reminded his audience, success is only 10% strategy but 90% execution.

The next time you hear someone repeat this phrase, look around the room. You'll probably see heads nodding wisely. How true it is, we seem to be saying. Any clever MBA can concoct a new strategy, we like to think. But the hard part—the really difficult stuff that separates the dreamers from the doers—is execution.

*Success is 10% strategy and 90% execution.* It *sounds* reasonable. But is it correct?

By some definitions, the answer is *yes*. For starters, in many companies, more than 90% of all employees spend their time on matters of execution and less than 10% on strategy. In fact, in most companies, the split is probably more like 99% to 1%. Show me a company with 10,000 employees, and I doubt that more than 100 will be actively involved in making the fundamental choices that set company direction. Microsoft has 70,000 employees worldwide. Do we really think that more than 700 are primarily engaged with questions of company strategy? Probably not. The vast majority work on the design of a specific product, or on solving a technical problem, or making a sale, or supporting a customer. Their job is about getting things done, not devising a strategy.

Furthermore, even those managers who *are* involved in setting strategy probably spend the bulk of their time on execution. They are likely to spend more hours each day overseeing operations than pondering major choices. Microsoft's CEO, Steve Ballmer, spends a good deal of his time conducting product reviews, monitoring performance, and

otherwise managing execution. At most companies, only a few people are fully dedicated to strategic decisions—things like determining major new initiatives, or what companies to acquire, or what new segments to enter, or how to respond to a rival's initiatives.

So there are some good reason to conclude that success in business really is 90% execution and only 10% strategy. That split reflects how we spend our time. Plus, saying so serves a purpose. Chief executives, in particular, like to repeat this phrase because it sounds right. It seems to downplay their personal contributions, and gives credit to the rank and file—and may even inspire those employees to make a greater effort. Stressing the importance of execution may help give a feeling of importance to the people toiling away in the bowels of the organization.

But here's where the thinking breaks down. Let's assume that business performance is, in fact, comprised of two broad categories: strategy and execution. *Strategy* is about the choices a company makes to be different from rivals in some meaningful way—to compete in one set of markets but not in others, to perform these activities but not those, and to occupy a specific position relative to rivals in terms of quality, or cost, or customer service. Then, once these choices have been made, companies mobilize resources to deliver results—they have to *execute*.

Because strategy is about doing things differently from other companies, it is by nature *divergent*. It leads us in a different direction from our rivals. On the other hand, execution is by nature *convergent*, because most companies are trying to do roughly the same things. They all want to achieve high levels of product quality. Good customer satisfaction. Efficient management of working capital. Rapid product development cycle time. True, companies differ in how well they do these things, but most are trying to do approximately the same things. And as companies strive to improve their execution, they tend to converge.

Which one, therefore, has a greater impact on company performance—strategy or execution? The answer is *strategy*—because it is divergent. Stated another way, differences among companies in total performance will tend more to be driven by strategy, where companies have a higher variance, than by execution, where they have a lower variance.

Of course, if an industry is comprised of companies that are following the same strategy, then differences in performance will be driven by execution. But in most industries, where key choices about where and how to compete lead companies in different directions, the greater determinant of performance will usually be strategy. Furthermore, even if an industry is comprised of companies that are following the same strategy today, there's an incentive for one company or another to break out and embark on a very different direction. This new strategy may be hugely successful, or it may fail spectacularly, but either way, it will shape the company's performance in a big way. Success, or failure, will be driven by strategy.

To digress for a moment, this insight has helped me explain a puzzle that I've observed for the past decade at my business school, IMD, in Lausanne, Switzerland. I've worked with dozens of companies, some high performers and some low performers. Do I notice

differences in the talent level and motivation of their employees? Yes, to some extent. But my strong impression is that the quality and performance of mid-level managers is not as different from company to company as is the performance of the companies themselves—that is, corporate growth and profitability and share price. Even companies that have severe performance problems seem to have many very good managers, doing smart things and executing reasonably well. And even the most profitable and successful companies I've worked with have a mix of managers, some very impressive but others less so, and also a mixed success when it comes to execution—they are strong in many ways but also display inefficiencies. This apparent puzzle is explained once we recognize that a company's performance is driven more by its strategic choices than by its ability to execute.

The simple fact—frustrating though it may be to the great number of hard-working and capable people inside an organization—is that their best execution efforts can be negated by strategic choices that turn out badly. It may make employees feel good to be told that company performance is 10% strategy and 90% execution. It may inspire them and also provide motivation. But for the most part, it's not true. A company's strategic decisions, although made occasionally and often involving a relatively few members of the management team, play an enormous role in driving eventual success or failure. We just don't always like to admit it.