NATIONAL CENTER FOR
THE MIDDLE MARKET

A REPORT BY THE NATIONAL CENTER FOR THE MIDDLE MARKET

STRATEGIC PLANNING FOR GROWTH

How Middle Market Companies Map Their Futures

IN COLLABORATION WITH

THE OHIO STATE UNIVERSITY
FISHER COLLEGE OF BUSINESS

SUNTRUST

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About This Report

THE U.S. MIDDLE MARKET

The U.S. middle market comprises nearly 200,000 companies that employ 44.5 million people and generate more than $10 trillion in combined revenue annually. The middle market is defined by companies with annual revenues between $10 million and $1 billion. In addition to their geographic and industry diversity, these companies are both publicly and privately held and include family-owned businesses, sole proprietorships, and private equity-owned companies. While the middle market represents approximately 3% of all U.S. companies, it accounts for a third of U.S. private-sector GDP and jobs. The U.S. middle market is the segment that drives U.S. growth and competitiveness.

THE IMPORTANCE OF STRATEGY

Strategy is one of the most powerful drivers of growth for middle market companies. While some types of strategies are associated with faster revenue growth than others—exploiting marketplace opportunities is more lucrative than maximizing efficiencies, for example—the National Center for the Middle Market wanted to understand how the strategy process contributes to growth for middle market firms. By looking at attitudes toward strategy, approaches to strategic planning, the challenges companies face in developing and executing strategy, and what the best performing companies do differently in the strategy arena, we uncovered three critical components of strategy—definition, development process, and execution—that work together to enable companies to more rapidly realize their corporate objectives and growth goals. The purpose of this analysis is to provide middle market leaders with an in-depth understanding of what strategy practices are most effective for companies of their size. Recognizing that planning processes that work for large companies might not be practical or relevant, we looked for insights among top-performing middle market companies and sought to develop guidelines executives can use to direct the strategy process in their own organizations.

HOW THE RESEARCH WAS CONDUCTED

Building on findings from *The DNA of Middle Market Growth* report published by the Center and its sponsors in summer 2018, the Center surveyed 400 active financial decision makers from middle market businesses across a range of industries and geographies to learn more about companies' specific actions and attitudes around strategy. Respondents completed a 25-minute, self-administered online survey between August 16 and August 28, 2018.

Special thanks to our academic and business partners for their contributions and support in developing this report: Michael Leiblein, Associate Professor, Management & Human Resources, The Ohio State University Fisher College of Business; Anne Petrik, Director of Research, Vistage; and Nick Araco, Chairman and Cofounder, The CFO Alliance.

Executive Summary

Strategy helps companies define where to compete, what resources they need, and what priorities they set; it guides their choices about what to do (and not to do) to achieve their aims.

For three out of five middle market companies (60%), maximizing revenue growth is the primary strategic objective. Whether middle market companies wish to grow, improve sustainability or profitability, prep the company for sale, or pursue some other ultimate objective, strategy is imperative. Without it, a company can be blown by winds or moved by tides. With it, a business can harness those forces and its own resources to move toward a goal it has chosen.

OBJECTIVES OF STRATEGY

Indeed, in *The DNA of Middle Market Growth*, the Center's recent comprehensive analysis of data from 20,000 middle market companies, we learned that a formal growth strategy is second only to market expansion as a driver of growth for the middle market overall. It accounts for nearly 15% of the growth of the average middle market company and is the number one driver of growth for companies we called "Efficiency Experts," which seek to grow by virtue of the leanness of their operations. In other words, sustained growth is not possible without a strategy to define and direct the investments and activities that create the growth.

We therefore decided to analyze the strategy factor more deeply, to discover the elements of superior strategic planning and how they contribute to company growth. In doing so, we found that strategic excellence is a three-legged stool: the strategy itself, the process by which it is developed, and the programs that ensure that it is executed:

FIRST, COMPANIES MUST BE ABLE TO DEFINE AND EASILY ARTICULATE THEIR STRATEGIES.

The strategy should clearly describe the basic elements of where the company competes, what it sells, how it wins and defends markets, and how it sets itself apart from the competition. The more succinct the strategy statement is, the easier it will be to internalize for all stakeholders—employees who play a role in carrying it out, as well as the customers, suppliers, and partners who must ultimately buy into the strategy in order for the company to succeed.

SECOND, COMPANIES NEED A PROCESS FOR DEVELOPING STRATEGY THAT IS BOTH ROBUST AND INCLUSIVE.

The formality of the process—how well it's documented or how many rules govern it—matters much less than three other factors. One is the extent to which executives know and react to market and industry trends and conditions. Second is how much executives seek out ideas from across and throughout the organization. The third is their knowledge of thinking on strategy and management.

THIRD, COMPANIES REQUIRE THE ABILITY TO EXECUTE STRATEGY BY ENGAGING THE ENTIRE COMPANY IN THE PROCESS.

Companies can't just plan on success. They must be able to execute against their defined path for growth. Successful execution success relies heavily on how well companies communicate strategy and translate it into specific targets, plans, budgets, and incentives.

The fastest-growing middle market firms set themselves apart on all three elements of strategy—and on the degree to which the elements work together. In this report, we document the best-in-class strategy practices of these high-performance firms and reveal the connections between the three components of effective strategy. We also provide a set of questions that companies at all levels can use to build, refine, and improve their strategy efforts and thus help further their growth goals.

Key Findings

A WELL-DEFINED STRATEGY LEADS TO FASTER GROWTH. BUT NEARLY TWO OUT OF FIVE MIDDLE MARKET BUSINESSES LACK A CLEARLY DEFINED STRATEGY TO GUIDE BUSINESS DECISIONS.

Companies with well-defined strategies report year-over-year revenue growth that is 26% higher than the growth of companies with less-defined strategies. When these companies can articulate the value they offer, they grow even faster—twice as fast as companies that can't speak to their value proposition. Yet, more than a third of middle market companies operate without a well-defined overarching business strategy.

A WELL-DEFINED STRATEGY INCLUDES A CLEAR-EYED ASSESSMENT OF THE CAPABILITIES AND RESOURCES NEEDED TO CARRY IT OUT.

Defining strategy helps companies better understand what they need to do to achieve their goals, including assigning or finding resources to address any issues that may stand in the way of success. Companies that understand the obstacles they must surmount are more confident that their strategy will lead to success.

THE STRATEGY DEVELOPMENT PROCESS DOES NOT NEED TO BE FORMAL. IT DOES NEED TO BE INCLUSIVE AND RIGOROUS.

Middle market companies are justifiably leery about overburdening lean organizations with complex processes. High-growth companies do not necessarily employ an elaborate strategic planning process with written rules and guidelines. They do have a strategy development team. They invite input from outside sources and from employees at all levels of the organization, they ensure that there is an opportunity for management's assumptions and plans to be questioned, and they make an effort to stay current on strategy management thinking, industry trends, and best practices.

STRATEGY EXECUTION RELIES ON HOW WELL A COMPANY DEFINES AND DEVELOPS ITS STRATEGY.

Companies that invest in clearly defining their strategies and that have an established and inclusive strategy development process are much more successful at delivering on the strategies they develop. In these companies, strategy execution is much more likely to meet the expectations of company leaders.

COMPANIES THAT ARE MOST SATISFIED WITH EXECUTION ALIGN GOALS, KEY PERFORMANCE INDICATORS, AND INCENTIVES WITH STRATEGY AND KEEP EMPLOYEES AT ALL LEVELS CONNECTED TO THE PLAN.

Satisfaction with strategy execution is much higher when all activities align with the strategy. This includes investments, budgeting, and other big-picture topics. It also ties in day-to-day operations and talent management. Strategy is not one-and-done; it is part of daily work.

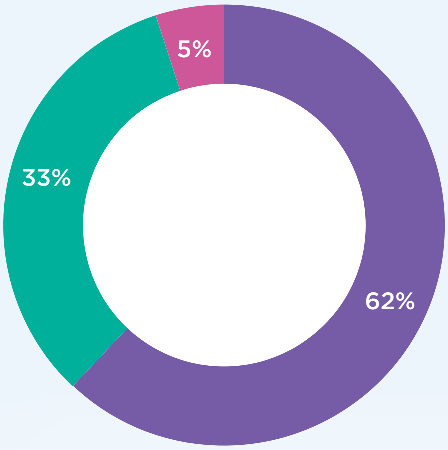
INSIGHT 1

A Well-Defined Strategy Drives Growth

All companies—and middle market companies in particular—have finite resources. While it's true that some companies can thrive, at least for a time, on their ability to turn on a dime and seize whatever opportunities come their way, at some point, improvisation has to yield to planning. Companies need to make choices and tradeoffs about their offerings, markets, and customers so they can create a competitive advantage—something they do better than anyone else—and pinpoint the markets where they have the right to win.

Only this way can companies target their best opportunities for profitable growth and focus their efforts and activities on shared objectives for maximizing those opportunities. They can create barriers to entry that give them the ability to defend the business they've seized. Strategy becomes necessary for ensuring that companies do more than grow fast, but that they also grow profitability and efficiently, and ultimately evolve into what their leaders envision. Simply put, when agility is not enough, strategy steps in. See the company spotlight (pg. 10) on Incept for a case in point.

HOW WELL DEFINED IS STRATEGY?



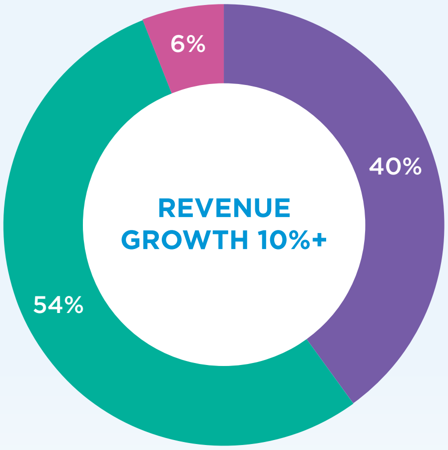
- We have a well-defined strategy that guides business decisions
- We have a generally understood strategy that guides business decisions, but it is not well defined
- We don't have an overarching strategy that guides business decisions

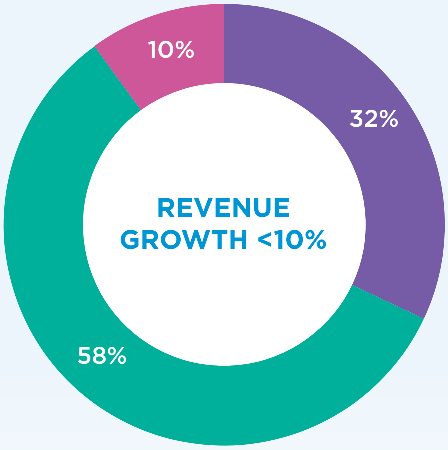
HAVING A CLEAR STRATEGY IS HIGHLY VALUABLE

The 62% of middle market companies that say they have a well-defined strategy enjoy a year-over-year growth rate of 8.6%, much above the 6.8% growth rate reported by those that are less purposeful and specific about their business direction. These companies are also better able to clearly articulate their value proposition: Among those with a well-defined strategy, 76% can speak to how they add value, compared to just 26% of companies with a less-defined strategy. That group—those with a well-defined strategy plus a clear value proposition—grows even faster: This subset boasts an annual revenue growth rate of 9.3%, which is 50% higher than peers not able to easily communicate the value they offer.

Interestingly, those value propositions tend to have broad or fairly extensive appeal to all or many potential groups of customers. This is somewhat counterintuitive. Experts often propose that niche strategies will be more effective than strategies that aim to include everyone: In other words, don't try to be Amazon, selling everything from A to Z. The data, however, suggest that broad appeal works, so long as the strategy is clearly defined and the value can be communicated. The numbers reveal that it is important to identify and define the market, customer set, or area you want to serve, and then serve those people with a broadly valuable set of offerings.

BUSINESS LINE ADVANTAGES





- Almost all businesses in our portfolio leverage the same key capabilities or assets
- The various businesses are only loosely bound in terms of key capabilities or assets
- Not all businesses leverage the same capabilities or assets but these are the driving force behind many of our businesses

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The most successful strategies are those that leverage the same capabilities and assets across a company's various lines of business.

A WELL-DEFINED STRATEGY LEADS TO A WELL-BUILT PLAN

Good strategies are realistic. They consider the challenges a company faces as well as the resources it has at its disposal to surmount those challenges. By laying out a feasible plan of attack, good strategy breeds greater confidence. Indeed, companies that are good at defining their strategies appear to have a much better grasp on the hurdles they face going forward, and they are much more likely to have a plan in place for tackling those challenges. Only a quarter of companies with less-defined strategies feel the same.

ARE YOUR COMPANY'S CHALLENGES CLEARLY DEFINED?

	Total Respon-dents	Have well defined strategy	Less well defined strategy
We have clear understanding of the challenges facing our firms	45%	59%	23%
Our notion of the challenges are somewhat broad and generic	49%	39%	64%
We've been struggling to define the challenges facing our firm	6%	2%	13%

ARE THERE CLEARLY DEFINED ACTIVITIES IN PLACE TO OVERCOME COMPANY CHALLENGES?

	Total Respon-dents	Have well defined strategy	Less well defined strategy
We have clear understanding of the challenges facing our firms	48%	61%	26%
Our notion of the challenges are somewhat broad and generic	47%	38%	62%
We've been struggling to define the challenges facing our firm	5%	1%	12%

Companies without defined strategy may be failing to capitalize on their full growth potential.

Nearly two out of five middle market businesses currently operate without a well-defined strategy to guide business decisions. While only a nominal percentage say they don't have a strategy at all, a third of middle market companies operate under some loose assumptions related to the company's direction. But nothing is set down to give leaders solid guidance upon which to gauge choices and tradeoffs.

Often, these companies operate in less competitive or slower-changing marketplaces where a clear-cut competitive advantage may not be as important as it is when competition is stiff and the landscape is changing rapidly. Some companies may also still be in the process of establishing their direction.

In general, middle market businesses that lack clear strategy are:

- Doing business in slower-changing, less competitive industries where less differentiation exists between companies.
- More likely to operate just one versus multiple lines of business.
- Smaller, with less than $100 million in annual revenues.
- Less likely to have private equity ownership and more likely to be family-owned.
- More likely to be in construction or manufacturing.

However, lack of strategy can be costly. Businesses that do not have clear direction:

- Grow slower in terms of both revenue and employment.
- Are less satisfied with strategy execution and less confident their strategy will lead to success.
- Less likely to have a relevant value proposition that they can clearly articulate.
- Have less of a grasp on the challenges they face and the resources needed to tackle those challenges.

It follows, then, that companies with well-defined strategies are also more confident. They are more likely to believe that their strategy will lead to success, that it clearly indicates how they create value for customers, and that it leverages their company strengths and differentiates the business from competitors.

It is interesting to note that across the middle market, about a quarter of executives do not feel confident in the ultimate success of their strategies, and the percentage is much higher among companies with ill-defined strategies. This number is surprisingly high, considering the executives probably had a hand in helping to create the strategies in which they lack confidence.

COMPANY STRATEGY ATTRIBUTES

Have well defined strategy		Less well defined strategy
87%	Company strategy aligns well with strengths of our company	62%
86%	I am confident that my company's strategy will lead to success	62%
85%	Our strategy clearly indicates how we create value for our customers	64%
79%	Our strategy differentiates us from competitors	56%
77%	Our strategy is bold and sets high goals to help us win	50%
47%	Our strategy often leads us to set goals we cannot reach	47%

DIFFERENT STRATEGIC PRIORITIES PRODUCE DIFFERENT GROWTH RATES

The research demonstrates that a well-defined strategy drives growth, regardless of the content or priorities of the strategy. That said, some strategic plans will result in faster growth than others.

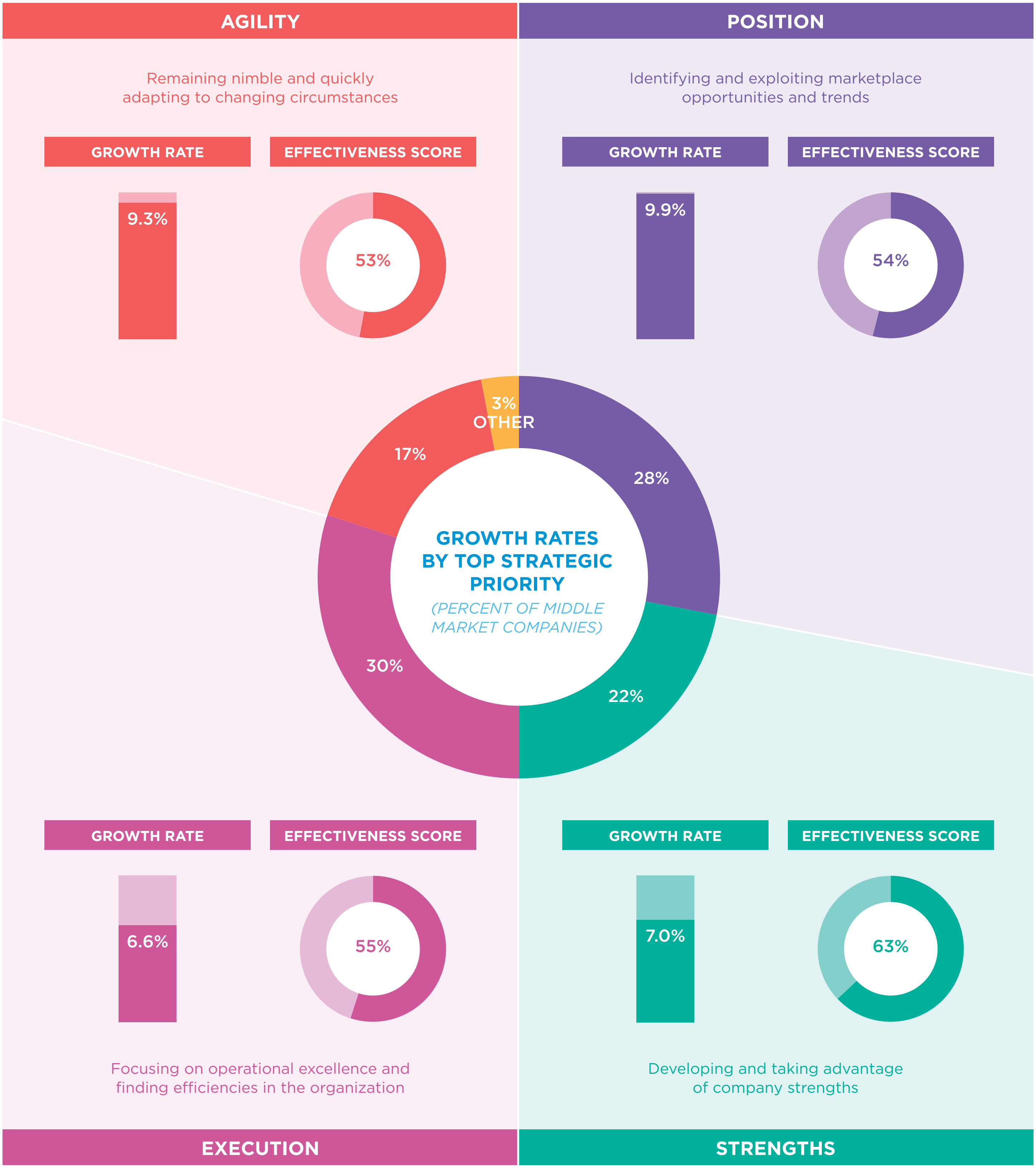
Broadly speaking, middle market executives ground their strategy in one of four areas: seeking favorable market positions; building and deploying capabilities; acting and reacting with superior agility; and leveraging operational excellence. Companies that seek positional advantage grow fastest, on average. Leveraging operational excellence, is the most common choice. However, companies that prioritize efficiency above identifying and taking advantage of new marketplace opportunities tend to grow more slowly than companies that do the opposite and put opportunity first.

For the most part, the literature of strategy argues that operational excellence is not technically strategy because it does not create competitive advantage by itself (see, e.g., Michael E. Porter, "What is Strategy"[1]), and that companies should position themselves to seize and develop relatively unexploited market opportunities (see, e.g., Chan Kim and Renee Mauborgne, "Blue Ocean Strategy"[2]). Indeed, the Center's *The DNA of Middle Market Growth* study shows that the growth opportunities created by operational superiority are not as great as those created by innovation and investment in new offerings and markets.

While this holds true for the best-of-the-best middle market companies, positional and agility strategies are not always the easiest strategies for companies to master.

Indeed, across the middle market, executives say they are much more effective at developing and taking advantage of company strengths than they are at other strategic priorities. This is not necessarily a bad thing. A brilliant strategy poorly executed may be less valuable in the long run than a good strategy delivered superbly.

[1] https://hbr.org/1996/11/what-is-strategy
[2] https://hbr.org/2004/10/blue-ocean-strategy


AGILITY
Remaining nimble and quickly adapting to changing circumstances
GROWTH RATE
9.3%
EFFECTIVENESS SCORE
53%
POSITION
Identifying and exploiting marketplace opportunities and trends
GROWTH RATE
9.9%
EFFECTIVENESS SCORE
54%
GROWTH RATES BY TOP STRATEGIC PRIORITY
(PERCENT OF MIDDLE MARKET COMPANIES)
3% OTHER
17%
28%
22%
30%
GROWTH RATE
6.6%
EFFECTIVENESS SCORE
55%
Focusing on operational excellence and finding efficiencies in the organization
EXECUTION
GROWTH RATE
7.0%
EFFECTIVENESS SCORE
63%
Developing and taking advantage of company strengths
STRENGTHS

Incept

COMPANY SPOTLIGHT

Incept: From Rapid Expansion to Focused Growth

When Incept, a multi-channel contact center, opened its doors 25 years ago, the five-person team decided to start big. One of the founders was lucky enough to land Microsoft at a tradeshow, and the business was off and running. The call center quickly grew to 200 people. For the first 10 years, it bounced between major "whales" including Ford, Honda, and Monster.com.

"Starting off with such huge accounts really blew any idea of strategy out of the water," says CEO Sam Falletta. "We'd get a major deal. Then we would focus on what we did, not who we are. There was enough meat to justify that approach."

While exciting, the process of changing from one major customer to another every couple of years was also exhausting. "It whipped the whole organization around and didn't feel very sustainable," says Falletta.

Several things happened to cause the company's leaders to rethink their approach. Do Not Call legislation and the international outsourcing boom changed the game for the entire industry, causing many U.S. based call centers to close their doors. Stumbling into a new, underserved market changed things for the Incept team.

"Through a referral, we started working with a regional blood center," explains Falletta. "We found that the blood donation industry, an industry that provides an essential service to people in need in the community, was one we could really be passionate about. Our people liked being lifesavers and not just telemarketers."

The company's leaders realized this newfound direction fit nicely into Jim Collins' Hedgehog Concept: finding the intersection between your passion, what you can do better than anyone else, and what drives your economic engine.

"It was like we woke up one day and realized we're now doing strategy," Falletta says. For the first time, Incept could clearly articulate the market it would serve—and the markets it would not. "We decided to go all in and fundamentally shift our approach from grabbing any major prospect to focusing on this specific industry."

Over the years, the company has honed its strategy and made a commitment to continually working on the business. Incept now has three KPIs (market share, employee turnover, and gross margin), which serve as indices of its three strategic pillars:

1. CUSTOMER SATISFACTION

How well the company does at gaining new accounts and retaining existing ones,

2. EMPLOYEE ENGAGEMENT

The ability to retain employees in an industry that's notorious for high-turnover, thus limiting the time and money spent on finding and training new people, and

3. OPERATING EFFICIENCY

Which reduces costs and waste and allows the company to retain a greater percentage of every dollar earned

Every year, the leadership team chooses three different focuses or themes within each of its key metrics and engages the entire company in projects around the themes. Projects are then reviewed and refined every 90 days, and employees are kept up to date through weekly town hall meetings.

The focus on strategy has enabled much more stable, profitable growth for the business and has helped Incept find ways to cut employee turnover in half. Perhaps most important, it has given the business's leaders a way to assess opportunities and make choices.

"We now know what opportunities we want to pursue and what we'll accept if it comes to us. And we know what we'll say 'no' to, what we don't have the time or energy to pursue, or what will distract us from what we truly want to be," says Falletta. "As they say, strategy is a choice."

SELF-ASSESSMENT

8 Questions to Ask About the Strategy Itself

1. CAN WE CLEARLY AND CONCISELY STATE WHAT OUR STRATEGY IS?

At a minimum, a strategy must answer three questions: What are we trying to do? What do we sell and where do we play? How do we win? Don't confuse strategy with goals: "Grow 8% next year" is not a strategy.

2. DOES OUR STRATEGY LEVERAGE THE SAME SET OF CAPABILITIES ACROSS ALL LINES OF BUSINESS?

Companies that leverage the same capabilities across almost all of their portfolio are 25% more likely to be fast growers than companies for which this is only somewhat true.

3. HAVE WE STAKED OUT A UNIQUE VALUE PROPOSITION AND IDENTIFIED THE CUSTOMERS FOR WHICH IT IS HIGHLY RELEVANT?

4. IS OUR STRATEGY AMBITIOUS, OR DOES IT ALLOW US TO COAST?

5. HAVE WE DEVELOPED A TAILORED VALUE CHAIN?

Have you developed a tailored value chain? This element of strategy is not intuitive; but it's absolutely essential and part of what separates real strategy from more than just good marketing. To establish a competitive advantage, a company must deliver its distinctive value through a distinctive value chain, or a unique configuration of activities that best delivers the value. It must perform different activities than rivals, or perform similar activities in different ways, in order to achieve better performance than its peers.

6. DOES OUR STRATEGY EXPRESS A CLEAR UNDERSTANDING OF THE RESOURCES (CAPITAL, INTELLECTUAL CAPITAL, AND OTHER) THAT WE POSSESS AND NEED, AND SET PRIORITIES FOR INVESTMENT, RESOURCE ALLOCATION, AND HIRING?

Do these core choices provide sufficient guidance to decision makers?

7. DOES OUR STRATEGY TAKE INTO ACCOUNT COMPETITOR ACTION AND REACTION?

A surprisingly large number of companies formulate strategy without considering that their rivals have plans of their own—and might also counterattack.[3] Just over a quarter—26%—say they take full account of the competition. Their average growth rate is 10.5%, vs 7.0% for those who only somewhat consider competition or don't consider it at all.

8. DOES OUR STRATEGY HELP US SAY "NO"?

"Strategy is choice," the saying goes. Middle market companies in particular must guard against spreading time and money over too many strategic initiatives. A strong strategy is explicit about what is not to be done.

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[3] Kevin Coyne and John Horn, "Predicting Your Competitor's Reaction," *Harvard Business Review*, April 2009

INSIGHT 2

Strategy Development Should Include Input from Many Sources

How well a strategy is defined (or not defined) impacts growth. So does the actual process of defining that strategy. Interestingly, it is not how formal or informal the process is; rather, it's who and what contribute to the process and the inputs that are factored in that appear to have a connection with growth rate.

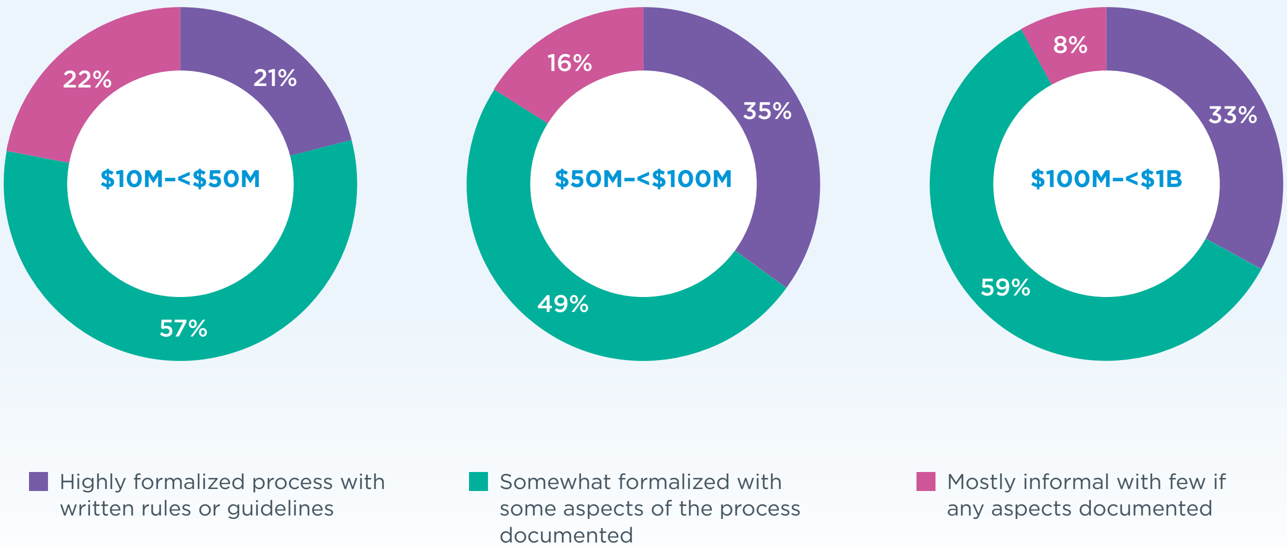
STRATEGIC PLANNING NEED NOT BE A COMPLICATED PROCESS

Generally speaking, most middle market firms have a strategy development process that's not too formal or too informal. They document some aspects of the process. Fewer than a third of companies rely on highly formalized written rules and guidelines to govern the development of strategy. Companies typically address strategy on an annual basis. They plan out one to two years each time they meet.

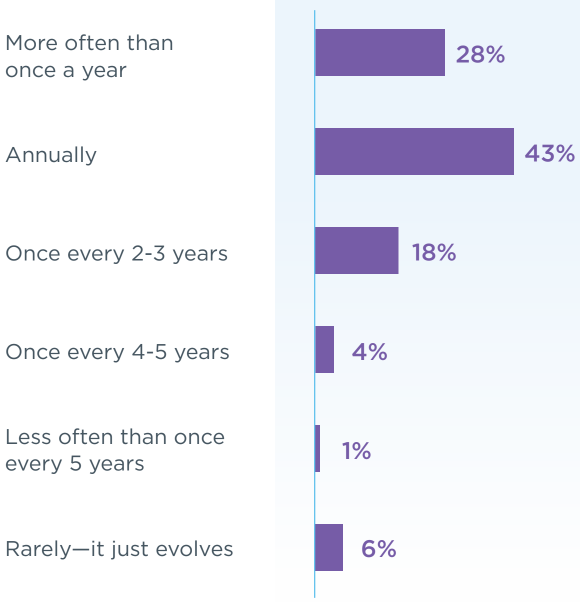
Not surprisingly, larger middle market companies are more likely than their smaller siblings to have more formal strategy development processes. Probably this is because they are also more liekly to need to coordinate strategy across multiple lines of business and geographies.

The formality of the strategy development process does not seem to have a significant impact on growth rate one way or the other. Regardless of company size or how detailed the strategy planning calendar is, the important thing is to take time to work ON the business and not just IN the business. Even a skeletal strategic planning process will help companies focus resources on the opportunities that have the greatest potential to deliver growth and avoid wild-goose chases.

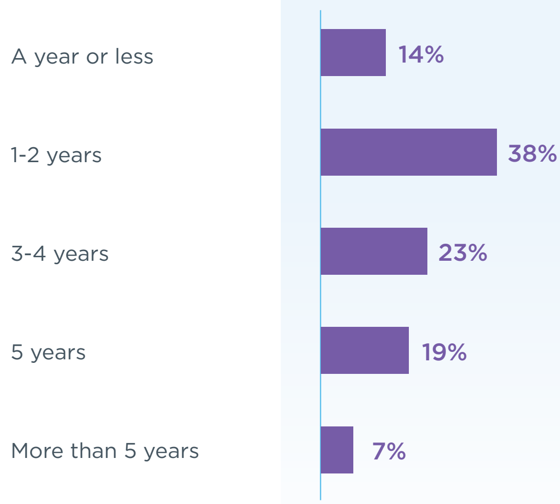
FORMALIZATION OF STRATEGY



FREQUENCY OF STRATEGY REVIEW



PLANNING TIME HORIZON



Include the Right Inputs—Both Internal and External

Fast-growing firms adopt a strategy development process that collects ideas and information from many sources, ranging from management and employee perspectives to customer and competitor actions. Four practices are especially common among fast-growing firms (companies with year-over-year revenue growth of 10% or more):

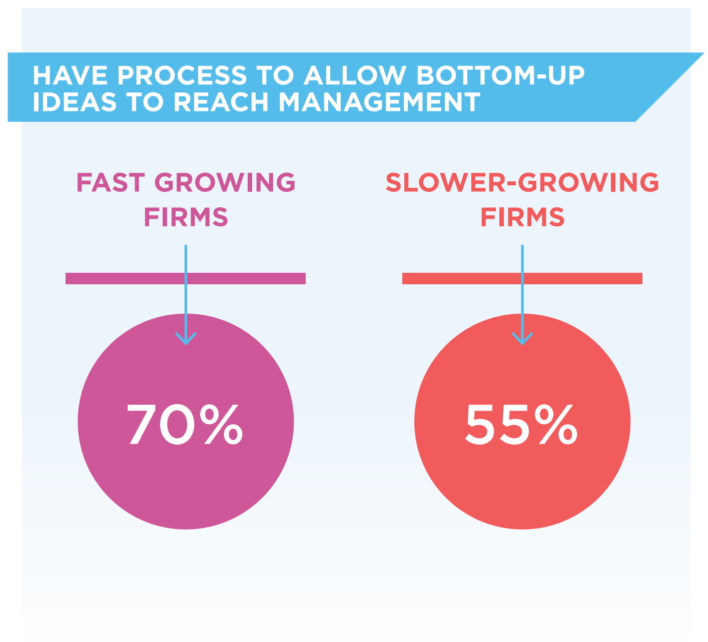
1. ESTABLISHING A DESIGNATED STRATEGY PLANNING TEAM.

A little more than half (55%) of middle market firms of all sizes say they have formal strategy planning team in place. This team most often includes the CEO, CFO, business unit heads, and operations leaders. Sometimes the heads of marketing and sales and HR leaders are also included. Rarely do mid-sized companies involve outside advisors as part of this team. Looking at fast-growing businesses, 62% say they have this team in place compared to just 50% of slower-growing businesses.

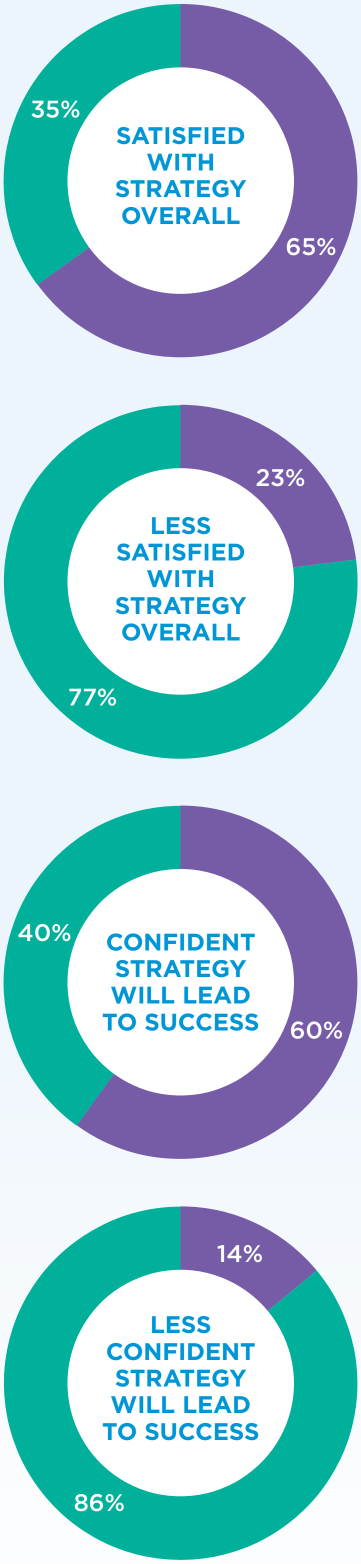
2. INVITING INPUT FROM ALL EMPLOYEES, NOT JUST MANAGEMENT.

Most often in the middle market, strategy development is spearheaded by a few top executives. That doesn't mean they act in isolation. The formal strategy development team may be heavily stacked with senior-level leaders; however, employees are often invited to contribute ideas or critique those of executives.

Companies that have processes for including input and challenges from employees at all levels of the organization are significantly more confident that their strategies will lead to success. And they are right. Among the fastest-growing firms, 70% have processes in place to allow bottom-up ideas to reach management compared to 55% of slower-growing organizations. Six out of 10 of the fast growers have defined specific steps for challenging management assumptions, compared to 42% of slower-growing organizations. In other words, the fast growers are nearly 50% more likely than slower-growing companies to encourage the bottom to challenge the top.

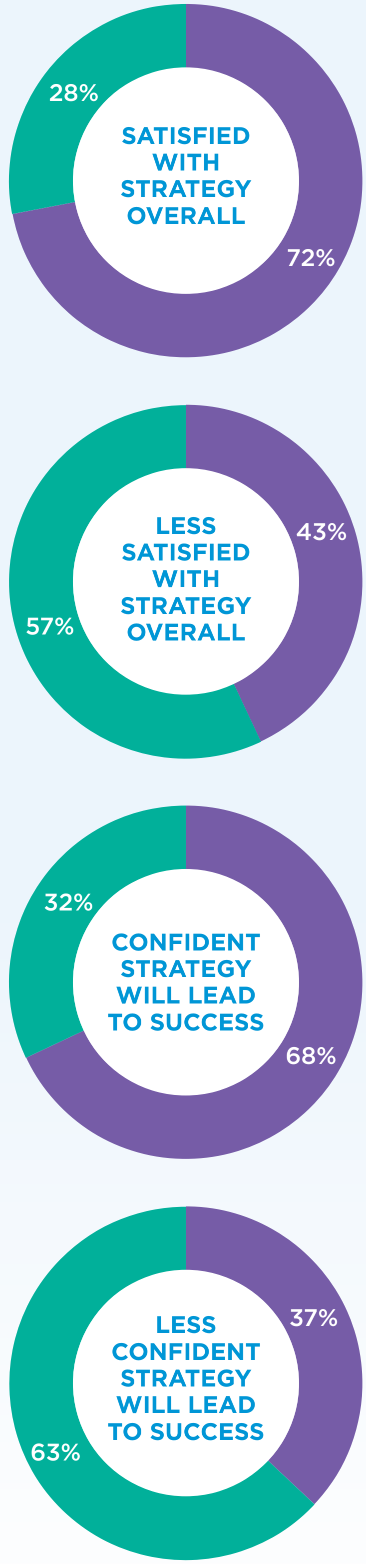


HAVE SPECIFIC STEPS TO CHALLENGE MANAGEMENT'S ASSUMPTIONS



- Have specific steps to challenge management's assumptions
- Do not have specific steps to challenge management's assumptions

HAVE PROCESS TO ALLOW BOTTOM-UP IDEAS TO REACH MANAGEMENT



- Have process to allow bottom-up ideas to reach management
- Do not have process to allow bottom-up ideas to reach management

3. CONSULTING A VARIETY OF OUTSIDE SOURCES OF INFORMATION.

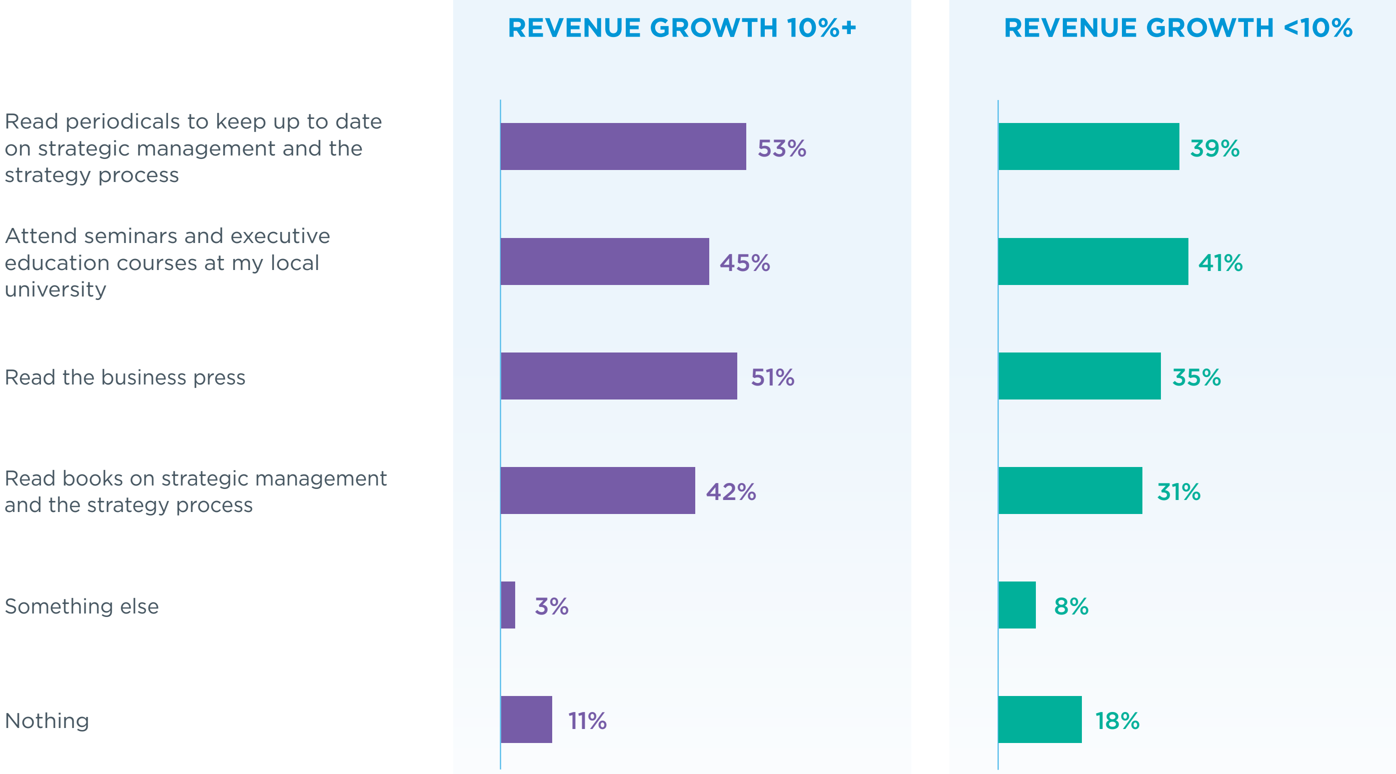
When developing strategy, middle market leaders consider a range of inputs, including customers' needs, the overall economy, and competitors' actions. In general, fast-growing companies place greater importance on all of the various inputs than their slower growing peers, and high-growth firms are most concerned with keeping tabs on customers' needs and industry trends. Regardless of growth rate, the inputs companies consider to be most important are also the most challenging to identify. However, fast growers find it somewhat easier to keep the pulse of critical factors that impact strategy.

4. KEEPING UP WITH MANAGEMENT THINKING.

Fast-growing companies set themselves apart by more rigorously staying on top of the latest in the fields of strategy and management. In particular, leaders from fast-growing companies are more likely to consult periodicals and books on strategy management and strategy process, and they spend more time reading the business press. This provides theory and context executives can use to shape the insights they gain from employees and external sources and turn them into ideas and plans for success. We uncovered the same insight in *The DNA of Middle Market Growth* report: Keeping up to date with the latest management techniques is an important subfactor within the formal growth strategy growth driver.

IMPORTANCE VS. DIFFICULTY OF OBTAINING STRATEGY INPUTS

HOW TO KEEP CURRENT REGARDING STRATEGY



SELF-ASSESSMENT

7 Questions to Ask About the Strategic Planning Process

1. DO WE HAVE A WELL-DEFINED STRATEGIC PLANNING PROCESS?

One in six middle market companies has little or no formal strategy process—but just one in nine fast growers does. A $15MM company will not fill black binders with slides and analytics and consultants' reports. But even smaller companies gain from some structure. Indeed, small companies can benefit particularly because devoting time and energy to strategy helps the team understand how to focus its attention. The data support the point: Among middle market firms with less than $50 million in annual revenue, those with a highly or somewhat formalized strategy have an average annual growth rate of 9.5% compared to a 5.5% growth rate for companies that have a mostly informal strategy.

2. ARE PEOPLE SPECIFICALLY ASSIGNED TO A TEAM WITH STRATEGIC RESPONSIBILITY?

Having a team is important—62% of high-growth firms have a formal team charged with the development of strategy compared to just 50% of businesses that grow more slowly.

3. DOES OUR STRATEGY TAKE ACCOUNT OF ECONOMIC, INDUSTRY, AND OTHER TRENDS?

Companies whose strategy process is informed by analysis of outside forces outperform others.

4. DOES OUR PROCESS SEEK BOTTOM-UP INPUT?

Those companies that allow employees at all level to weigh in on strategy grow faster than those that don't. They are also nearly twice as likely to be satisfied with their strategies overall and to be confident that those strategies will lead to success.

5. DOES OUR PROCESS INCLUDE SPECIFIC WAYS TO CHALLENGE MANAGEMENT'S IDEAS AND ASSUMPTIONS?

When management puts its ideas out to be challenged and tested, 60% say they are confident that the resulting strategy will succeed. By contrast, only 14% of executives in companies where ideas go unchallenged are confident of success—and these doubtful people are the very leaders who formulated the strategy!

6. DO WE REVIEW OUR STRATEGY REGULARLY?

Customers, costs, and competitors change, so strategy needs to evolve. Yet strategy should not be a telltale, changing with every shift in the wind.

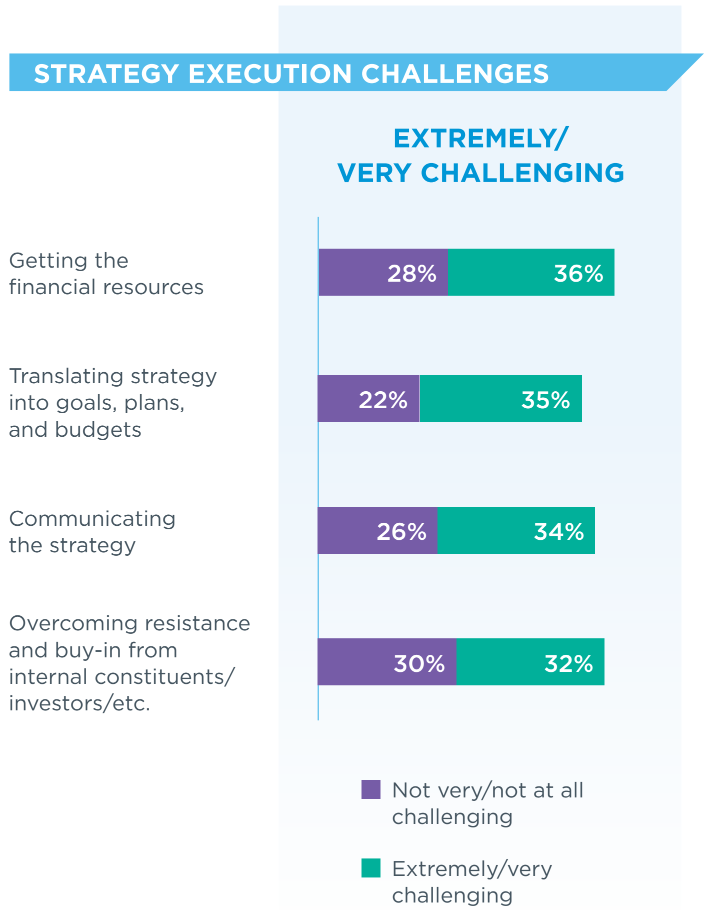
7. ARE WE KEEPING UP WITH THE BEST IDEAS ABOUT STRATEGY AND MANAGEMENT?

When executives stay current with management thinking and business news, they produce better strategies.

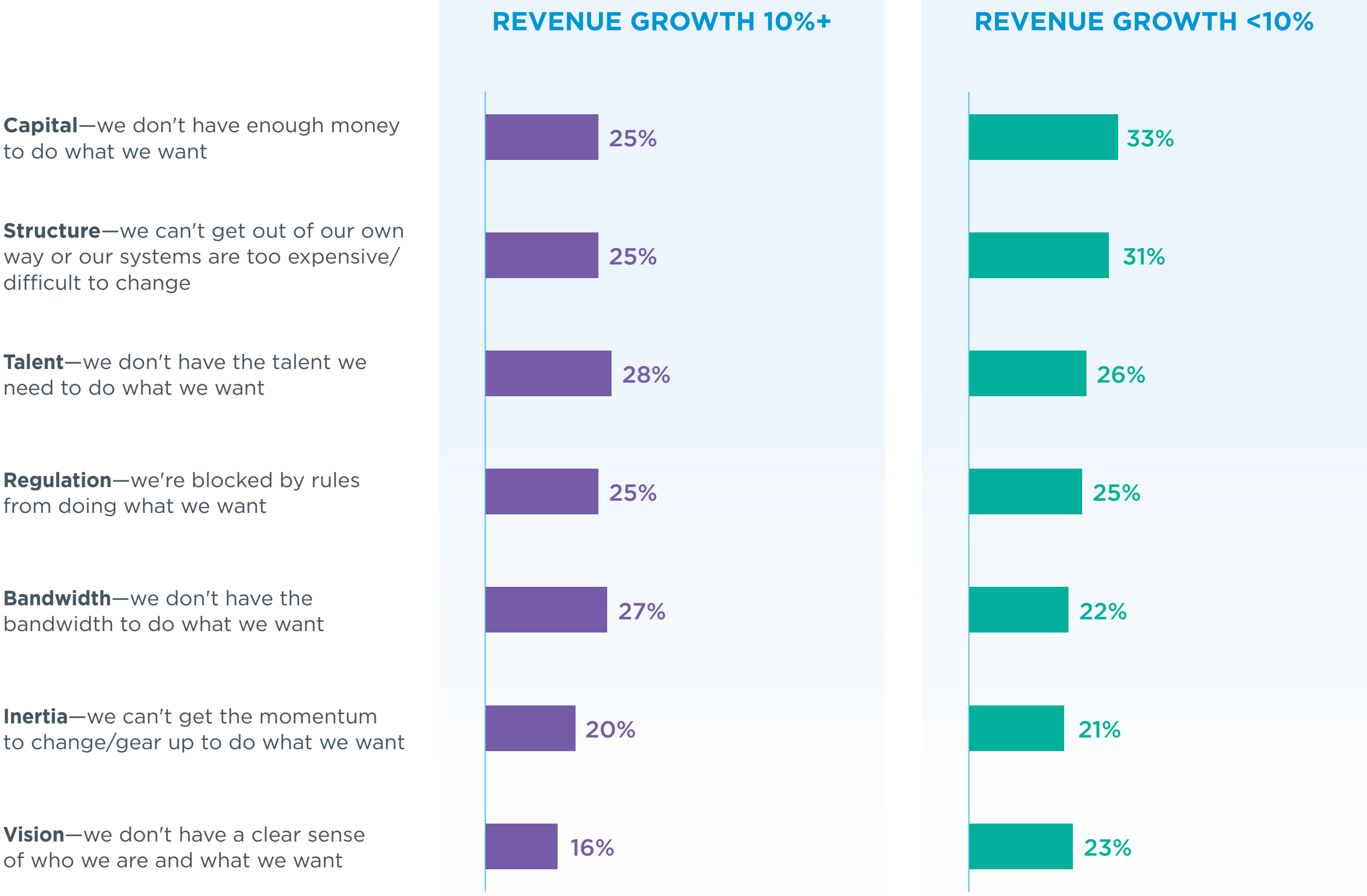
INSIGHT 3

Successful Strategy Execution Requires a Disciplined, Comprehensive Approach

No matter how inclusive or buttoned up the strategy development process is, or how sound or well-defined the strategy itself, even the best laid plans can go wrong if they are not executed properly. Indeed, about a third of middle market companies find the various components of strategy execution (obtaining financial resources, translating strategy into goals, communicating strategy, and overcoming resistance) to be highly challenging. Costs or limited funding are the primary constraints for the typical middle market company. For fast-growers, however, human capital—finding the bandwidth and finding the talent—is a greater constraint.



STRATEGY EXECUTION (MAJOR CONSTRAINT)

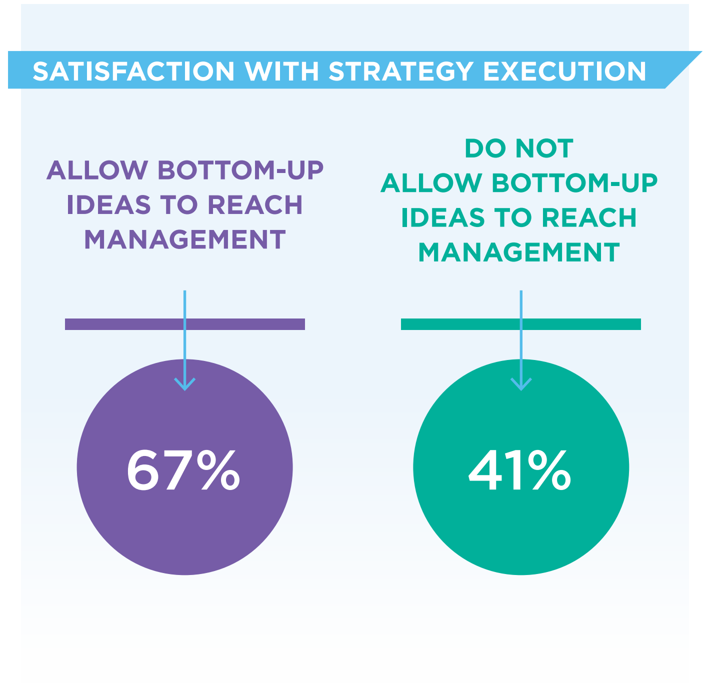


Interestingly, companies with a well-defined strategy and those with a less well-defined strategy are equally likely to report execution challenges. However, having a well-defined strategy does lead to much higher levels of satisfaction with execution overall. Presumably this is because those with well-defined strategies are able to define their obstacles more precisely—and plan ways around them. Among those companies that say their strategy is well-defined, 70% are very or extremely satisfied with execution; just 35%—half as many—companies with less-well-defined strategies say the same.

A robust strategy development process that includes ideas from employees at all levels is also strongly correlated to satisfaction with execution. Among companies that allow bottom-up ideas to reach management, 67% are highly satisfied with execution, compared to just 41% of companies that do not take employees' ideas into account.

The takeaway: Work that goes into defining and developing strategy translates into better execution. All of the elements (strategy definition, strategy development, and strategy execution) are mutually reinforcing. We can surmise that even if the perfect strategy were to be somehow dropped on your desk, it would be less likely to produce results in execution than a less-perfect strategy that is well defined and developed through an inclusive process.

As General George S. Patton said, "Good tactics can save a bad strategy. Bad tactics will destroy even the best strategy." The elements of execution—aligning budgets, key performance indicators (KPIs), and talent management to strategy—will provide feedback that will make strategy development stronger and better informed. Indeed, strategy development, planning, and execution can be a virtuous circle.

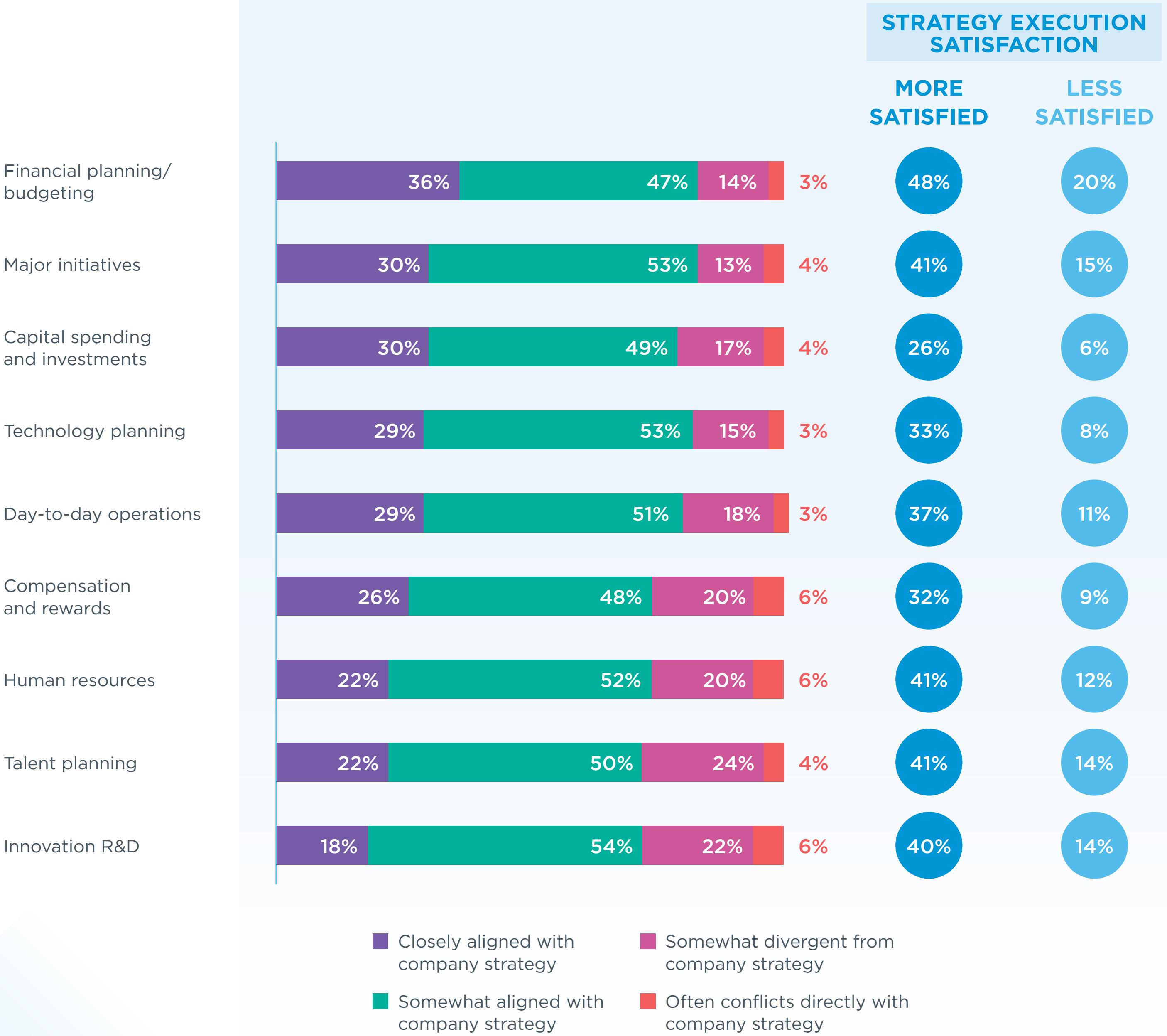


ALIGNING STRATEGY WITH BUSINESS PROCESSES

Once a company's strategy is defined and developed, bringing it to life requires alignment between the strategy and all business processes and functions. Clearly, financial decisions, investments, and major initiatives need to tie back to the company's overall objectives. The goals and KPIs that govern day-to-day operations should also be clearly linked to strategic vision. While companies understand this, the power of strategy to direct day-to-day operations weakens at lower levels of the hierarchy or more granular levels of operational detail. There is also a significant disconnect between company strategy and talent planning.

These weaknesses and disconnections tend to disappear for the most successful companies and those that are most satisfied with execution. These companies are significantly more likely than their peers to ensure strategy is infused into every aspect of the business. This is particularly true when it comes to innovation, technology planning, and human resources, including hiring, compensation, and incentives and rewards.

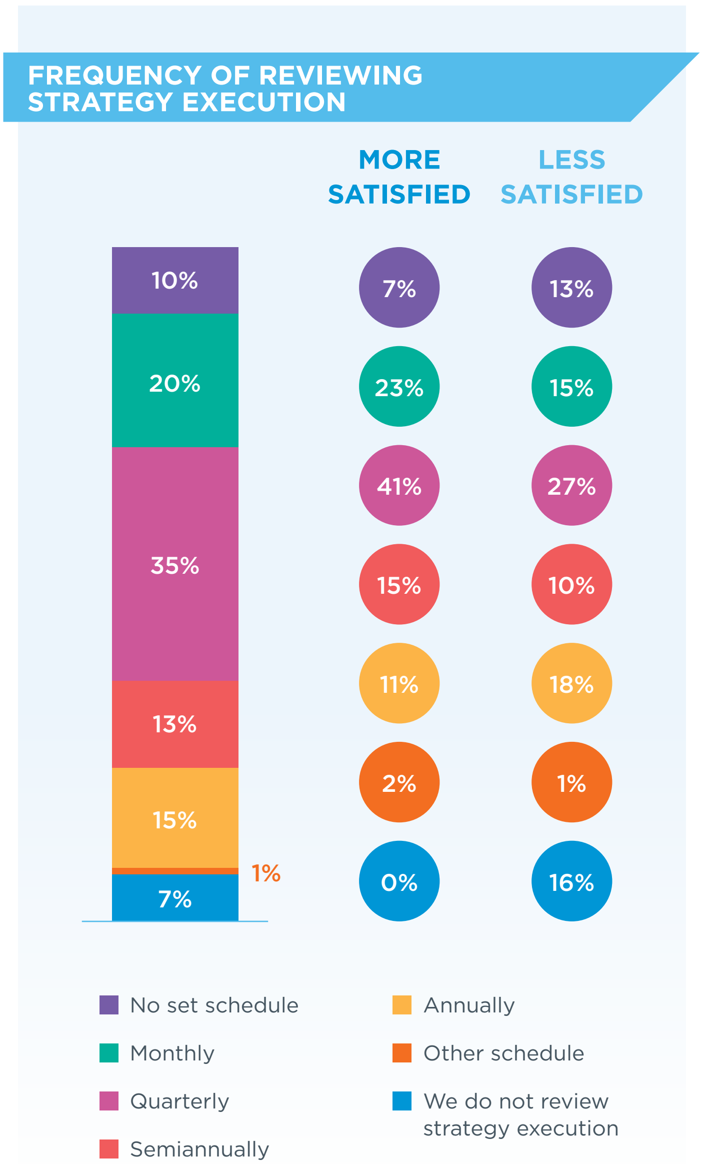
COMPANY PROCESS ALIGNMENT WITH STRATEGY

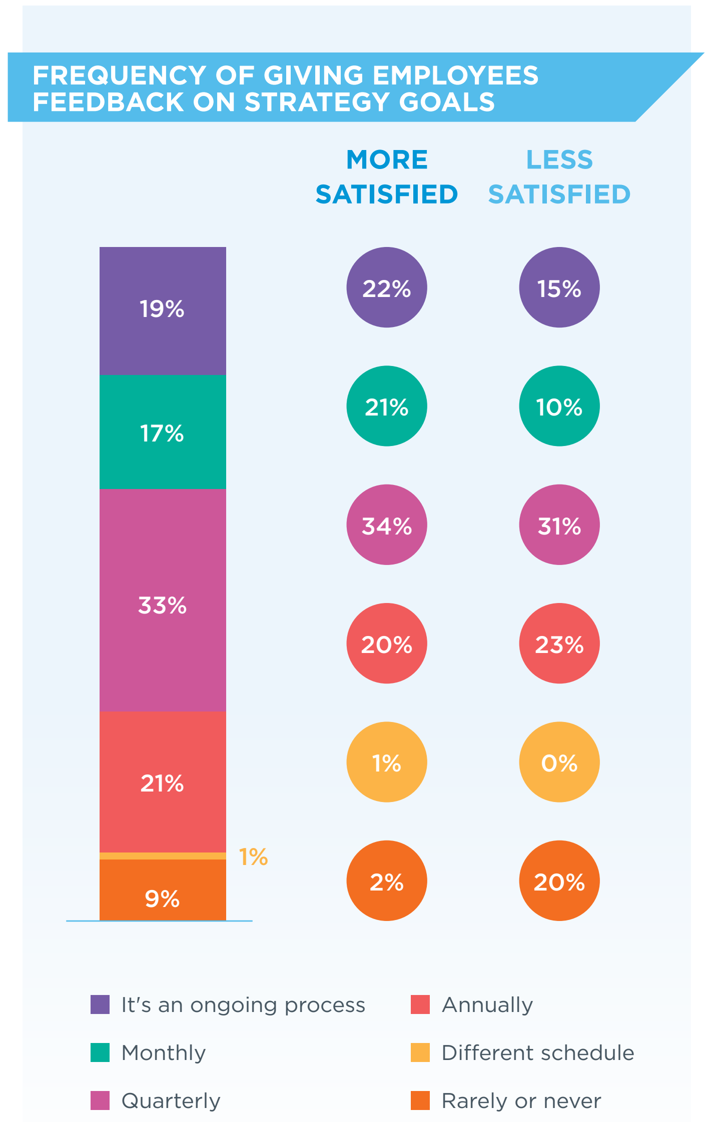


STRATEGY EXECUTION REVIEW AND EMPLOYEE ENGAGEMENT

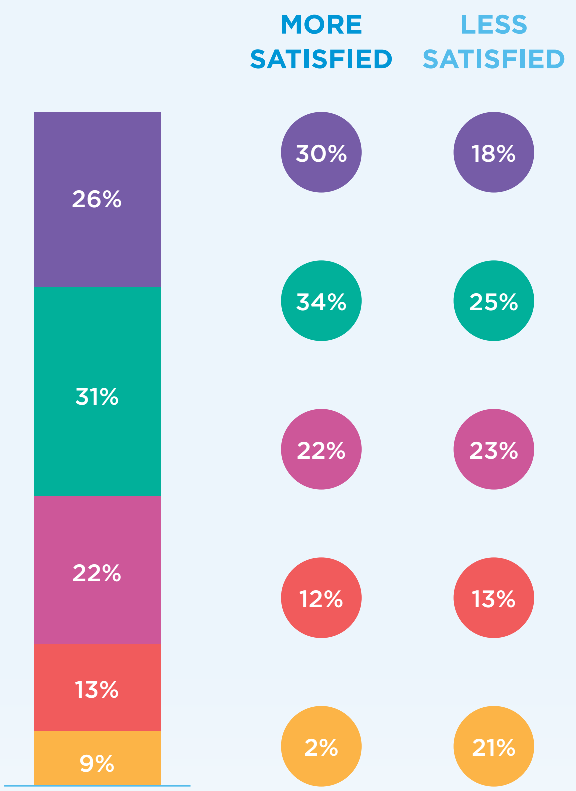
Most middle market companies review strategy execution at least quarterly. The more regularly they gauge progress, the more satisfied they are with the results. As with the development process, companies that report greater satisfaction with execution keep employees engaged in the review process.

The better executers are more apt to give employees updates on progress toward goals on an ongoing basis or at least monthly. They hold more departmental meetings and host more company-wide town halls. They provide specific feedback about how employee performance contributes to strategic objectives. Employees are more likely to have individual or departmental KPIs that are specifically linked to corporate strategy.



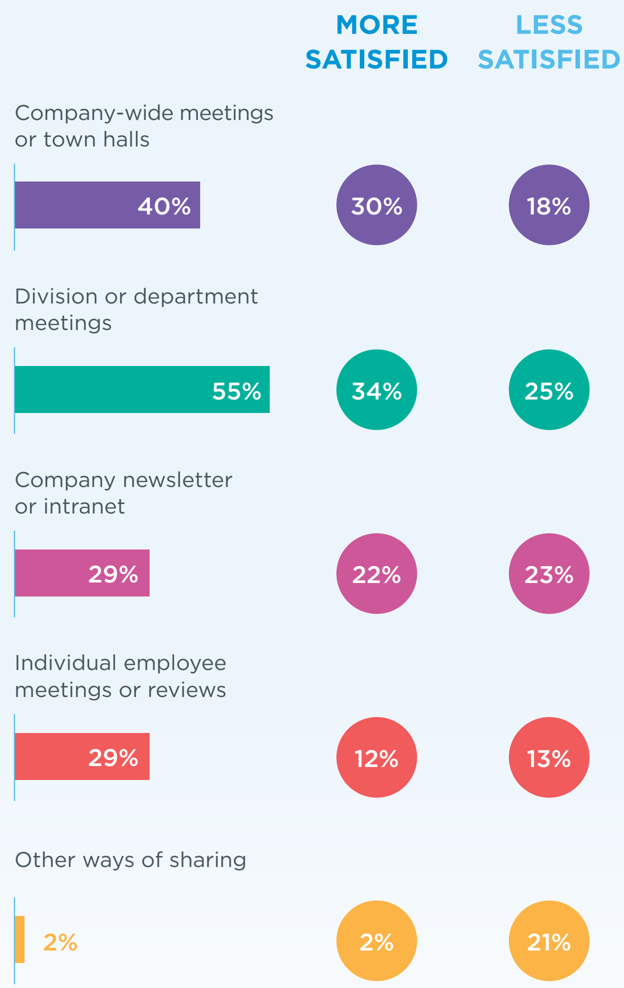


TYPE OF FEEDBACK



- Employees are provided with feedback on how their performance contributes to strategy
- Employees have individual or departmental KPIs that connect to strategy
- Departmental goals are aligned with strategic priorities
- Employees are regularly updated on our progress towards goals outlined in our strategy
- Employees are not provided with feedback about how their performance contributes to overall company strategy

HOW STRATEGY GOALS ARE SHARED



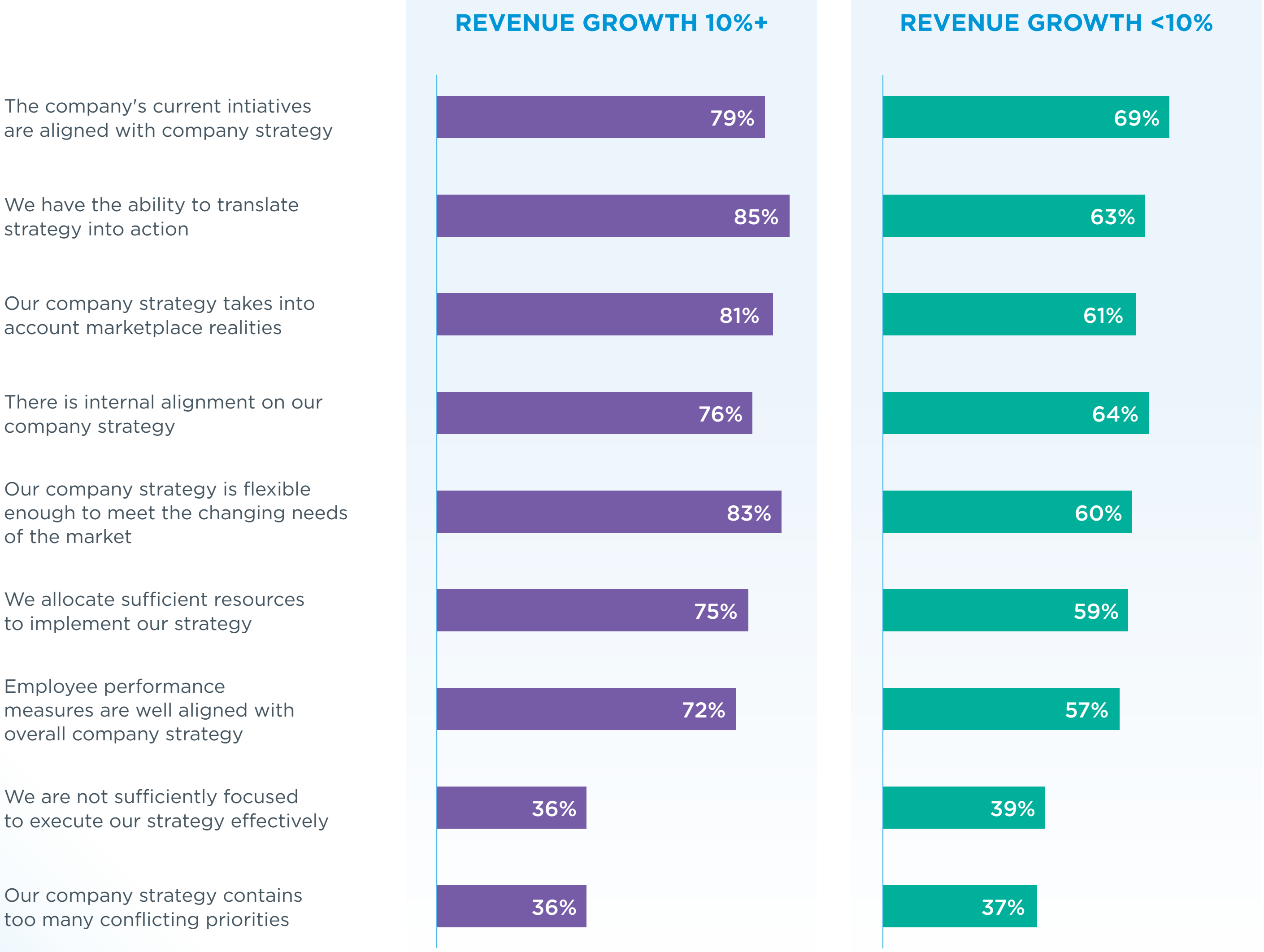
STRATEGY EXECUTION AND GROWTH

Strategy execution satisfaction—and the many factors that contribute to it, including linking strategy to business processes, frequent reviews, and tying employee performance to strategic KPIs—is clearly aligned with growth. Middle market companies enjoying year-over-year revenue growth of 10% or more have much more positive experiences in executing strategy. They are significantly more likely than slower growing firms to agree that they can translate strategy into action and that their strategy is realistic and flexible enough to react to changing marketplace conditions.

In addition, high-growth companies are more likely to believe that all important stakeholders have a solid understanding of their strategy. This may be because fast-growing firms are more likely to prioritize communicating strategy with a wide range of important audiences.

The Center uncovered similar findings in our Organizing for Innovation in the Middle Market study: The best performers engage more people in the process. The fact that high-growth firms also have a well-defined, easy-to-articulate strategy probably factors into their satisfaction, too. The more succinct and straightforward a strategy is, the easier it is for all stakeholders to embrace and apply day to day.

STRATEGY EXECUTION ATTITUDES (AGREE/COMPLETELY AGREE)



COMPANY SPOTLIGHT

Unified: Keeping Pace in a Rapidly Changing Industry

Companies that operate in fast-changing industries tend to experience higher revenue growth. This may be because this kind of environment lends itself to a strategy based on identifying and exploiting marketplace opportunities and trends—a strategic focus that appears to drive the fastest growth. It may also be that turbulent industries tend to be fast-growing.

Either way, companies in rapidly changing marketplaces need to be more nimble than their rivals. This doesn't mean that they hang on for dear life, like a bronco rider. To the contrary, companies in fast-changing industries are more likely to have well-defined strategy, to be able to articulate the value they offer, and to include input from employees at all levels of the organization in the strategy development process.

To be sure, these companies change their strategy more frequently than peers on more placid ponies. But they don't go without a plan.

Unified, a seven-year-old New York City company, that provides software and services to major brands and agencies to help them manage and optimize their investments in social media advertising. Peter Nesbitt, VP of Strategic Finance & Corporate Development, says his organization reviews strategy every quarter.

"When we started it was like the wild, wild West," he says. "The founders of the company knew social media was going to be big, that it would generate a lot of data, and it would create problems for companies in how to manage that data."

At the time of Unified's founding, no one else in the industry was doing what it did, so the startup was able to pitch blue-chip Fortune 100 companies, a rare opportunity in the software space.

"The leaders knew this was needed now, by big companies. They found white space and went after it full force," Nesbitt reflects.

Of course, social media has grown and expanded over the years. Today, major brands have VPs of Social and teams entirely dedicated to managing social media. Unified has rolled with those changes, adapting the strategy to fit a marketplace that is simultaneously more lucrative and more crowded.

"The market's caught up to us, and we're ready for that," Nesbitt says. "Today we have a lot more conversations with customers and potential customers who understand the social media space better, and who know more what they want and need. We talk to them about the features that they like and learn about how they want to be approached and how software should be sold. That input factors into our strategy and how we adjust the way we go to market."

Unified looks for strategy input internally as well. Employees across the business have opportunities to share their insights and everyone is empowered to speak directly to the CEO. The company also makes it a priority, through monthly town hall meetings, to ensure all employees understand the mission, vision, and direction of the business and how they contribute, which helps them make better day-to-day decisions to advance the company's strategic objectives.

Because it's hard for a company to think long-term when operating in such a fast-moving marketplace—every quarter, there are new KPIs and new types of ad sets to consider in the social advertising world—Unified finds it is very important to maintain a point of view as to where the industry is going. The company is not alone in this way of thinking. Amazon's CEO Jeff Bezos says, "It helps to base your strategy on things that won't change… I very rarely get asked 'What's not going to change in the next five to ten years?' At Amazon we're always trying to figure that out, because you can really spin up flywheels around those things."[4]

Unified builds its product and customer roadmaps around its point of view. However, the leaders realize those maps may need be tweaked along the way. "We understand that our strategy is perpetually and incrementally evolving," Nesbitt says. "It's a constant conversation and iterative process for us with a feedback loop that brings in a variety of perspectives."

By staying nimble, constantly soliciting feedback from multiple sources, and investing the time and effort in keeping strategy up to date, Unified is positioned to continue to grow along with its industry and take quick advantage of teams new opportunities.

[4] https://hbr.org/2007/10/the-institutional-yes

SELF-ASSESSMENT

6 Questions to Ask About Executing the Strategy

1. DO WE COMMUNICATE OUR STRATEGY FULLY AND FREQUENTLY WITH EMPLOYEES?
Executives who live and breathe company strategy every day often overestimate how well it is understood by employees broadly. An annual meeting or occasional town hall is not enough to ensure that employees understand your strategy.

2. IS OUR BUDGET PROCESS ALIGNED WITH STRATEGY?
Particularly in large organizations, the budgeting process might proceed by its own pace and logic, tying into strategy only after the fact. Instead, budgets should be drafted after a strategy it described.

3. HAVE WE TRANSLATED STRATEGY INTO ACTION PLANS FOR EACH LINE OF BUSINESS AND FUNCTION?
Execution depends on translating aspirations into targets, targets into initiatives, and initiatives into plans. Strategy should shape the activities of all P&L line operations and also functions like human resources and IT.

4. DO WE CREATE KEY PERFORMANCE INDICATORS TO TRACK YOUR PROGRESS TOWARD YOUR GOALS?
Does what you measure align with your strategy? Are these regularly reviewed at all levels of the organization? Are they fairly consistent from year to year?

5. CAN EVERY EMPLOYEE SAY HOW HE OR SHE CONTRIBUTES TO THE COMPANY'S STRATEGIC PLAN?
The day-to-day decisions of employees have enormous collective impact on strategy execution.

6. DO INCENTIVES AND BONUSES SUPPORT STRATEGIC GOALS?
The best strategy will be accelerated if incentives support it and derailed if they run counter to it.[5] Who gets praised and promoted is at least as important as incentive programs like bonuses.

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[5] Steven Kerr, "On the Folly of Rewarding A, While Hoping for B," *Academy of Management Journal,* vol. 18, no. 4, December 1975

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