

Excerpt from

Gartner Business Quarterly

Proven Guidance for C-Suite Action

In this issue: How to Rebuild Better

Smarter Design Will Insulate Your Big Bets from Upheaval

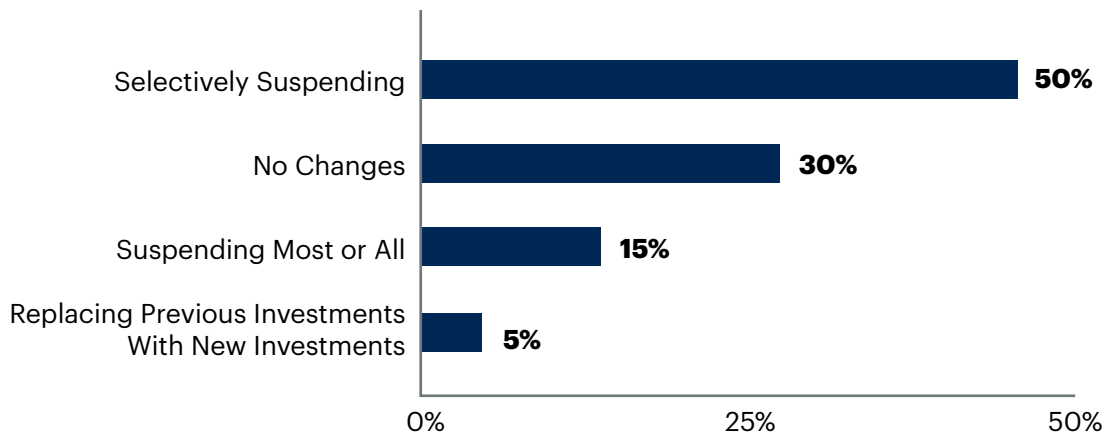
by Marc Kelly

As companies wrestle with a post-COVID-19 reality, boardrooms buzz with discussions about how best to build toward future growth.

Many undoubtedly will congratulate themselves on the tough choices made these past few months. Nearly three-fourths of companies (see Figure 1) have worked to reprioritize, shrink and delay long-term investments to provide the flexibility needed to seize new opportunities after the pandemic. Unfortunately, most of the difficult resourcing decisions made recently — regardless of quality — will do little to boost companies' long-term prospects.

While executives have done the hard work of reallocating investment, the very structure of their long-term initiatives puts long-term success at risk. What's worse is that in many cases, these companies didn't have to cut as many initiatives as they first believed.

Figure 1. CFOs' Changes to Long-Term Growth Investments Since the COVID-19 Crisis
Percentage of Respondents *Outbreak*



n = 169

Source: 2020 Gartner CFO COVID Forum

Without significant adjustment to the design of long-term initiatives, the average \$10 billion company can expect to lose out on up to \$100 million in annual revenue compared to best-in-class firms.

New Headwinds Put Resourcing for Initiatives at Risk

Resourcing long-term initiatives has long been challenging, regardless of market conditions. Whether from undue risk aversion or short-term business pressures, “strategic” initiatives always seem to be first for the chopping block and last to be restarted.

Only through strong guidance and the tireless effort of executive champions and strategy leaders were these initiatives able to cut through the headwinds blunting forward progress.

Over the last two to three years, however, new difficulties emerged (see Figure 2). Long-term initiatives have transformed into more ambitious redesigns of core businesses, leading to greater complexity in areas that lie outside prior market experience.

For a whole host of reasons, this change makes initiatives much harder to staff, secure capabilities for and fund throughout their lives. Strategy leaders have told us that the resourcing

needs of this new crop of growth initiatives are poorly understood. The result: overinvestment in some areas and underinvestment in others — in turn leading to delays as initiative owners must seek more resources while facing scrutiny for waste elsewhere.

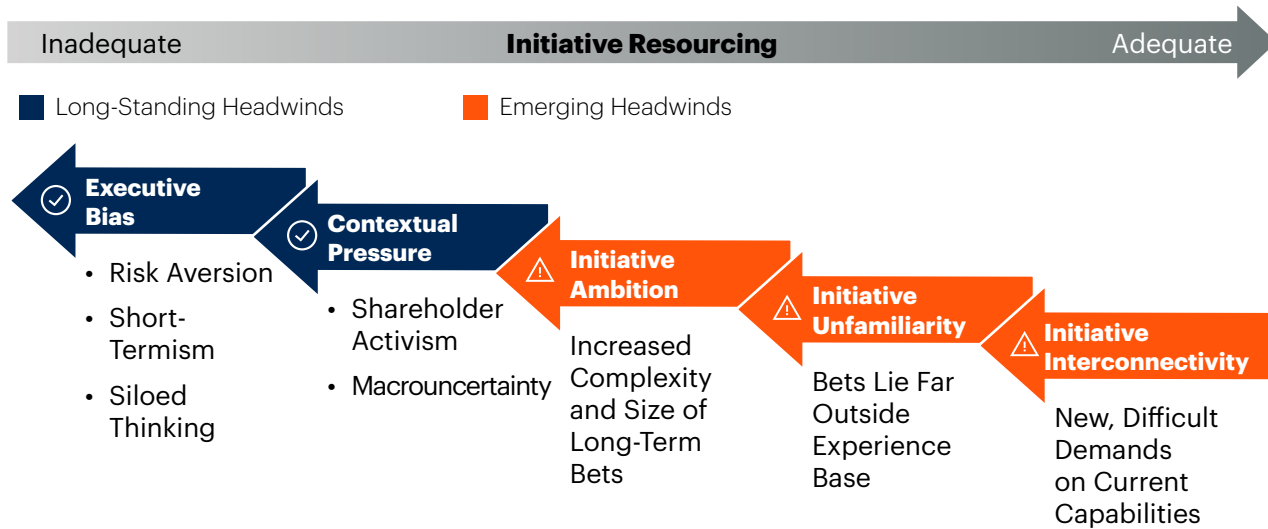
At the same time, early lessons from projects are far more likely to prompt greater and more frequent adjustments to initiative designs, which can quickly invalidate careful planning and critical cross-enterprise coordination. Highly complex team structures and competing priorities prevent the business from meeting the needs of both current and long-term objectives. In total, these headwinds create significant drag as initiatives try to get off the ground and speed toward results.

Poorly Resourcing Long-Term Initiatives Will Cost Your Company Money

It’s unsurprising, then, that most companies say long-term initiatives don’t get the money, staff and/or attention they need to succeed. Poorly resourcing the portfolio comes at a steep cost in the form of missing critical objectives.

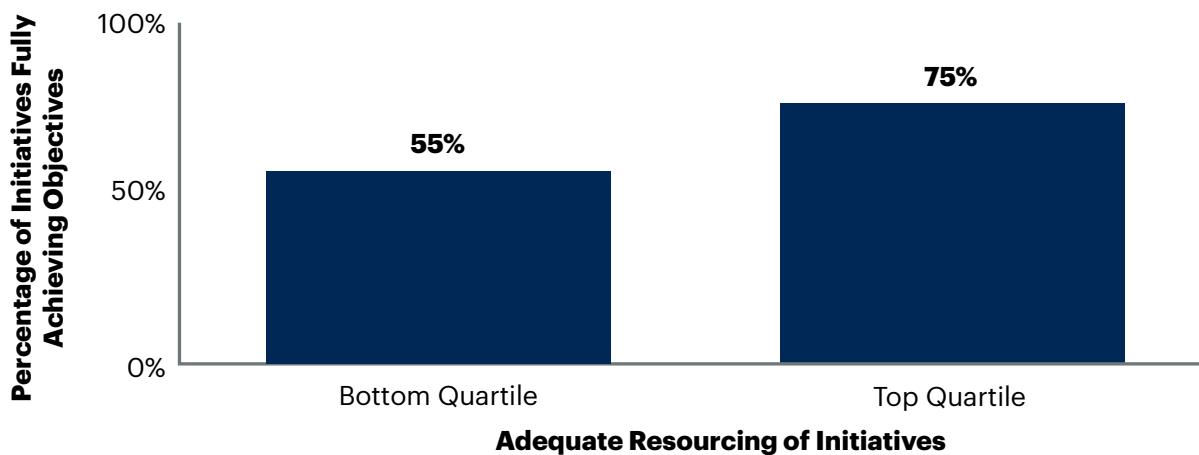
An in-depth analysis of over 100 companies’ long-term portfolios shows that for firms that poorly resource their initiatives, complete

Figure 2. Factors Increasing Resourcing Difficulty



Source: Adapted from Dell

Figure 3. Impact of Resourcing on Achievement of Initiatives' Objectives



n = 131

Source: 2020 Gartner Strategy Long-Term Initiative Resourcing Survey

Note: The difference in the percentage of long-term initiatives fully achieving their financial and strategic objectives is statistically significant at a 95% confidence level. Assumptions are based on the following: a \$10 billion company with a revenue growth rate of 5% per year (the average for S&P 500 companies); a portfolio in which 75% of initiatives fully achieve their objectives; and, for initiatives that don't, 50% of objectives are achieved.

achievement of financial and strategic objectives is largely a coin flip. Those able to consistently fund their projects saw the success rate go up to over 75%.

This difference isn't small. Given the recession, the gap between winners and losers takes on a greater significance. Numerous past studies have shown that firms unable to invest in their long-term future during recessions leave themselves significantly worse off in the subsequent years.^{1,2}

Reduce Drag to Improve the Likelihood of Long-Term Initiative Success

When attempting to keep a growth project afloat, executives typically try to grab the attention of the business by stressing how important the initiative is. Likewise, companies work to get better at prioritizing — aiming to fuel the most critical pieces of the portfolio. In either case, the hope is that by keeping the value of these efforts front and center, staff and managers will make decisions and have the capacity to sustain

them — regardless of how difficult the initiative is to execute.

But we found no significant relationship between these tactics and the ability to draw resourcing, largely because there's no argument to make. Executives roundly agree their companies' plans for expansion are vital. A more effective way to push for a consistent flow of resources is to structure the portfolio differently and eliminate the drag that new headwinds create (see Figure 4).

To minimize these delays, executives should:

- Design long-term initiatives to reduce the resources required.
- Eliminate conflicts between initiatives and the core business.
- Improve the sequencing of those initiatives to reduce resource conflicts.

Easier said, of course, than done. Limited visibility into effective initiative design or execution-related issues can often prevent companies from even attempting to address drag, leaving it to be managed during execution.

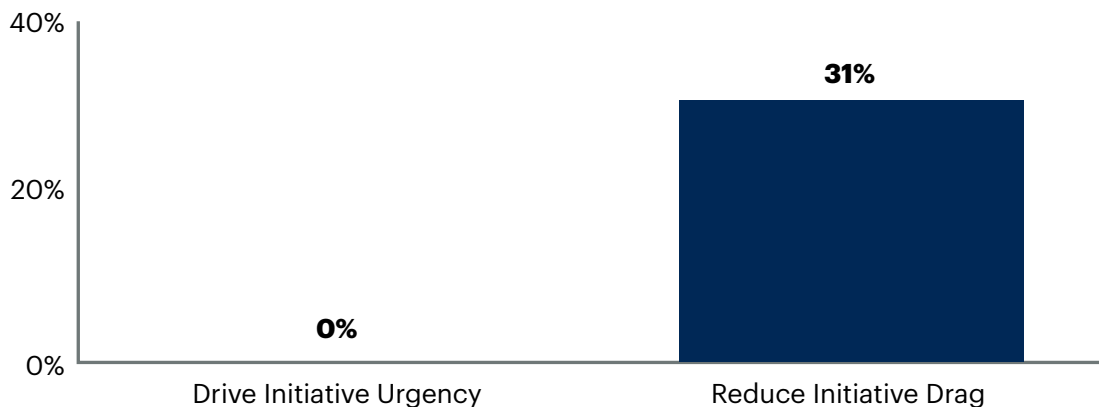
Designing More Cost-Effective Long-Term Initiatives

A lot of issues prevent initiatives from running lean at the start. For one thing, their novelty deprives leaders and their teams of meaningful comparisons to evaluate design or benchmark performance. Invariably, team leaders will overbudget in some areas (such as hiring a data scientist instead of a software developer) and grossly underestimate in others (such as miscalculating the required size of the team that compiles needed data banks). Lessons come only through hard-earned experience, but regardless of how well teams adapt, dealing with these challenges will slow them down.

So, don't wait for them to arise. Better planning and tracking can go a long way. Progressive companies have found that significant information exists within the organization to help improve design. It's just trapped.

To unlock it, companies must do more than just bringing people together to talk. Address the root causes of how the details got stuck in the first place.

Figure 4. Impact of Two Approaches on Adequate Resourcing of Initiatives



n = 131

Source: 2020 Gartner Strategy Long-Term Initiative Resourcing Survey

Note: The graph measures the percentage of maximum improvement in adequate resourcing of initiatives as a result of moving from 25th to 75th percentile performance of each driver. The multivariate regression model explained 22% of the variance.

For stakeholders and executive leaders trying to provide input and pressure-test initiatives, past experience may not seem to apply to a push into uncharted territory. And project teams can be culprits, too — they may be blind to execution patterns and have trouble admitting to problem areas.

Leading firms move away from standard business cases and initiative proposals toward more visual frameworks. These companies outline the connection between value and the requirements to capture that value along with the necessary capabilities, assets, processes and partners. They provide a clear, early picture that allows for better pressure-testing of key assumptions underpinning the initiative, enabling the company to isolate and eliminate unnecessary waste.

Second, these organizations use expanded metrics to assess underlying initiative health measures that better indicate likely causes of initiative failure. And they set up a reporting process that rewards candor.

Eliminating Conflicts Between the Initiative and the Operating Model

Nearly two-thirds of 120 strategic initiative leaders we polled in our 2020 Business Partner Panel Survey believe their initiatives were significantly impeded by conflicts with the company's current operating model.

Yet strategists expend a significant amount of energy on building sufficient central oversight capacity and attention. They consider how to harmonize the needs of future-focused efforts and how the company works on a day-to-day basis, the governance mechanisms, business processes and procedures, org structure, stakeholders, etc. These adjustments, however, rarely remain stable.

The top-down approach for alleviating conflicts has its limits. While good for predictable and periodic friction, orders from above are too structured for smaller, ad hoc issues that require localized response.

For most companies, slowdowns caused by conflicts with the operating model are poorly defined and tough to identify — so, this battle is hard to fight in a systematic way. To better recognize and diagnose sources of initiative drag, progressive strategists create a model that concretely frames a common language for how to discuss operating model conflicts and evaluate potential solutions.

Improving Sequencing of Initiatives to Reduce Resource Conflicts

Regardless of the detail or deftness of early planning, new revelations will require pivots in long-term initiatives. At each pivot, long-term initiatives lose precious time.

In addition to improving initiative planning and cross-enterprise coordination, leading companies have also worked to improve their ability to plan for failure. These firms focus on a number of characteristics of the pivot process. Upfront, initiatives are rearranged to break down more easily so resources can be more quickly shifted. During execution, companies have worked to reduce the time required to resequence initiatives.

¹ "Efficient Growth—Full Research Findings"

² "Roaring Out of Recession," Harvard Business Review.

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