

The Inside World Aligning to Execute and Endure

Designing the capabilities, structures,
cultures and systems that turn strategy
into sustainable performance.



STRATEGY &
ORGANIZATIONAL
ALIGNMENT



ORGANIZATIONAL
DESIGN



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~15 MIN READ



By Rafa Munaro

Strategic Alignment and the Capabilities That Matter Most

Part III of a three-part series exploring how organizations survive, adapt and endure.

One of the ideas introduced in the first Field Note was that organizations exist between two worlds: an external world they cannot control, but must continuously observe, interpret, and respond to, and an internal world they can deliberately design and shape. Long-term performance depends on maintaining alignment between the two.

The second Field Note focused on the first half of that equation. It explored how organizations make sense of the world around them, how they interpret changes in customers, competitors, industries, technologies, and broader environmental forces, and ultimately how they translate those observations into strategic choices about how they intend to compete and the position they hope to occupy within that environment.

ACT I

The Alignment Challenge

The How

Understanding the environment is important. Choosing how to compete is equally important. Yet neither, by itself, is enough.

Two organizations can observe the same environment, face the same competitors, and even pursue similar strategic objectives, yet achieve dramatically different outcomes. The difference often lies in what happens next.

Once an organization has interpreted the world around it and decided how it intends to compete within that world, it faces a new challenge. It must decide how to configure itself to support that choice.

In some ways, the challenge is similar to preparing a vessel for a journey. Understanding the waters you are navigating is important. Deciding where you want to go, and the route you intend to follow, is equally important. But the vessel itself must still be configured for the voyage ahead. Its structure, crew, instruments, supplies, operating procedures, and the way responsibilities and resources are distributed must all work together in support of the journey.

Organizations face a remarkably similar challenge. There are countless ways to structure teams, distribute authority, shape culture, design systems, develop talent, allocate resources, and measure performance. Some organizations operate through rigid hierarchies, while others rely on decentralized decision-making. Some emphasize discipline, consistency, and control, while others prioritize experimentation, autonomy, and innovation. Some reward efficiency, while others reward learning.

None of these choices are inherently right or wrong. At least not in isolation. Not in absolute terms.

Yet some configurations will move an organization closer to its strategic objectives than others.

Which raises an important question:

How should an organization be configured?

It Depends

So, how should an organization be configured?

The answer is: it depends.

At first, this can feel frustrating, almost like a non-answer. Yet the deeper one goes into organizations, the more difficult it becomes to answer management questions in absolute terms.

Is a flat organization better than a hierarchical one? Should decisions be centralized or decentralized? Is culture more important than structure? Should organizations prioritize specialists or generalists?

The answer to all of these is usually the same.

It depends.

Not because these questions are impossible to answer, but because they are incomplete.

Relative to What?

Better according to whom?

Better for what?

Better relative to what?

Before a strategy has been chosen, there are many ways an organization could be configured. Different structures. Different cultures. Different systems. Different approaches to managing people.

But strategy changes the nature of the problem.

Once an organization decides how it intends to compete, some choices begin to make more sense than others because the strategy becomes the reference point. Many possibilities remain, yet the range of good answers begins to narrow.

Just like there may be many types of vessels to choose from, and countless ways to configure them, before a destination has been set, there are endless ways an organization could be configured before a strategy has been chosen.

None is inherently better than the others.

But once a destination and course are clear, some begin to make more sense than others.

You wouldn't want to cross an ocean on a kayak, nor navigate a river on a cruise ship. Not because either vessel is inherently better, but because some configurations are simply better suited to the journey ahead.

But then again, what makes certain configurations better suited to the journey than others?

What exactly should these configurations be designed to enable?

ACT II

The Capabilities That Matter Most

Key Capabilities

The answer lies in what many organizations overlook when discussing strategy, structure, culture, or execution: key capabilities.

Once an organization has interpreted its environment and decided how it intends to compete, the next challenge is understanding what it needs to become exceptionally good at in order to successfully execute that strategy.

This may sound like a subtle distinction, but it changes the nature of the problem entirely.

The Logic Runs the Other Way

Many organizations begin by looking inward. They examine their existing strengths, resources, expertise, and assets, then attempt to build a strategy around them.

The logic often sounds something like this:

"We are good at X, therefore we should pursue Y."

Yet strategic thinking typically works in the opposite direction. The starting point is not what the organization is currently good at. The starting point is what the organization is trying to achieve.

The question changes.

Not:

"What are we good at?"

But:

"What must we become exceptionally good at in order to succeed?"

Those capabilities may already exist within the organization. They may need to be strengthened. Or they may need to be built almost from scratch.

Either way, the logic runs from strategy to capabilities, not the other way around.

The strategy determines which capabilities matter most.

And those **capabilities**, in turn, begin to shape how the **organization** should be **configured**.

- The way people are selected, developed, and deployed (**People**).
- The way work is organized and responsibilities are distributed (**Structure**).
- The behaviors, norms, and values that are encouraged and reinforced (**Culture**).
- The systems used to coordinate, measure, and manage performance (**Systems**).

In other words, the capabilities an organization seeks to develop eventually influence every major element of its internal design.

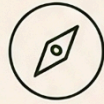
At a high level, the relationship looks something like this:

THE ORGANIZATIONAL ALIGNMENT MODEL

Connecting the outside world with the inside world.

OUTSIDE WORLD

The environment shapes the game.



STRATEGY CONTEXT

Read & Interpret

We scan and interpret the outside world to understand opportunities, threats and shifts.



STRATEGY CONTENT

Choose How to Compete

We decide where to play, how to create value and what position we will build.



INSIDE WORLD

INSIDE WORLD

The organization designs and aligns.



STRATEGY PROCESS

Execute & Adapt

We turn strategy into action, learn continuously and adapt as conditions change.



KEY CAPABILITIES

What must we excel at to win?

The few critical capabilities that enable us to execute our strategy and create sustainable competitive advantage.

ALL FOUR ELEMENTS MUST ENABLE AND MAXIMIZE THESE KEY CAPABILITIES.



PEOPLE

Skills, talent & expertise required to deliver the capabilities.



STRUCTURE

Roles, responsibilities & coordination mechanisms that enable execution.



CULTURE

Values, norms & behaviors that shape how work gets done.



SYSTEMS

Metrics, processes & controls that reinforce performance and alignment.



EXECUTION

We mobilize the organization, allocate resources and deliver on our strategic objectives.



ADAPTATION

We learn from outcomes and changes in the environment and realign to stay on course.

Adapted from Johnson et al. (2017) and Organizational Alignment literature.

Choosing the Game

The relationship between strategy and capabilities becomes easier to understand when viewed through a different lens.

Consider an athlete.

A marathon runner, a sprinter, a weightlifter, and a sumo wrestler may all share the same objective: winning. Yet each must develop a very different set of capabilities if they hope to succeed in their chosen sport.

A marathon runner must prioritize endurance. A sprinter must prioritize explosive speed. A weightlifter must develop strength and power. A sumo wrestler must develop mass, balance, leverage, and technique.

Each athlete trains differently because each athlete is trying to achieve something different.

Organizations face a remarkably similar challenge.

A company competing primarily on price requires different capabilities than one competing on premium service. A luxury hotel requires different capabilities than a low-cost airline. A business built around customized solutions requires different capabilities than one built around standardization and scale.

So which capabilities matter most?

It depends.

But we now understand why.

The capabilities that matter most depend on the game being played.

And the game being played is determined by strategy.

1. The strategy determines the game.
2. The game determines the key capabilities.
3. And those key capabilities begin to shape every major aspect of the organization.

Once that relationship becomes clear, many organizational choices that previously seemed subjective begin to make more sense. The capabilities required to compete successfully start to reveal what the organization should prioritize, where resources should be allocated, which trade-offs must be accepted, and ultimately how the organization should be configured.

In that sense, strategy does more than define a destination.

It also determines what the organization must become exceptionally good at along the way.

Focus

Why Focus Matters

Not all capabilities matter equally.

Every organization possesses dozens, sometimes hundreds, of competencies, processes, resources, and strengths. Yet only a small number typically play a decisive role in determining whether its strategy succeeds or fails.

This is what makes identifying key capabilities so important.

When organizations correctly identify and develop the capabilities most closely linked to their strategy, resources tend to reinforce one another. Investments become more coherent. Priorities become clearer. Trade-offs become easier to make.

When they do not, the opposite often occurs.

Resources become fragmented. Effort gets spread across too many initiatives. Attention drifts away from the capabilities that matter most. The organization remains busy, but gradually becomes less effective.

The challenge, therefore, is not developing every capability.

It is identifying and strengthening the few capabilities that matter most.

Too Broad. Too Narrow.

One of the challenges highlighted by Chris Zook is that organizations often struggle to define their capabilities at the right level.

Some define them too broadly.

Others define them too narrowly.

- Capabilities that are too broad become difficult to translate into decisions and actions. They provide little guidance when allocating resources, making trade-offs, or deciding where to invest.
- Capabilities that are too narrow create a different problem. They may be highly relevant to a specific product, process, or market, yet become obsolete as the organization evolves or the environment changes.

The goal is not simply to identify capabilities.

It is to identify the right capabilities at the right level of abstraction.

Capabilities that are specific enough to guide decisions, yet broad enough to remain strategically relevant over time.

Lessons from the Field

One of the examples **Chris Zook** frequently uses to illustrate this idea is Domino's.

Most people would not consider Domino's the best pizza chain in the world. Yet it has consistently outperformed many competitors that arguably offer a better product.

According to Zook, the company's success comes from understanding something deceptively simple: competitive advantage rarely comes from being good at everything. More often, it comes from becoming exceptional at a small number of capabilities that matter most. In Domino's case, those capabilities include delivery, packaging, franchising, convenience, and technology-enabled customer experience.

The challenge, however, is that identifying those capabilities is far harder than it sounds.

Organizations frequently misidentify their core capabilities or misunderstand where those capabilities should be applied.

Zook highlights four common traps.

MySpace (Too Broad)

As MySpace grew, it expanded across an increasingly wide range of initiatives and priorities. Rather than deepening the capabilities that had originally created its advantage, the company became involved in too many things at once. In the process, focus eroded and competitive advantage weakened.

Blockbuster (Too Narrow)

Organizations can also define their core too narrowly. Blockbuster saw itself primarily as a network of physical video rental stores. As the industry evolved, this definition constrained its ability to recognize and invest in adjacent opportunities. By remaining anchored to a shrinking definition of its business, it struggled to adapt to a changing environment.

LEGO (Wrong Shifting)

LEGO's challenge was different. In the 1990s, the company expanded into a broad range of initiatives that moved it away from the capabilities that had historically defined its success. Over time, complexity increased while performance deteriorated. Its recovery began only after refocusing on the capabilities that sat at the heart of the business.

US Concrete (Multiple Battlefronts)

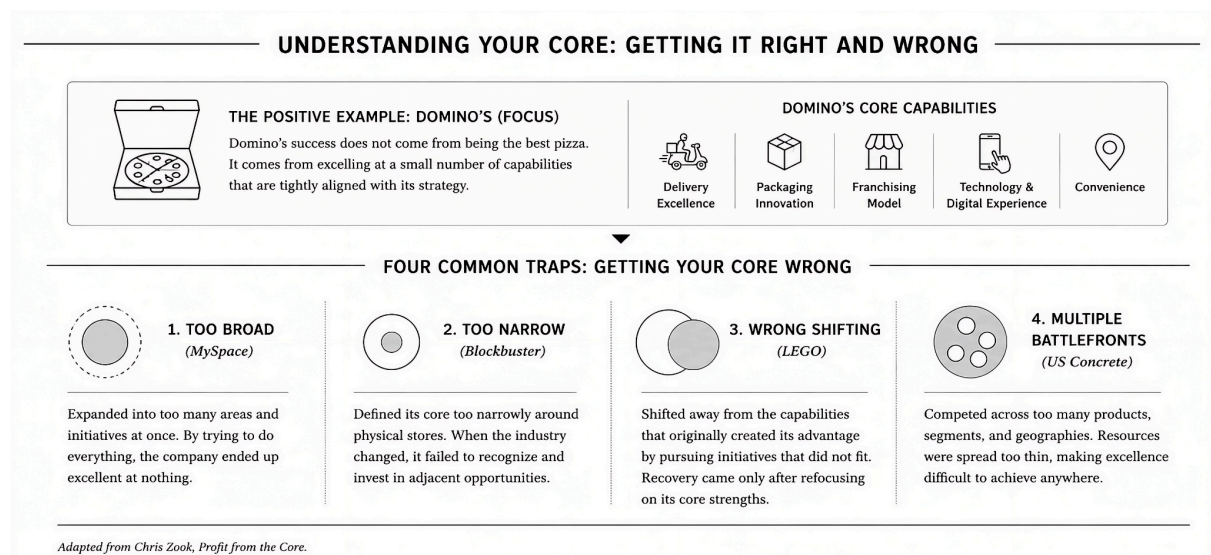
Another common trap emerges when organizations attempt to compete across too many products, segments, geographies, or customer groups simultaneously. As resources become dispersed, maintaining excellence becomes increasingly difficult. US Concrete eventually reversed this pattern by narrowing its focus and concentrating resources on the areas where it could compete most effectively.

The specific circumstances differ from case to case, yet the underlying lesson remains remarkably consistent.

The challenge is not simply identifying a core capability.

The challenge is defining that core accurately, protecting it from dilution, and continuing to invest in it as the organization grows.

The patterns described above appear so frequently that Zook summarizes them into four recurring ways organizations misidentify or lose sight of their core.



Which raises another question:

How do organizations identify the capabilities that matter most?

Finding the Few That Matter

No Universal Formula

There is no universal formula for identifying key capabilities.

Different industries require different capabilities. Different strategies create different requirements. And capabilities that matter today may become less important as technologies, markets, and customer expectations evolve.

Yet despite these differences, there are a few useful ways to begin.

Checklists

One approach is to start with existing capability frameworks and use them as a checklist.

Researchers such as Chris Zook, Dave Ulrich, and Norm Smallwood have spent years studying the capabilities that frequently underpin competitive advantage.

Some of the capabilities that appear repeatedly across their work include:

- Talent and Leadership
- Speed and Adaptability
- Innovation and Learning
- Customer Connectivity
- Operational Excellence
- Collaboration across Boundaries

Their frameworks are not intended to provide the answer, but they can help narrow the search and stimulate thinking.

Following the Value

A second approach is to examine how value is actually created inside the business.

Tools such as Porter's Value Chain encourage leaders to look beyond products and outcomes and focus instead on the activities that generate value.

Often, key capabilities emerge not from a single activity but from clusters of interconnected activities that reinforce one another.

Business Judgment

The third approach is simpler, though no less important.

Leaders can ask a straightforward question:

If this capability disappeared tomorrow, would our ability to execute the strategy be fundamentally compromised?

Capabilities that consistently survive this test tend to reveal themselves rather quickly.

Triangulation

None of these approaches is perfect in isolation.

Capability frameworks help broaden the search. Value chain analysis helps reveal where value is actually being created. Business judgment helps determine which capabilities are truly essential.

Together, they create a useful form of triangulation. And when all three begin pointing toward the same capabilities, leaders are often getting close to the answer.

ACT III

Aligning the Organization

At this point, it is worth acknowledging that each of the topics that follow could easily justify a Field Note of its own.

People, structure, culture, and systems are enormous subjects. Entire careers have been built studying each of them.

The goal here is not to explore them in depth, but to step back and look at the bigger picture.

Across these three Field Notes, the objective has been to understand how organizations survive, adapt, and endure. Field Note 001 introduced the idea that organizations exist between two worlds: an external world they must continuously observe, interpret, and respond to, and an internal world they can deliberately design and shape. Field Note 002 focused primarily on the external world and the strategic choices that emerge from it. This note has focused on the capabilities required to successfully execute those choices.

What remains is the final piece of the puzzle.

How organizations translate capabilities into reality.

How strategy becomes something people actually do every day.

While different authors use different terminology, most discussions of organizational design eventually converge around four fundamental elements:

- People
- Structure
- Culture
- Systems

Together, these elements shape an organization's ability to develop, strengthen, and sustain the capabilities that matter most.

What follows is a deliberately simplified overview. The goal is not to explore each element in depth, but to understand how they work together to translate strategy into capabilities, and capabilities into performance.

People

Many organizations proudly claim that people are their most important asset.

The statement sounds appealing, yet from a strategic perspective it is incomplete.

The challenge is not simply having talented people. The challenge is having the right people in the right roles, developing the capabilities that matter most to the strategy.

Once an organization has identified its key capabilities, a new question emerges:

Which roles contribute most directly to building, strengthening, and sustaining those capabilities?

Not all roles contribute equally.

Some sit much closer to the capabilities that create competitive advantage. Others play important supporting functions. Still others exist primarily to ensure reliability, compliance, or operational continuity.

This is not a statement about the value of people.

It is a statement about the strategic importance of roles.

Relative to the Strategy

Consider two airlines.

One competes primarily through low prices, operational efficiency, and fast turnaround times. The other competes through premium service, customer experience, and hospitality.

Which role is more important?

The pilot?

If there is one idea I hope readers take away from this series, it is that the answer should immediately feel familiar.

It depends.

In the first airline, ground crews, operations teams, and scheduling functions may sit closest to the capabilities that create competitive advantage. In the second, flight attendants and customer-facing staff may play a far more central role because they directly shape the experience the company is using to differentiate itself.

The question is not which role is more important in absolute terms.

The question is which role is most important relative to the strategy being pursued and the capabilities required to execute it successfully.

The Same Role, Different Strategies

Perhaps the most interesting implication of all this is that the very same role can occupy different positions depending on the strategy being pursued.

A flight attendant in a premium airline may sit much closer to the capabilities that create competitive advantage than a flight attendant in a low-cost carrier. Likewise, a pilot may be strategically central in one business model and far less central in another.

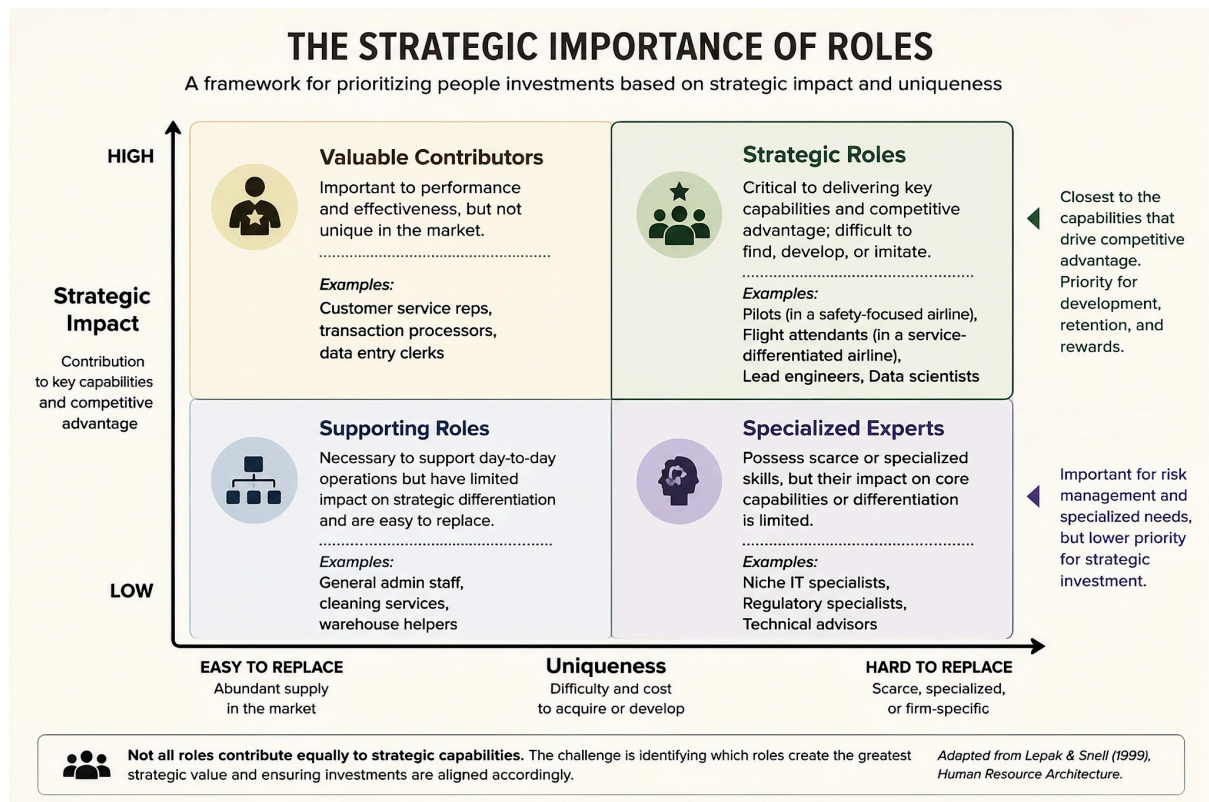
The individuals may possess similar credentials, training, and experience.

What changes is the strategy.

And once again, the answer turns out to be the same one that has appeared repeatedly throughout these Field Notes:

It depends.

More specifically, it depends on the capabilities required to successfully execute the strategy.



Strategic Priorities

Once key capabilities have been identified, organizations face a practical reality.

Resources are limited. Time is limited. Attention is limited. Development budgets are limited.

As a result, choices must be made.

Which roles should receive the greatest development?

Which positions require the strongest retention efforts?

Where will additional investment create the greatest impact on the capabilities the organization is trying to build?

One way to think about the problem is through a simple thought experiment.

If a particular role disappeared tomorrow, how significantly would the organization's ability to execute its strategy be affected?

Some absences would be disruptive.

Others would fundamentally undermine capabilities that sit at the core of the business.

This is not a statement about the importance of people.

It is a statement about the importance of capabilities.

Just as organizations cannot invest equally in every market, every product, or every capability, they cannot invest equally across every role.

Strategic alignment requires prioritization.

The objective is not to determine who matters most.

The objective is to ensure that investments in people are aligned with the capabilities the strategy requires.

Structure

Once organizations have identified the capabilities they need and the people required to develop them, another question emerges:

How should those people be organized?

- Should decisions be centralized or decentralized?
- Should organizations be organized by functions, products, customers, or geographies?
- Should authority sit at the center or closer to the front line?

As with many of the questions explored throughout these Field Notes, the answer is familiar:

It depends.

Different structures enable different capabilities.

Organizations have developed many ways of organizing themselves over time, including **functional**, **divisional**, **geographic**, **matrix**, **networked**, and more recently **agile designs**. Entire books have been written comparing the strengths and weaknesses of each.

Fortunately, understanding every structural model is not necessary for our purposes.

What matters is a simpler observation:

Different strategies require different capabilities, and different capabilities often require different structures.

A company competing through operational efficiency will typically organize itself differently than one competing through innovation, customer experience, or local responsiveness.

A useful way to think about this is to imagine two very different organizations.

The first operates a **nuclear power plant**.

The second is a **startup** searching for a breakthrough innovation.

Would we expect them to have the same structure?

Probably not.

A **nuclear facility** may benefit from clear hierarchies, tightly defined responsibilities, standardized procedures, and carefully controlled decision-making. Reliability, consistency, and risk reduction sit at the heart of its mission.

An **innovative startup** often faces a very different challenge. Experimentation, rapid learning, adaptability, and speed may matter far more than consistency. Decision-making is frequently pushed closer to the front line, communication becomes more fluid, and structures tend to be less formal.

Neither approach is inherently better.

Each simply reflects a different set of strategic priorities and the capabilities required to support them.

As with people, the question is not which structure is best in absolute terms.

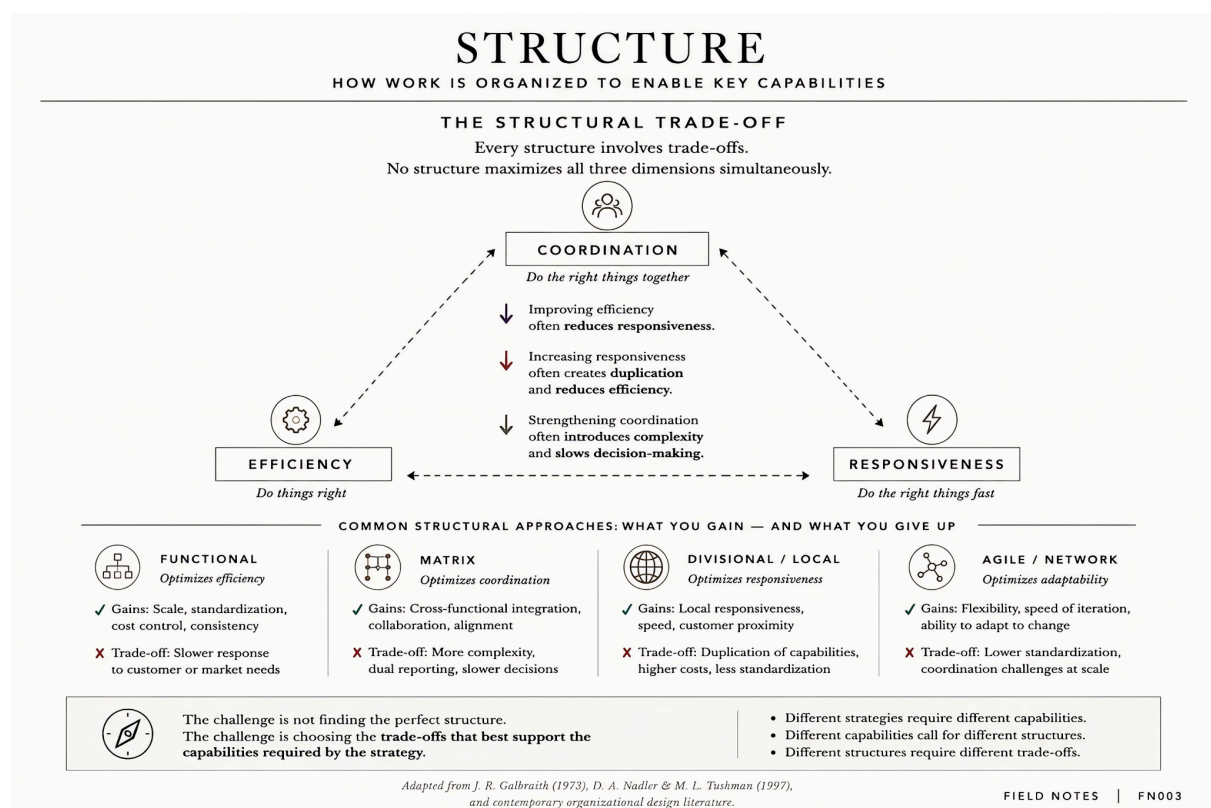
The question is which structure best supports the capabilities the strategy requires.

The Trade-Offs

One reason organizational design is so challenging is that every structure involves trade-offs.

Organizations often seek efficiency, responsiveness, and coordination simultaneously. Unfortunately, structure rarely allows all three to be maximized at the same time.

- Improving efficiency frequently reduces responsiveness.
- Increasing responsiveness can create duplication and reduce efficiency.
- Strengthening coordination often introduces additional complexity and slows decision-making.



The challenge, therefore, is not finding the perfect structure. The challenge is deciding which trade-offs are worth making.

- A low-cost airline may willingly sacrifice some local flexibility in exchange for consistency and efficiency.
- A luxury hotel chain may accept higher costs in exchange for greater responsiveness to guest needs.
- A global consulting firm may tolerate additional complexity in order to coordinate expertise across industries, regions, and client segments.

Different strategies require different capabilities. And different capabilities inevitably lead to different trade-offs.

Simplicity Matters

Perhaps the most consistent lesson from organizational design is that complexity tends to arrive faster than value.

As organizations grow, layers, committees, processes, and reporting lines tend to accumulate. Some are necessary. Many are not.

For that reason, organizational design experts often arrive at remarkably similar advice:

Keep it simple.

Structure should help people execute the strategy more effectively. When it becomes an obstacle to execution, it is often a sign that the organization has drifted away from what matters most.

Ultimately, structure is not an end in itself. It is simply another mechanism for developing and sustaining the capabilities that create competitive advantage.

Culture

Even with the right people and the right structure, another question remains:

How do organizations influence behavior?

Every organization has goals, priorities, and capabilities it is trying to develop. Yet capabilities do not emerge simply because leaders announce them.

People ultimately decide how to spend their time, what to prioritize, which risks to take, and how to behave when unexpected situations arise.

In other words, capabilities are expressed through behavior.

Which raises a new challenge:

How do organizations encourage the behaviors that support the capabilities they are trying to build?

More Than Words

Organizational culture is often described as "*the way we do things around here.*"

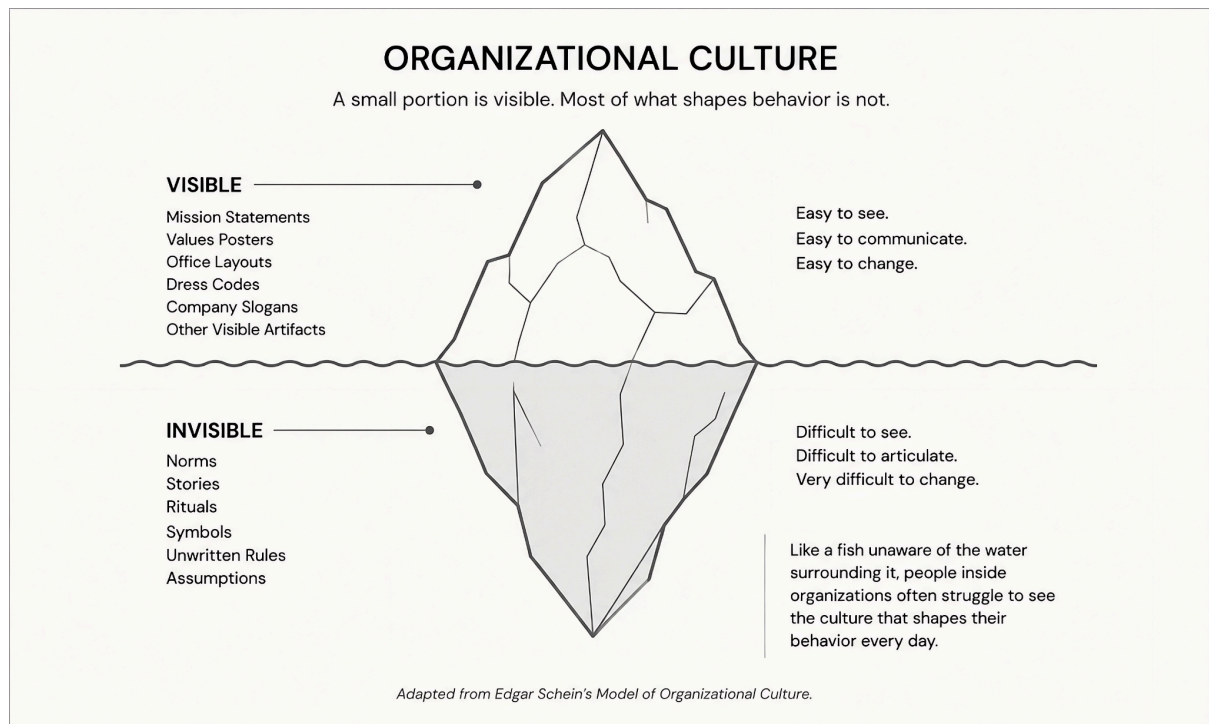
While simple, the definition captures something important.

Culture is often compared to an iceberg.

A small portion is visible above the surface: mission statements, values posters, office layouts, dress codes, company slogans, and other visible artifacts.

Yet most of culture sits below the surface.

It exists in the norms people follow, the stories they tell, the symbols they recognize, the rituals they repeat, and the assumptions they rarely question.



Like a fish unaware of the water surrounding it, people inside organizations often struggle to see the culture that shapes their behavior every day.

Most importantly, culture influences behavior.

And behavior ultimately determines whether capabilities are strengthened or weakened over time.

Different Cultures Encourage Different Behaviors

Researchers have proposed many ways of understanding organizational culture. One of the most widely used frameworks is **Cameron and Quinn's Competing Values Framework**, which identifies four broad cultural archetypes:

- **Clan cultures** emphasize collaboration, belonging, and people development.
- **Adhocracy cultures** emphasize innovation, experimentation, and risk-taking.
- **Market cultures** emphasize competition, achievement, and results.
- **Hierarchy cultures** emphasize stability, control, consistency, and risk management.

Most organizations contain elements of all four, although one or two typically dominate.

As with many of the themes explored throughout these Field Notes, the goal is not to determine which culture is best.

The goal is to understand which behaviors a particular culture encourages and whether those behaviors support the capabilities the strategy requires.

Relative to the Strategy

Consider the same two organizations introduced earlier.

A **nuclear power plant** and an **innovative startup**.

Would we want them to share the same culture?

Probably not.

A **nuclear facility** may benefit from a culture that emphasizes discipline, consistency, compliance, and risk avoidance. The consequences of experimentation in the wrong place can be catastrophic.

An **innovative startup** faces a very different challenge. Learning, experimentation, adaptability, and intelligent risk-taking may be essential to survival.

In Cameron and Quinn's language, the first organization may naturally lean toward a hierarchy culture, while the second may lean toward an adhocracy culture.

Neither is inherently better.

Each simply supports a different set of capabilities.

Once again, the answer depends on the strategy.

What Gets Reinforced Gets Repeated

One of the most common mistakes leaders make is assuming that culture is determined by what organizations say.

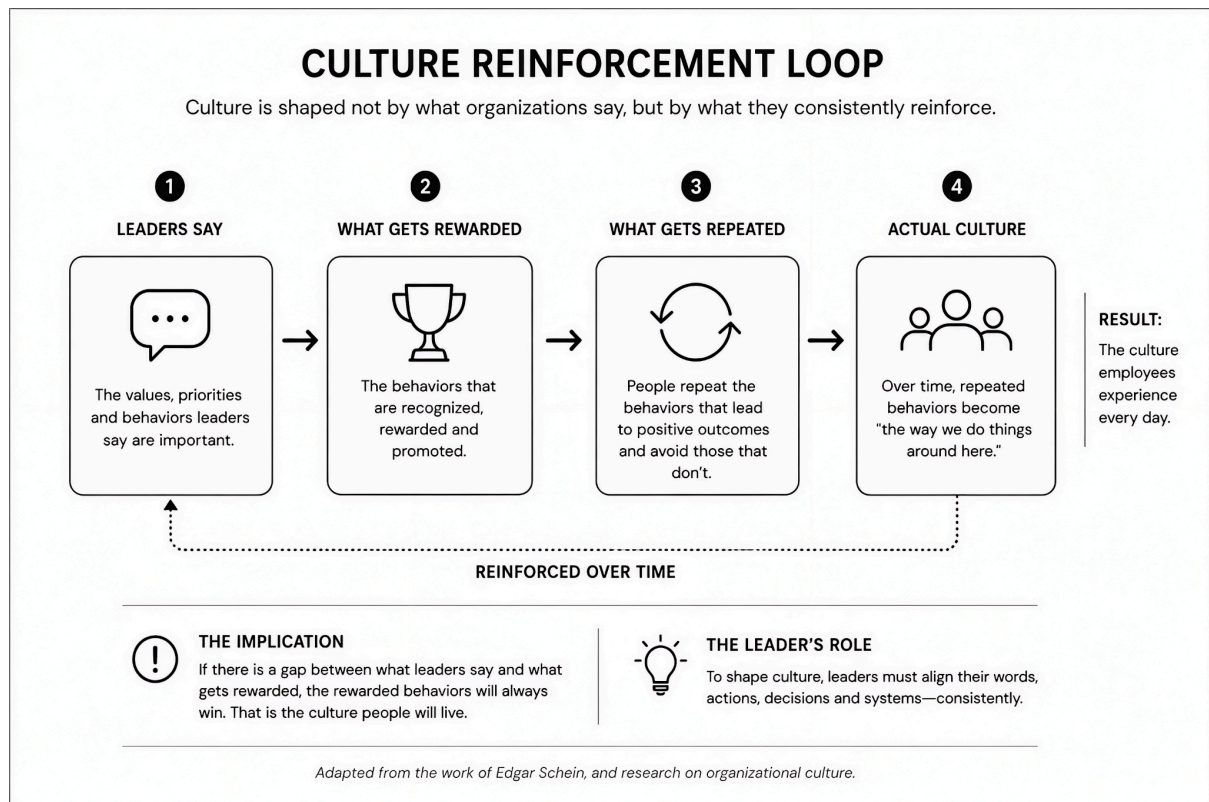
In practice, culture is shaped far more by what organizations consistently reinforce.

- An organization may claim to value innovation, yet punish every failed experiment.
- It may claim to value collaboration, yet reward only individual achievement.
- It may claim to put customers first, yet promote efficiency above all else.

Over time, employees learn which behaviors are genuinely valued and which exist only in mission statements and presentations.

Culture is therefore not defined by slogans.

It is defined by repeated signals.



What gets rewarded gets repeated.

What gets tolerated persists.

And what leaders consistently reinforce gradually becomes part of the culture itself.

An interesting implication follows from this observation.

The same mechanisms that reveal a culture can often be used to change it.

- If culture is shaped by what gets rewarded, leaders can redesign incentives.
- If culture is reinforced through stories, leaders can change which stories are celebrated and repeated.
- If culture is reflected in symbols and rituals, those symbols and rituals can be redesigned.

In other words, culture rarely changes because people are told to behave differently.

More often, it changes because the signals surrounding behavior begin to change.

Over time, new behaviors become new habits, and new habits gradually become part of the culture itself.

Culture as an Enabler

Perhaps the most important point is that culture should not be viewed as an end in itself.

Many organizations become fascinated with particular culture types. Process-driven organizations often admire innovative startups. Startups frequently wish they were more structured. Results-driven organizations sometimes envy highly collaborative cultures.

The temptation is understandable.

Yet the objective is not to build the most innovative culture, the most collaborative culture, or the most disciplined culture.

The objective is to build a culture that supports the capabilities required by the strategy.

Just as there is no universally superior structure, there is no universally superior culture.

There are only cultures that are more or less aligned with what the organization is trying to achieve.

Ultimately, culture is valuable not because it feels good, but because it helps people consistently behave in ways that strengthen the capabilities required for long-term success.

Systems

If **culture** influences behavior through informal norms, stories, rituals, and shared assumptions, **systems** influence behavior through formal mechanisms. They determine what gets measured, discussed, rewarded, and reviewed, ultimately shaping where people focus their attention and how they behave.

While often associated with software, dashboards, and reporting tools, organizational systems are much broader than technology alone. At their core, systems exist to help organizations reinforce priorities, monitor performance, manage risk, and ensure that day-to-day decisions remain aligned with strategic objectives.

What Gets Measured Gets Managed

A long-standing principle in management suggests that what gets measured gets managed. While the phrase is often attributed to Peter Drucker, its exact origins are less clear. Regardless of authorship, the underlying idea remains highly influential.

The logic is straightforward. People naturally pay attention to what is tracked, discussed, and reviewed. One of the broader lessons associated with **the Hawthorne studies** was that observation itself can influence behavior. While the experiments and their interpretations remain debated, the central insight remains relevant: **attention changes behavior**.

In organizations, measurement is one of the primary mechanisms through which attention is directed.

This creates an important challenge: **what exactly should be measured?**

One of the most useful distinctions is the difference between **lagging** and **leading indicators**.

Lagging indicators measure outcomes that have already occurred. Revenue, profit, market share, and customer retention are common examples because they help organizations understand how they performed in the past.

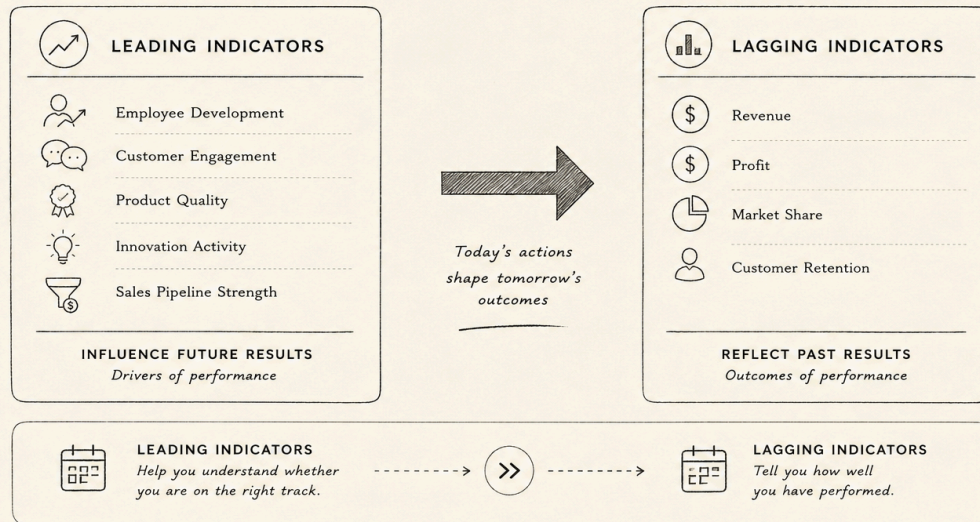
Leading indicators, by contrast, focus on the activities and conditions that influence future outcomes. Employee development, customer engagement, product quality, innovation activity, and sales pipeline strength are all examples of factors that may provide early signals about future performance.

A useful analogy is **weight loss**. Body weight is a lagging indicator; it reflects the cumulative result of past behaviors. Calories consumed and physical activity, on the other hand, are leading indicators because they influence future outcomes. One reflects the result. The others influence the result.

Organizations need both. Lagging indicators reveal whether objectives were achieved, while leading indicators help leaders understand whether the capabilities required to achieve those objectives are actually being developed.

LEAD VS LAG INDICATORS

Leading indicators influence future results.
Lagging indicators reflect past results.



Beyond Financial Metrics

Recognizing both the limitations of purely financial measures and their inherently lagging nature, **Robert Kaplan and David Norton** introduced the **Balanced Scorecard** in the early 1990s.

Their central insight was simple.

Financial performance matters.

But financial metrics alone rarely tell the full story.

Most financial indicators describe outcomes that have already occurred. They provide valuable information about where an organization has been, but often provide limited visibility into the capabilities, processes, and relationships that will shape future performance.

To address this limitation, the Balanced Scorecard encourages organizations to monitor performance from four complementary perspectives:

1. Financial
2. Customer
3. Internal Processes
4. Learning & Growth

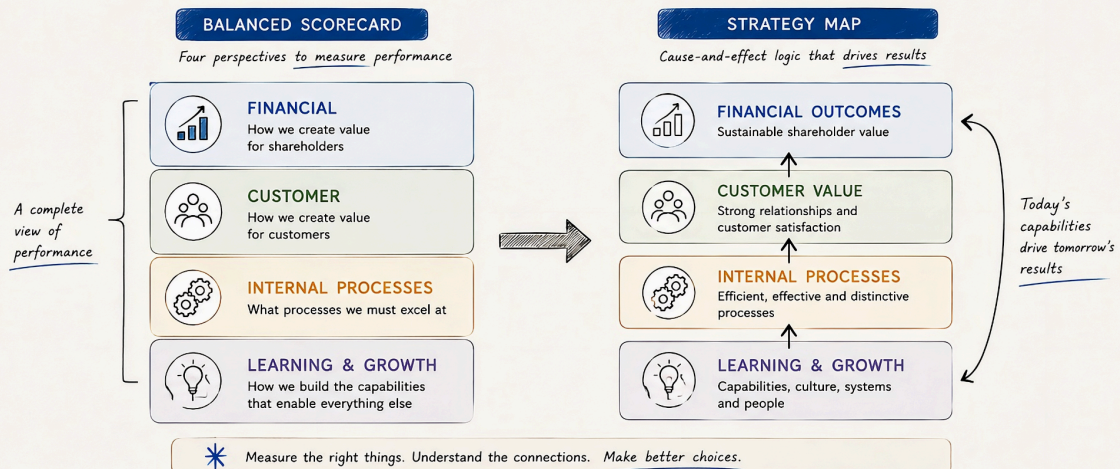
The framework's deeper contribution, however, is not the scorecard itself but the logic that sits behind it.

Strategy maps extend this logic by making explicit the **cause-and-effect** relationships between capabilities, processes, customer outcomes, and financial results. Capabilities influence processes. Processes create value for customers. Customer value drives financial performance.

In other words, strategy maps help organizations visualize how today's actions are expected to produce tomorrow's results.

Balanced Scorecard & Strategy Map

Different lenses. Same logic. Strategy creates value over time.



Adapted from Kaplan & Norton (Balanced Scorecard & Strategy Map)

The objective is not to measure everything, but rather to identify the relatively small number of indicators that best reflect whether the organization is building the capabilities required by its strategy.

As with capabilities themselves, focus matters.

Too many metrics often create confusion rather than insight.

Systems as an Enabler

Measurement is important, but it is only one part of a broader system of organizational control. Researchers such as **Robert Simons** have argued that organizations require a combination of

- belief systems
- boundary systems
- diagnostic controls
- and interactive controls

to remain aligned with their strategy and adapt as circumstances change.

The details of these frameworks are beyond the scope of this note. What matters for our purposes is a simpler observation.

Systems do far more than monitor results. They help reinforce culture, guide behavior, manage risk, and support adaptation over time.

Perhaps the most important lesson is that systems should not be viewed as an end in themselves. Organizations sometimes become obsessed with reports, dashboards, scorecards, and KPIs, mistaking measurement for management.

Yet the objective is not to produce more information.

The objective is to create clarity.

Well-designed systems help leaders focus attention on what matters most. They reinforce the behaviors that strengthen key capabilities, provide early warning signals when performance begins to drift, and help ensure that everyday decisions remain aligned with strategic priorities.

Ultimately, systems are valuable not because they generate data, but because they help organizations translate strategy into consistent action.

ACT IV

Bringing It All Together

At this point, it is worth stepping back and looking at the complete picture.

Across these three Field Notes, we have explored a deceptively simple question: ***Why do some organizations survive, adapt, and endure while others struggle to do so?***

The answer, of course, is far more complex than any single framework can fully capture. Yet a recurring pattern appears throughout much of the strategy and organizational design literature.

Organizations operate between two worlds: an external world they cannot control and an internal world they can deliberately design.

Field Note 001 introduced this idea and explored why alignment between these two worlds matters.

Field Note 002 focused primarily on the external world: understanding the environment, interpreting reality, and making strategic choices about where and how to compete.

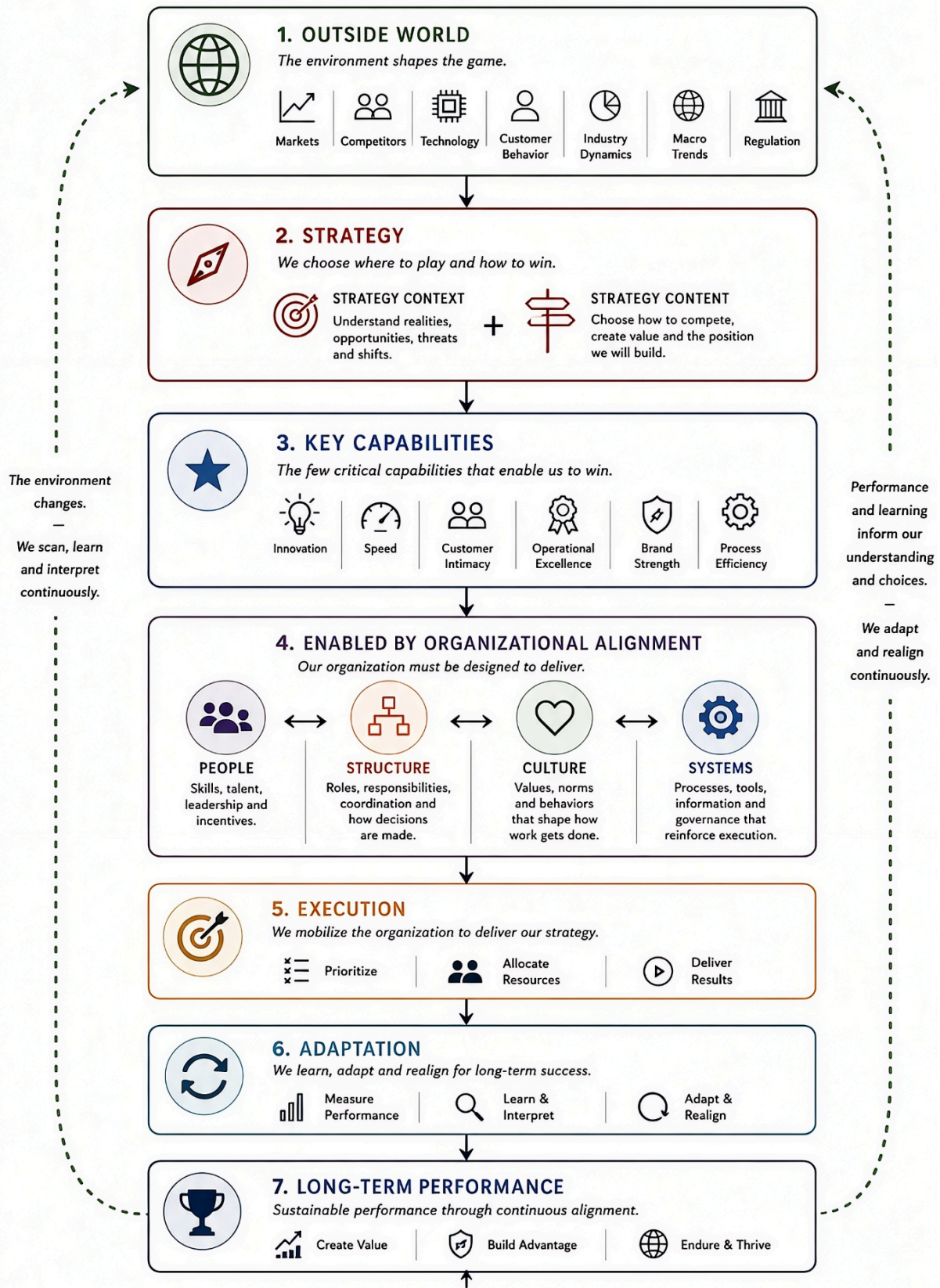
This note focused on the internal world: the capabilities required to execute those choices and the organizational elements that help develop and sustain them.

Taken together, the logic can be summarized in a relatively simple way.

The external environment influences strategy. Strategy determines the capabilities required for success. And those capabilities, in turn, must be supported by the organization's people, structure, culture, and systems.

THE ORGANIZATIONAL ALIGNMENT MODEL

Connecting the outside world with the inside world.



The important point is that none of these elements exists in isolation. Changes in strategy often require new capabilities, and new capabilities frequently require changes in people, structure, culture, or systems. As the external environment evolves, the entire process begins again.

Alignment is therefore not a one-time exercise.

It is an ongoing process of adaptation.

No Perfect Answers

One final observation is worth emphasizing.

Throughout these three notes, a familiar phrase has appeared again and again:

It depends.

There is no universally superior strategy, capability, structure, culture, or system. Every organizational choice involves trade-offs, and every design enables certain capabilities while making others more difficult.

This is one of the reasons leadership is so challenging. The objective is not to find a perfect answer, but to make deliberate choices, understand their consequences, and continuously realign the organization as circumstances change.

The organizations that endure are rarely those that predict the future perfectly.

More often, they are the organizations that remain attentive to reality, willing to challenge their assumptions, and capable of adapting when circumstances change.

Organizations survive not because they find permanent answers.

They survive because they remain capable of adapting when the answers change.

Download Resources

[Field Note 003 — Full Essay \(PDF\)](#)

Long-form downloadable version of this essay.

[Field Sheet 003 — Aligning the Organization \(PDF\)](#)

A one-page synthesis of the key concepts explored throughout this note, including capabilities, organizational alignment, and the role of people, structure, culture, and systems in strategy execution.

[The Organizational Alignment Model \(Complete Version\) \(PDF\)](#)

An expanded visual framework connecting environment, strategy, capabilities, people, structure, culture, systems, performance, and continuous adaptation.

Selected References & Influences

Selected influences behind many of the ideas explored throughout these notes include:

- Michael Porter
- Richard Rumelt
- Henry Mintzberg
- Jay Barney
- David Teece
- C.K. Prahalad
- Gary Hamel
- Chris Zook
- Robert Kaplan
- David Norton
- Robert Simons
- Edgar Schein
- Cameron & Quinn
- Lepak & Snell

Along with broader work in:

- strategic management
- organizational design
- organizational behavior
- performance management
- systems thinking
- behavioral psychology