

Balanced Scorecard REPORT

THE STRATEGY EXECUTION SOURCE

ON BALANCE

How a Management System Helps You Cope with a Recession

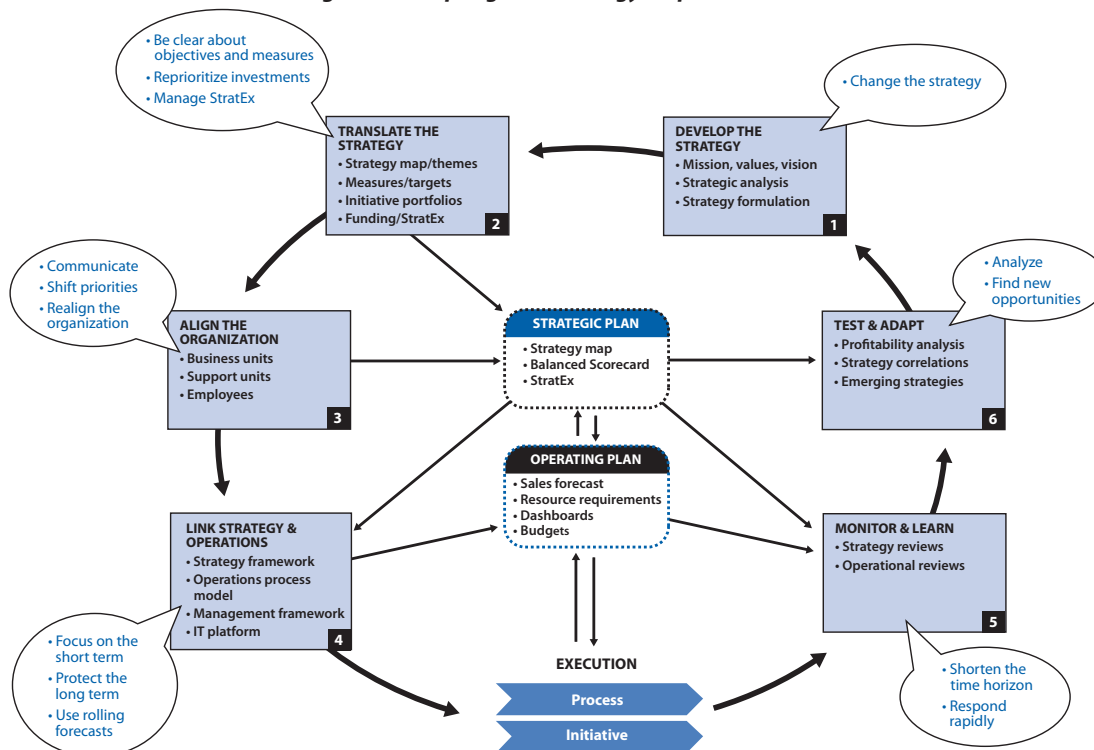
By David P. Norton

Cost cutting is no formula for surviving tough economic times. Across-the-board cuts that ignore the strategy and key objectives and their causal relationships can knock a company off course entirely, jeopardizing its long-term strategy and mission. Instead, says David Norton, adapt the strategy map. With the six-stage management system as your guide, you can shift to a short-term plan—with speed and agility—knowing the causal impacts up front.

Recently Bob Kaplan and I published our fifth book, *The Execution Premium*. In it, we talk about the importance of having a system to manage strategy. It turns out that most organizations don't have one. Those that do have a 70% chance of succeeding,¹ which are pretty good odds for something as complex as a strategy. The book makes the case for a strategy management system that has six components (see *Figure 1*). In recent months, as the world has plunged into recession, some people have asked, "Isn't it overkill to have a system with six components to manage a strategy? We all know what we have to do, right? We have to cut costs in order to survive."

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Figure 1. Adapting Your Strategy Map for a Recession



The strategy map and strategy management system inherently promote speed, flexibility, and adaptability to change. Modifying the emphasis in difficult periods is easily accomplished.

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Instilling a Strategy Management Culture at St. Vincent Catholic Medical Centers

From near collapse to bankruptcy protection to two years of reorganization: St. Vincent Catholic Medical Centers was as battle-weary as it was in need of deep transformation. With its Strategic Alignment Roadmap (STAR) to galvanize and guide the team, this major New York medical center has emerged a Strategy-Focused Organization—with big plans for the future.

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Leading in an Uncertain World: Make Better Decisions (and Make Decisions Better)

The Kaplan-Norton six-stage management system (aka the *execution premium* model) is also an elegantly simple decision-making system, with built-in mechanisms for testing, adapting, and modifying ideas, assumptions, and actions. Palladium CEO David Friend outlines ten ways to improve organizational decision making using the system as your guide.

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Forget customer satisfaction. It's customer aggravation you should be measuring. Performance measurement expert Mark Graham Brown busts a few myths and offers eight vital measures that are often missing from (or woefully mismeasured on) BSCs.

I want to make the case that, in fact, you *do* need such a system. More than ever, you need a structure to help you to execute your strategy. In its latest CEO Challenge Survey, the Conference Board asked a cross-section of 769 CEOs a simple question: “What challenges are your greatest concern?” The top three issues were (1) excellence in execution;

Changing the strategy means you have to move from your long-term development path to a short-term survival plan.

(2) consistent execution of strategy by top management; and (3) speed, flexibility, and adaptability to change.²

These responses, in the midst of a worsening worldwide recession, are very enlightening. The CEOs are not talking about strategy. They’re not talking about products. They’re not talking about customers. They’re talking about *execution*. In a recession, the margin for error is very thin. Failure to execute can be fatal. While many things may change in a bad economy, I believe that two fundamental things remain the same: (1) you still need a strategy, and (2) you still need to execute.

Let’s look at the six-stage model and each major activity within it, and reflect on how this model would help an organization to cope in a recession without losing sight of its long-term strategy.

Stage 1: Develop the Strategy.

One of the things that we’ve learned from the past 15 years of building and refining performance management systems in organizations is that you can’t manage what you can’t measure—and you can’t measure what you can’t describe. If you’re trying to

manage your strategy, you’d better have a way to describe it: you’d better have a *strategy map*.

Figure 2 provides a simplified example of a strategy map for a national consumer bank. This map shows how the bank intends, over the long term, to create shareholder value. The bank has a long-term strategy to

develop new products and brands and foster customer intimacy. Its long-term directions are balanced by a short-term focus on reducing

costs, enhancing productivity, and minimizing risk.

Let’s assume that you’re the CEO of this organization and that suddenly the world has changed. You know that banks are going down all around you; they’re being bailed out or they’re being acquired. Between the industry fallout and the loss of consumer confidence, you have an emergency on your hands. Because even if you’ve been prospering—doing everything right, not incurring excess risk—the environment has changed so dramatically that your goals and expectations must change. What worked for the past five or ten years is irrelevant now. So what are you going to do? Well, let’s go to the system—you’ve got to change the strategy. Changing the strategy means you have to move from your long-term development path to a short-term survival plan. You have to rebalance the strategy.

Let’s think about how you would do that. In a typical setting, you’d get the executive team together and come up with lists of things that you have to do. With the strategy map, all that is different. The strategy map allows you to look at long-term and short-

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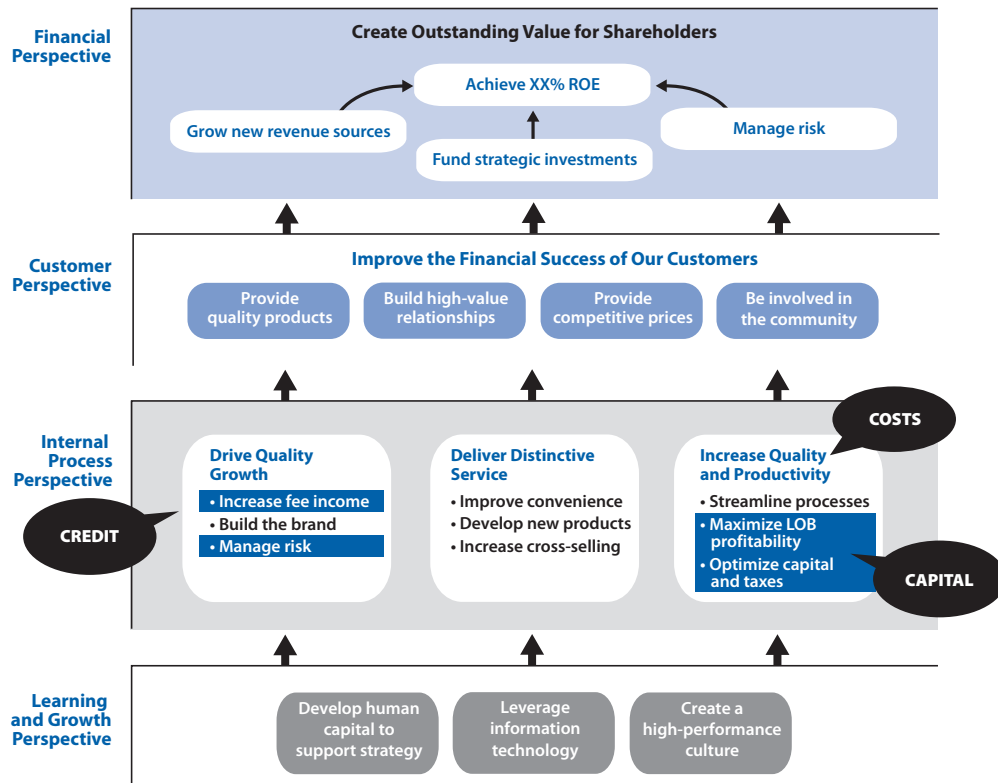
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Figure 2. Strategy Map for a National Consumer Bank



Without abandoning its long-term strategy, the bank is simply refocusing on three short-term issues—costs, credit, and capital—that represent its lifeline during the downturn.

term objectives and requirements. Rather than cutting 10% across the board (which guarantees you will cut things that are important), you end up rebalancing the strategy. That means prioritizing your objectives—identifying those that should receive the most immediate attention and resources during the downturn.

The strategy map is the critical tool that allows you to change the strategy. Imagine yourself as the general on a battlefield. Conditions are changing, the reports are coming in. Pressure is being applied on the flank; you need to redistribute your assets to match the changing conditions on the battlefield. You need to change the strategy—but how? Where do you turn? You turn to the map. The map shows where your resources are, where the enemy is, the advantages (and obstacles) of the environment—

and what you have to change. The same is true in business. You go to the map—the strategy map. The strategy map tells you in which direction (or directions) you were moving and shows you to which areas you must shift. In Figure 2, you can see how the bank now is refocusing on three short-term issues—costs, capital, and credit.

It doesn't mean the bank's management team has thrown out the long-term strategy. It means it has extended the timetable. I remember one of the employees in this bank talking about her reaction to the changed strategy map. "We knew our company wasn't going under," she said. "We knew our company wasn't giving up on our long-term goals; we knew that they had a way to deal with the short-term. The strategy map was our lifeboat."

Stage 1 of the process is an important first step. The strategy has been changed in a thoughtful way. The entire executive team will have participated and will likely have reached consensus. The entire process probably took one day, illustrating the "speed, flexibility, and adaptability to change" that top management deems essential to success, according to the Conference Board survey. Stage 1 has started the process at the top. Throughout the remaining stages, management will add the details and disseminate the changes to all parts of the organization.

Stage 2: Translate the Strategy.

To be executed, a strategy has to be translated into budgets, initiatives, measures, and targets. Revamping the strategy means that all of these elements—all the assumptions and plans—need to be changed. Think about the

complexity that you just went through; you changed the strategy. Now, within a matter of hours you go to your strategy map and to your Balanced Scorecard, and you define new measures, new targets, and most importantly, new initiatives and new budgets. You're able to make all of these changes fast, in days rather than months. Again, the system permits these changes to be done quickly, flexibly, and systematically.

Stage 3: Align the Organization. Stages 1 and 2 changed the strategy and converted it to a plan in a relatively short period of time. The speed of action was possible because the number of people involved in the revision process was relatively small.

As we've demonstrated—and as we've established as one of the five principles of the Strategy-Focused Organization—the key to executing strategy in organizations is to make strategy everyone's job. Employees at all levels need to understand the new strategy and determine how to adapt their own behavior. This is *alignment*—the process of cascading the strategy from the higher levels of the organization to the lower levels. It can be

In the recessionary world, game-changing events seem to happen on a weekly, if not daily, basis. To manage in this environment, organizations must shorten their time horizon.

done vertically, where corporate communicates with group, section, region, and so forth. Or it can be a horizontal cascade, where the point is to ensure that IT and HR are integrated with the strategy or that your supply chain partners act in synch with it. With this process of alignment (with the emphasis on “process”—it's more than just a concept), you now

have a structured way to take a strategic change at the top and disseminate it throughout all levels of the organization.

This is an important example of where the use of a strategy management system permits speed and reliability of execution that would not otherwise be possible. With the shared framework of a strategy map, a process of strategy communication, and the process of cascading, new strategic directions can be introduced and acted on in a matter of weeks. Without such a system, such changes would be near impossible.

Stage 4: Link Strategy and Operations. While operational effectiveness is always important, a recession puts a premium on it. Most recession strategies build on a foundation of improved productivity and quality to reduce the cost of doing business. These outcomes are derived from operational processes, such as manufacturing, distribution, and sales. It is more important than ever that these processes be linked to the strategy. For example, Six Sigma and TQM programs should be focused on the strategic issues identified on the strategy map.

Referring to the internal process perspective in Figure 2, the strategy places emphasis on increased fee income and risk reduction

(under the strategic theme Drive Quality Growth), line-of-business profitability and capital and tax optimization (under the strategic theme Increase Quality and Productivity) to impact the short-term goals of costs, capital, and credit improvement.

One of the major barriers to strategy execution is the complex-

ity of managing programs that cross organizational boundaries. Many organizations create *special purpose teams* (or *theme teams*), made up of executives and specialists, to oversee the management of specific parts (or strategic themes) of the strategy. Groups with titles such as Innovation Councils, Productivity Teams, and Risk Reduction Teams are given the resources, authority, and accountability to implement portions of the strategy. These cross-business teams help reduce the time needed to make the complex decisions prompted by a new strategy.

Stage 5: Monitor and Learn.

While plans are important, the ability to monitor performance against those plans and to make informed adjustments is fundamental to success. Typically, a strategy doesn't change rapidly; executives may meet on a quarterly basis to review specific strategic themes and make appropriate changes. The recessionary world presents a different environment. Game-changing events seem to happen on a weekly, if not daily, basis. To manage in this environment, organizations must *shorten their time horizon*. Some organizations move from quarterly to monthly or even weekly performance review meetings.

Good information is the critical ingredient that supports this process. A Balanced Scorecard is used to monitor the strategy; dashboards are used to monitor operational performance. The technology that supports business reporting is an essential part of the management system, and one that contributes significantly to improving reaction time.

Stage 6: Test and Adapt. Necessity, as they say, is the mother of invention. From the economic pressures created by the recession, new ways of doing business

will emerge: just look at how companies like Southwest Airlines and Best Buy emerged from the 2001 recession with new business models that catapulted them ahead of their competitors. The tools available to management today for building these new approaches are much improved over those found in past recessions. Specifically, business intelligence (BI) tools provide new ways to get beneath the surface of an organization's performance to test hypotheses about the factors driving performance and to gather insights that may fundamentally change the business. A management system that clearly defines the strategy, converts it into measures and targets, links these to operational processes, and reviews performance is precisely the kind of rich environment that BI approaches were designed to support. The payoff from BI has never been more important than it is today.

A System Hardwired to the Strategy

In summary, the process described in Figure 1 starts with a recognition that changing business conditions require a change in strategy. The strategy map provides a vehicle to do this rapidly and transparently. It allows organizations to refocus their strategy on short-term survival without destroying the elements of long-term success that will be crucial when the recession abates. Secondly, the revised strategy must be converted to new measures, targets, initiatives, and budgets. The Balanced Scorecard allows these instruments of change, defined in the strategy map, to be developed rapidly and unambiguously.

The key to executing the strategy is moving responsibility for implementation from the top to the bottom of the organization. With thousands of employees and customers and scores of suppliers and partners, this is probably the

most challenging of activities. The third stage of the management system involves a process of communication and cascading that ensures everyone's alignment to the new direction. Alignment is the most important facet of the execution process. In the fourth stage, the operations of the business are modified to reflect the new strategic priorities. The fifth stage provides for the critical feedback and monitoring process that allows for rapid reaction times, while the sixth stage involves using business analytics to improve insight and to identify the new ways of doing business that will lead to success not just through, but beyond, the recession.

The CEO of a Balanced Scorecard Hall of Fame company, speaking recently at one of our conferences, made the observation that “my Balanced Scorecard frightens me.” When asked why, he said, “If I change one measure or target on the BSC, *it will happen*. The scorecard is tied tightly to every part of our management process. If I change a measure on the scorecard, somebody will change an initiative, somebody will change the budget, the incentive compensation system will change and the measures that management talks about will change. Our management system is ‘hard-wired’ to the strategy.”

“Frightens” might be accurate, although I wish he'd have said something like “awes” instead. For what he described is exactly what the BSC is supposed to do. He was clearly referring to the power and effectiveness of the BSC in effecting change: a management system that is hard-wired to the strategy; a system that is responsive, not ponderous; a system that is integrated around a common framework, not fragmented around many. These are precisely the characteristics that make the six-stage management

system an essential ingredient to survival in a recession. This system was built and refined during the good times, when the world economy was booming. It gave organizations a way to describe, translate, align, and adapt their strategies. It increased the odds of successful execution from 10% to 70%.³ Such a system is needed even more today to cope with the dramatic changes in strategy required by the economy. Without such a system, how would you manage? ■

1. According to a survey of 143 performance management professionals by Balanced Scorecard Collaborative, March 2006.

2. These findings come from the Conference Board's updated 2008 survey, issued as the Financial Crisis edition in October. The Board updated the findings from the original survey, released in July/August. “Excellence in execution” was also the number-one top concern in the earlier survey, but “speed, flexibility, and adaptability to change” was number seven.

3. Balanced Scorecard Collaborative research survey of performance management professionals, March 2006.

Coming Soon

The Balanced Scorecard Hall of Fame Report 2009

Don't miss the latest edition of the *Balanced Scorecard Hall of Fame Report*, due out in June. The 2009 Report highlights the



breakthrough achievements and Strategy-Focused Organization best practices of the 20 members of the Hall of Fame class of 2008—a roster that includes Dubai Electricity and Water Authority, the French Ministry of Defense, Grupo Modelo, HSBC Bank Brasil, and the University of Leeds.

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