

Balanced Scorecard Report

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Leading Change with the Strategy Execution System

By Robert S. Kaplan

Traditionally, leadership and strategy execution have been studied as two separate, yet parallel, disciplines. Generally, leadership scholarship identifies principles, but not a means of integrating them into an overarching management approach—of putting them into action. Here, Robert Kaplan bridges the two literatures to see how they reinforce each other. Drawing on the work of the preeminent leadership scholar John Kotter, Kaplan demonstrates how the six stages of the Kaplan/Norton strategy execution system can help operationalize Kotter's eight principles of change management—and thus help embed both disciplines more firmly into the organizational culture.

Research shows that leadership is the single most important factor explaining whether companies succeed in implementing the Kaplan/Norton strategy execution system. Without exception, the companies, nonprofits, and public sector enterprises that have won entry into the Palladium Hall of Fame for Executing Strategy benefited from visionary and committed leadership. Conversely, when investigating why apparently similar projects in other organizations failed to deliver impressive results, we find that the lack of effective leadership behind the project explains most of the shortfalls.

We are not the only ones who extol the critical importance of leadership in driving change. For decades, leadership scholars have been studying the roots of effective leadership and the processes that leaders follow to implement change and achieve results. In this article, I bridge the two separate literatures—leading change and strategy execution—to see how they mutually reinforce each other.

John Kotter, formerly of Harvard Business School, is one of the most influential leadership scholars. He wrote a best-selling 1995 Harvard Business School Press book, *Leading Change*, and followed that with a popular version for mass audiences, *Our Iceberg Is Melting* (St. Martins Press, 2006). His research, described in these books, identifies an eight-step process for leading successful change (paraphrased here):

- 1. Establish a sense of urgency.**
- 2. Form a powerful guiding coalition.**
- 3. Create the vision for change and a strategy for achieving it.**

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4. Communicate the vision and strategy.

5. Empower others to act on the vision and strategy.

6. Produce short-term wins.

7. Sustain the effort; produce still more change.

8. Institutionalize the new culture.

Our focus is documenting how well these general principles for leading successful change apply to the six-stage strategy execution system that David Norton and I described in *The Execution Premium*.¹ What is striking is the absence of any role for measurement and management systems in the Kotter model. But perhaps this is not surprising. Kotter is a scholar of leadership and organizational behavior, and likely feels that changing and aligning measurement and management systems is “out of scope” for his teaching and consulting assignments. We, however, can leverage the measurement and management processes in our strategy execution framework to enhance the eight Kotter principles and make them more operational and effective for enterprise leaders.

Step 1. Establish a Sense of Urgency

Kotter’s first step is for leaders to overcome complacency with the status quo. The beliefs reflected in several popular management maxims must be overcome to create the climate for change, including the most destructive of all: “If it ain’t broke, don’t fix it.” In a world of continuous change, global competition, and dynamic technological disruption, the maxim should be rephrased as, “If it ain’t broke, it soon will be,” or in the words used by legendary pitcher Satchel Paige to explain his life philosophy, “Don’t look back—someone may be gaining on you.” Kotter’s observation is not unique to him. In their best seller, *Built to Last*, Jim Collins and Jerry Porras observed, “Visionary companies may

appear straitlaced and conservative to outsiders, but they’re not afraid to make bold commitments to BHAGs, ‘Big Hairy Audacious Goals.’”²

Several of the CEOs of Palladium Hall of Fame for Executing Strategy companies understood well the importance of getting the organization to recognize current problems and of implementing change immediately. One recalled starting meetings by writing the letters “L O W” on a whiteboard. When his executive team inquired about the meaning of these letters, he replied, “Look out window,” meaning, “Compare our results with the competition; we’re not as good as we think.” Bill Catucci, who led two dramatic transformations of underperforming organizations, claimed that at AT&T Canada, “Our only core competency was losing money. We were good at this, losing CS1 million per day.” Despite dismal financial performance at both companies, when Catucci talked individually with members of his senior executive team, each said, “My department is performing fine. If there’s a problem, it must be caused by someone else.” Catucci described how he overcame this finger-pointing, blame-shifting culture: “I told them that we’re all in the same boat, and if there’s a hole on your side of the boat, it’s not your problem to solve; it’s *our* problem. We’re going to succeed or sink together.” Both of these leaders, and many others, started their BSC projects by convincing the organization that it either had a major performance problem or would soon have one, unless executives collectively crafted a new strategy for future success.

Step 2. Form a Powerful Guiding Coalition

Often, resistance to change comes from within the senior management team. Some members are on the team because they head a major corporate function, such as human resources (HR), finance, or technology, or a major business or geographical unit. They view themselves as technical, product-line, or regional

experts but are still unused to or uncomfortable thinking like a senior general manager with accountability for overall corporate results. Effective leaders must help senior managers leave their comfort zone as subject-matter experts and think about overall company direction and strategy.

When asked to do so, however, many managers worry about what the change will mean to them and how will it affect their function or product line. They become defensive, which manifests itself in resistance to change. Leaders must identify who will be the team players for the new strategy and who may have to be asked to consider other employment opportunities, because continued resistance and negativism can undermine any change effort.

Most CEOs who have successfully implemented the Kaplan/Norton strategy execution system report to us that the process of building a strategy map and scorecard with their leadership team was the most useful benefit of the program. Although they extolled the benefits of having a map and a scorecard, they felt the process of creating them helped forge a *consensus* among the team members about the strategy and a *commitment* to helping the enterprise achieve it that had never before existed. “You could take our scorecard and give it to a competitor and it wouldn’t work,” explained one CEO. “You had to have sweated through the hours and hours of work and effort that went behind the card to get the benefits from the measures. It’s got to become part of the company’s belief system, almost a religion.” The active dialogue and debate that take place over the 12-week period of developing a strategy map and scorecard are an essential part of the process of building clarity, consensus, and commitment to a new way of doing business. The dialogue emphasizes that the goal is to determine what is right, not who is right, and that everyone’s views can influence the final documents. Participants in the process recall

1 R. S. Kaplan and D. P. Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* (HBS Press, 2008).

2 J. Collins and J. Porras, *Built to Last: Successful Habits of Visionary Companies* (HarperCollins Publishers, 2004).

PAST	Law enforcement	Roles	National security and law enforcement	FUTURE
	Case-driven	Focus	Threat-driven	
	Quantitative evaluation (case-based)	Measurements of Success	Qualitative evaluation (threat-based)	
	“Restrict; and share what you must”	Information Sharing	“Share; and restrict what you must”	
	Contributor	Intelligence Community	Full partner	
	Domestic	Scope	Global	
	Tactical	Senior Management	Strategic	
	Ineffective communications	Internal Communications	Effective, relevant, and timely communications	
	Operational silos	Organization	Integrated team approach	
	Inefficient and ineffective HR processes	Human Capital	Highly efficient and effective HR processes	
	Agents/support	Culture	Team of professionals	
	Antiquated and disparate IT systems	Information Technology	Mission-enhancing integrated IT systems, productivity tools	
	Applying developed S&T	Science & Technology	Developing and applying optimal S&T	
	Budget drives strategy	Resource Management	Strategy drives budget	

■ **FIGURE 1: THE FBI'S STRATEGIC CHANGE AGENDA**

FBI Director Robert Mueller created this strategic change agenda to educate employees about the transformational changes the agency needed to undergo post-9/11.

all the objectives and measures that had been proposed but that were ultimately left off the map and scorecard, imbuing the final documents with even more personal meaning. This difficult process of debating and agreeing on the strategy is a powerful mechanism for building a guiding coalition at the top of the enterprise.

Step 3. Create the Vision for Change and a Strategy for Achieving It

This principle is clearly already embedded as stage 1 of the Kaplan/Norton strategy execution system: Develop the Strategy. In this stage, we state that every enterprise should annually review and reaffirm its mission statement (the organizational purpose, why the organization exists) and its value statements (the attitudes and behaviors the organization insists on when dealing with employees, customers, suppliers, and communities). The enterprise should craft a vision statement, which consists of a measurable stretch target (such as a BHAG) and a date for achieving it. The

vision serves to mobilize the organization into action by defining a target that it cannot achieve through business-as-usual actions. This motivates the leadership team to select a strategy that will enable it to achieve the vision. We find that this step and step 2 in Kotter's framework are usually simultaneous, not sequential; defining the vision and selecting the strategy are an essential part of creating the guiding coalition for transformational change.

In our recent work, we have inserted an additional step between crafting the vision and developing the strategy: creating a strategic agenda. Leaders can use this management tool to link the vision to the strategy. The strategic agenda compares the current status of several organizational structures, capabilities, and processes with what they need to become over the next three to five years.

Consider the challenges faced by the U.S. Federal Bureau of Investigation (FBI) in the aftermath of the 9/11 terrorist attacks. To respond to its new challenges

and competitive threats, the FBI needed a completely new strategy and major changes in its organizational culture. FBI Director Robert Mueller recognized the need to prepare and educate all employees about the massive changes ahead. He prepared the strategic change agenda shown in *Figure 1* to describe the scale and scope of the transformation.

The change agenda indicates that the FBI would have to undergo a major shift from being a case-driven organization (reacting to crimes already committed) to becoming a threat-driven organization (attempting to prevent a terrorist incident from occurring). Instead of being secretive, agents now had to work outside of the traditional operational silos and become contributors to integrated teams. In even more of a discontinuity, the FBI had to learn to share information and work collaboratively with other federal and local agencies to prevent incidents that could harm U.S. citizens.

These guidelines, which emerged from extensive dialogue throughout the organization, engaged all levels of the FBI to participate in setting the goals for the new strategic direction and contributed to widespread understanding and support for the new strategy that followed. Director Mueller carried a laminated FBI strategic change agenda chart with him whenever he visited a field office. If agents expressed skepticism about or resistance to the new initiatives and structures, he reminded them, using the single-page summary, why change was necessary.

A strategic change agenda helps the leadership team articulate the cultural, structural, and operating changes necessary to transition from the past to the future.

Step 4. Communicate the Vision and Strategy

While the selection of the vision and strategy is ultimately the responsibility of the leadership team, the strategy must be executed by all the organization's employees. One of the most powerful benefits of the strategy map and

scorecard is their ability to make the strategy completely clear and actionable to every employee. We learned from the early BSC-adopting executives the value they placed on communication. One CEO declared, “You overcommunicate the strategy; it’s like trying to hit a nail into granite. The first few times you try, it glances off their consciousness. Eventually, a little bit sinks in and then you have to keep pounding it in deeper and deeper.” Communication specialists have told us, “You can’t communicate it just once. You have to tell people seven times and seven different ways, throughout the year.”

But just communicating the words in the vision and strategy is never enough. Employees hear the words, but they don’t know the answer to the questions, “What’s in it for me? What am I supposed to do differently and better to help the organization implement its strategy and achieve its vision?” Words have ambiguous meanings, and different people interpret them differently. Balanced Scorecard measures eliminate the ambiguity and provide a clear message and targets for every employee. As another CEO remarked, “I struggled with how to merge two great companies with proud histories and 12 different languages and cultures. The scorecard gave us a common language about our strategic directions and intent. We could develop and communicate strategy so that it was clear for everyone.” The president of a global hotel chain told how every single employee, from the hotel manager through housekeepers and dishwashers, had become aligned to the strategy: “Team members now understand the strategy and align their objectives and incentives to performance that will enable us to achieve our strategic goals.”

Communication enables all employees to understand the strategy and how they can contribute to its successful execution. It unleashes the powerful forces of what psychologists call “intrinsic motivation,” in which people

internalize for themselves the goals of the company’s strategy. Employees continually ask two key questions about their organization:

1. Does my company have a strategy for success?
2. How does my coming to work each day play a role in my company’s success?

Employees want to work for a successful, high-performing organization. A company that can clearly communicate its mission, vision, and strategy to employees answers the first question well. As employees learn about the key processes for delivering value to customers and capital suppliers, they start to link their daily activities to the accomplishment of organizational objectives. They search for ways to do their job differently and better to contribute to these objectives. In this way, all employees become empowered to act, leading to the next Kotter principle.

Step 5. Empower Others to Act on the Vision and Strategy

Middle managers and all employees must feel that they can take actions that will contribute to successful strategy execution. Such empowerment may be difficult to establish in decentralized and diversified companies where different business units and individuals are often unsure about how their local actions contribute to overall success. Companies can now use linked strategy maps and scorecards to align all organizational units to achieve corporate synergies.³ Companies such as Infosys, Statoil, and HSBC Brasil have hundreds of strategy maps and scorecards throughout the enterprise that help them achieve both vertical alignment—objectives drawn from the corporate scorecard—and horizontal alignment—objectives shared with other business units. The decentralization of strategic objectives facilitates local decision making and empowers decision making throughout the enterprise that is coherent and synergistic.

To facilitate even more local decision making that cuts across organizational lines, companies also form theme teams based on the thematic structure of their strategy maps.⁴ Theme teams are empowered to execute on boundary-crossing initiatives.

Stage 4 of the strategy execution system, Plan Operations, provides yet another mechanism to empower front-line and back-office employees to act on strategic priorities. In this stage, teams drill each BSC process objective into a detailed process map. The process map typically identifies multiple opportunities for process redesign and process improvements that can be accomplished by local teams. Once processes have been properly designed and structured, employees strive to achieve continuous improvements in these critical processes. Companies design dashboards that provide continual motivation and feedback for ongoing operational process enhancements. The high-level guidance from the strategy map and scorecard ensures that all such local process improvements are aligned with the vision and strategy.

Step 6. Produce Short-Term Wins

A principal challenge for any change management program is sustaining momentum during the journey. Although visionary leadership can generate excitement and high motivation at the launch of the program, interest and enthusiasm can wane during the difficult months as the change gets under way but the destination (the target in the vision statement) is still distant. Many change efforts fail during this critical middle stage of the journey as managers and employees get discouraged by the distance still to be traversed.

Strategy maps and scorecards solve this problem. They define not only the destination but also the road map to achieve it. Objectives and measures in the internal process and the learning and growth perspectives provide

3 R. S. Kaplan and D. P. Norton, *Alignment: Using the Balanced Scorecard to Create Corporate Synergies* (Harvard Business Press, 2006).

4 R. S. Kaplan and C. Jackson, “Managing by Strategic Themes,” *BSR* September–October 2007 (Reprint #B0709A).

near-term indicators of the progress the organization is making in improving the capabilities required to realize breakthrough performance for customers and shareholders. The multiple perspectives of the Balanced Scorecard automatically provide a balance between the longer-term outcomes the strategy is striving to achieve—for customers and shareholders—and the near-term improvements in processes, employee capabilities, and information technologies intended to drive those outcomes.

One immediate source of short-term wins is the initiative rationalization process, which companies usually conduct in the third or fourth month of their Balanced Scorecard implementation.⁵ Companies generally find that they can eliminate or consolidate at least 25% of their existing initiatives without affecting strategy execution. The savings from eliminating nonstrategic initiatives usually exceed the cost of the entire BSC project, providing a near-term benefit from implementing the new strategy execution system.

Beyond the ability to rationalize initiative spending and motivate and track near-term process and learning and growth performance, the multiple themes within the process perspective provide a natural balance between short- and long-term performance. Companies can generally achieve significant improvements in key operational management processes within six to 12 months. When the returns from operational improvements begin to slow, improvements in customer management processes (improving acquisition, loyalty, and growth) can play a more dominant role, typically in months 12 to 24. Finally, innovation processes will produce a new stream of products and customers during months 18 to 30, providing the final boost to achieving the visionary stretch target.

For example, the leadership team of a retail banking unit of a large financial institution established a vision to increase operating income from \$20 million to

\$130 million in five years. Managers and employees were initially shocked by the audacity of this goal. But the theme-based strategy map and scorecard showed them a feasible path to this destination. The operational efficiency theme had a target to reduce the cost per customer by 25% over the five years, with 80% of this improvement occurring in the first two years. The customer management theme had a target to increase annual revenue per customer, through cross selling and increased balances and fees, by 50%. Eighty percent of this improvement would occur in years 2 to 4. And a customer acquisition theme had a target of tripling the number of high-value customers. Much work had to be done in improving processes, developing new products and services, and rebranding the bank before the customer growth could occur, so most of the increase in customers was targeted for

Although intrinsic motivation can inspire employees to do their jobs differently and better, sustaining their motivation will require extrinsic motivation on the part of the company.

years 3 to 5. Each theme's targets phased in over time and interacted with one another (lower cost and higher revenues per customer, multiplied by many more customers) to exceed the ambitious five-year profit improvement vision.

As they plan their trajectory for achieving the vision, companies assign short-term targets to improve operational processes, middle-term targets to improve customer management processes, and longer-term targets to improve their innovation processes. In this way, managers and employees can track their progress and achievements all along the trajectory to success. They are not left in the dark about whether their strategy is delivering on performance.

Step 7. Sustain the Effort; Produce Still More Change

Although intrinsic motivation can inspire employees to do their jobs differently and better, sustaining their

motivation will require extrinsic motivation to maintain and reward employees' efforts. Extrinsic motivation occurs when managers set explicit targets for employee performance and align their incentives to reward the achievement of personal and organizational goals. In stage 3 of the Kaplan/Norton strategy execution system, Align the Organization, employees discuss with their supervisors and HR managers the limited set of personal objectives that they will attempt to achieve in the upcoming period. They must demonstrate that achieving their personal objectives will contribute, in some way, to achieving business unit and company-wide strategic objectives. The forces of extrinsic motivation are also unleashed when employees have explicit incentives, usually monetary but sometimes also nonmonetary, that are awarded based on achieving personal, business

unit, and corporate targets. The number 1 response from CEOs when asked what they would have done differently in implementing the strategy execution system is linking variable pay to performance sooner, because it created such a powerful motivational force for employees.

In addition to sustaining momentum by aligning personal goals and rewards to strategic objectives, stages 5 and 6 of the Kaplan/Norton strategy execution system provide ongoing feedback for learning and improvement opportunities in strategy execution. Although all companies perform periodic operational reviews, a new feature introduced by the strategy execution system is a separate, usually monthly, strategy review meeting. At this meeting, the leadership team reviews progress and shortfalls in strategic objectives, reallocates resources among strategic initiatives, and implements midcourse

5 P. LaCasse and T. Manzione, "Initiative Management: Putting Strategy into Action," BSR November–December 2007 (Reprint #B0711B).

changes in the strategic trajectory. Among the questions asked at this meeting are, “Why are we falling short of the target? What corrective actions should we consider? Are strategic initiatives on schedule and on budget? Where do we need to put more resources? Do we need a multifunctional, multibusiness task force to address a problem?” Much as a racing ship’s captain adjusts course to compensate for changes in wind, current, and competitors’ actions, the strategy review meetings enable leaders to revisit the strategy at least monthly and react to new information, challenges, and opportunities.

The strategy review meetings stress learning and improvement, not finger-pointing or blaming. Using words rarely, if ever, used to describe the operational monthly variance analysis meetings conducted by the finance staff, several managers have told us, “These are the best meetings we have ever had. We are talking about important issues and developing action plans to address them. They are fun and exciting.”

Even more change occurs during stage 6, Test and Adapt the Strategy, when the organization reviews a year’s worth of data on strategy implementation to learn what has worked and where the strategy may be flawed.⁶ By measuring the strategy, the company can distinguish between when it is implementing a bad strategy well versus when it is implementing a good strategy badly—an extremely important distinction that has very different action implications for the leadership team.

Formulating the strategy execution system as a continuous closed-loop system emphasizes that accomplishing strategic change requires an integrated and embedded management system to sustain the change and provide multiple opportunities for learning, improvement, and adaptation.

Step 8. Institutionalize the New Culture

The final step in Kotter’s leading change process is to ensure that a new culture gets established to sustain the change. The biggest change introduced by the new Kaplan/Norton strategy execution system is that the enterprise’s core management system is centered on implementing strategy and not on achieving a budget’s short-term financial targets. Companies have been using the budget as their central management system for more than a century, and this practice has engendered a pervasive culture of short-term financial control. It is indeed difficult to supplement and eventually replace the budget culture with the innovation and learning required for a strategy execution culture. We have found that to accomplish and sustain a strategy-focused culture, companies need a new organizational function, which we call the Office of Strategy Management (OSM).⁷ The new OSM function keeps the organization focused on strategy execution by implementing the six-stage management system throughout the year. The OSM does not select the strategy, nor is it responsible or accountable for its successful implementation. These remain the responsibilities of line management. But busy and easily distracted senior executives need the constant attention of a small staff dedicated to ensuring that all the processes required for successful strategy execution get performed on schedule throughout the year. Establishing an OSM and having it dictate the rhythm and pace of the strategy execution process are essential in establishing and sustaining a strategy-focused culture.

Putting Principles into Action

Leading change is demanding. Leaders must establish direction by developing a vision of the future along with a strategy for producing the changes

needed to achieve the vision. Once the vision and strategy have been selected, leaders must align all employees to them, communicating the direction and creating the coalitions committed to achieving the strategic vision. And leaders must continually use intrinsic and extrinsic motivation to inspire employees to stay the course and remain focused on moving in the right direction. The new Kaplan/Norton strategy execution system provides leaders with a tool previously unavailable for accomplishing their tasks: the capability to create an entirely new management system designed for and aligned to the journey toward achieving transformational change. ■



Robert S. Kaplan, along with David P. Norton, created the Balanced Scorecard concept. The Baker Foundation Professor at Harvard Business School, and Chairman of Professional Practice at Palladium Group, he also codeveloped activity-based costing. Kaplan has authored or coauthored 14 books (5 of them with Norton), 20 Harvard Business Review articles (8 with Norton), more than 130 papers, and dozens of articles for Balanced Scorecard Report.

To learn more

See *Leading Change*, by John Kotter (Harvard Business School Press, 1995); and *Our Iceberg Is Melting*, also by Kotter (St. Martin’s Press, 2005). For more on Kaplan and Norton’s six-stage strategy execution system, see “Integrating Strategy Planning and Operational Execution: A Six-Stage System,” by Kaplan and Norton, BSR May–June 2008 (Reprint #B0805A). Also, visit www.hbr.org and click on the topic “Leadership” for seminal books and articles on the subject by the world’s foremost authorities.

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6 D. Campbell, “Putting Strategy Hypotheses to the Test with Cause-and-Effect Analysis,” BSR September–October 2002 (Reprint #B0209E).

7 R. S. Kaplan and D. P. Norton, “The Office of Strategy Management,” Harvard Business Review, October 2005 (Product #R0510D). See also Chapter 10 in Kaplan and Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* (HBS Press, 2008); and Kaplan and Norton, “The Office of Strategy Management: Emerging Roles and Responsibilities,” BSR July–August 2008 (Reprint #B0807A).