



The Strategy-Focused Organization

How Balanced Scorecard Companies Thrive in the New Business Environment

By Robert S. Kaplan and David P. Norton

Published by Harvard Business School Press, 2000
ISBN 1578512506

Introduction

The ability to execute strategy can be more important than the strategy itself. A survey of management consultants in the early 1980s reported that fewer than 10% of effectively formulated strategies were successfully implemented. A 1999 *Fortune* cover story on prominent CEO failures concluded that in about 70% of the cases the problem wasn't bad strategy but bad execution.

One reason that organizations have difficulty implementing strategy is that the ways of creating value are changing but the tools for measuring strategies haven't kept pace. Opportunities for creating value are shifting from managing tangible assets to managing knowledge-based strategies that deploy an organization's intangible assets.

Those intangible assets include customer relationships, innovative products and services, high-quality and responsive operating processes, information technology and databases, and employee capabilities, skills and motivation.

In an economy dominated by tangible assets, traditional financial measurements were adequate. Today, companies have trouble managing intangible assets that they cannot always describe or measure.

As well, since most of today's large organizations operate through decentralized business units and teams, they need a language for communicating strategy widely, as well as a system to help

them implement strategy and gain feedback about their strategy. Success comes from having strategy become everyone's day job.

Measuring Strategy

When the Balanced Scorecard idea was first introduced, it was thought to be about measurement, not strategy. The belief was that an exclusive reliance on financial measures in a management system was causing organizations to do the wrong things.

Financial indicators, after all, are "lag indicators" — they report on outcomes, the consequences of past actions. Exclusive reliance on financial indicators in the past has promoted short-term behavior that sacrificed long-term value creation.

The Balanced Scorecard approach retained measures of financial performance but supplemented those lagging indicators with lead indicators — measures of the drivers of future financial performance, such as customer satisfaction, quicker inventory turns or other critical factors. The indicators chosen were designed to measure the strategy the organization had decided upon.

Although the implications weren't appreciated at the time, choosing those indicators meant that the Balanced Scorecard became a tool for managing strategy — for dealing with the 90% failure rates.

Several of the first companies that adopted the Balanced Scorecard — including Mobil Oil's North

Buy the Full Book!

www.amazon.com www.bn.com www.chapters.ca

America Marketing and Refining Division, CIGNA's Property & Casualty Division, and Chemical Retail Bank — were losing money and trailing their industries. In retrospect, these were three worst-case scenarios for testing the scorecard approach: failing, demoralized organizations that needed their workforces of up to 10,000 employees to understand a new strategy and change behavior that had been embedded for decades.

They all succeeded. Mobil moved to number one in the industry within two years, with profits 56% above the industry average. CIGNA returned to profitability within two years and improved performance in each of the next four years. Chemical Retail Bank improved profits by hundreds of millions of dollars in the next few years.

Each organization executed strategies using the same physical and human resources that had previously produced failing performance. The strategies were produced with the same products, facilities, employees and customers. The difference was a new senior management team using the Balanced Scorecard to focus all organizational resources on a new strategy.

Focus and Alignment

The Balanced Scorecard allowed the organizations to build a new kind of management system — one designed to manage strategy. This new management system had three distinct dimensions:

- Strategy became the central organizational agenda. The Balanced Scorecard allowed these organizations, for the first time, to describe and communicate their strategy in a way that could be understood and acted upon.
- Extraordinary focus was created. With the Balanced Scorecard as a navigational aide, every resource and activity in the organization could be aligned to the strategy.
- The system provided the logic and architecture to establish new organizational linkages across business units, shared services and individual employees. Employees could be mobilized to act in fundamentally different ways from the past.

When talking about how they achieved these breakthrough results, the executives continually mentioned two words: alignment and focus. Like a laser pointer that concentrates its limited power source to produce an extremely bright and focused beam of light, the Balanced Scorecard enabled the early adopting companies

to focus and align their executive teams, business units, human resources, information technology and financial resources to their organizations' strategies.

Five Common Principles

Although each organization approached the challenge in different ways, five common principles of strategy-focused organizations were at work.

PRINCIPLE 1: Translate the Strategy to Operational Terms. The Balanced Scorecard provides a framework to describe and communicate strategy in a consistent and insightful way. We can't expect to implement strategy if we can't describe it.

Designing the scorecard always begins with asking, "What is the strategy?" Then a strategy map is developed to describe the strategy.

Mobil, for example, wanted a strategy for growth and differentiation. It wanted to find ways to attract customers who purchased more gasoline than average, purchased more premium than regular-blend products, were willing to pay higher prices for a better buying experience, and would purchase products other than gasoline at a retail station.

Mobil started its scorecard by defining its high-level financial objective: to increase return on capital employed from 7% to 12% within three years. It planned to gain those improvements through two financial themes: productivity and growth. The productivity theme consisted of two components: becoming the industry cost leader through cost reduction and maximizing the use of existing assets. Revenue growth would come through new sources of non-gasoline revenue and increasing customer profitability through premium brands.

Together, that formed the financial strategy map. Four key elements had been defined — cost reduction, asset intensity, volume growth through non-gasoline revenue, and augmenting premium brands — that should ultimately increase return on capital employed.

Similarly, strategies were developed from a customer perspective, with the company focusing on delighting the consumer and attaining win-win dealer relations. Mobil also developed strategy maps for improving internal business processes, and learning and growth in the organization.

In each case, the company developed measures that would help evaluate progress in implementing the strategy, from watching mystery-shopper rates, to surveying

employees about the workplace environment, to checking dealer profit and the company's own return on capital.

The cause-and-effect relationships in strategy maps — as at Mobil — show how intangible assets can be transformed into tangible financial outcomes.

PRINCIPLE 2: Align the Organization in its Strategy. For organizational performance to become more than the sum of its parts, individual strategies must be linked and integrated. Strategy-focused organizations use the Balanced Scorecard to replace formal reporting structures with strategic themes and priorities that enable a consistent message and consistent set of priorities to be used across diverse and dispersed organizational units.

PRINCIPLE 3: Make Strategy Everyone's Everyday Job. Executives use the Balanced Scorecard to help communicate and teach the organization about the new strategy. Companies can use it to educate their employees about surprisingly sophisticated concepts.

To understand the scorecard, employees in the three organizations often had to learn about customer segmentation, variable costing and database marketing, for example. The companies then cascaded the high-level corporate and business unit scorecards to lower levels in the organization. In many cases, individuals and departments at lower levels developed their own objectives in light of the broader priorities. Finally, each of the successful organizations linked incentive compensation to the Balanced Scorecard.

PRINCIPLE 4: Make Strategy a Continual Process. For most organizations, the management process is built around the budget and operating plan, with monthly management meetings devoted to dealing tactically with variances. But there are no routine meetings to discuss strategy — indeed research shows that 85% of management teams spend less than one hour per month discussing strategy.

With the Balanced Scorecard, organizations introduced meetings once a month or quarter to discuss the scorecard results and the related strategy issues. Several companies went further, making the performance results available to everybody. Building on the principle that strategy is everyone's job, they empow-

ered everyone by giving each employee the knowledge needed to do his or her job.

PRINCIPLE 5: Mobilize Change through Executive Leadership. You need more than processes and tools, however, to create a strategy-focused organization. Experience has repeatedly shown that the single most important condition for success is the ownership and active involvement of the executive team.

A successful Balanced Scorecard program starts with the recognition that it's not a "metrics" project. It's a change project.

Conclusion

Strategy-focused organizations use the Balanced Scorecard to place strategy at the center of their organizations. The Balanced Scorecard describes strategy in a consistent and insightful way and can serve as the central framework for a new performance management process.

In many organizations, this process has produced significant performance improvements rapidly, reliably and in a sustainable manner by diffusing strategy through the organization and developing focus and alignment. **e**

ABOUT THE AUTHORS: Robert Kaplan is a professor of leadership at the Harvard Business School. David Norton is president of Balanced Scorecard Collaborative, Inc.

Related Reading

Balanced Scorecard: Translating Strategy into Action, by Robert S. Kaplan and David P. Norton, Harvard Business School Press, 1996, ISBN 0875846513.

Performance Drivers: A Practical Guide to Using the Balanced Scorecard, by Nils-Goran Olve, Jan Roy and Magnus Wetter, John Wiley & Sons, 1999, ISBN 0471986232.

Leading the Revolution, by Gary Hamel, Harvard Business School Press, 2000, ISBN 1578511895.