

Focusing Your Organization on Strategic Performance

Executive Summary

The Problem Most Organizations Face

In the early 1990's Ram Charan, a noted international business consultant, stated in a Fortune article that 70% of organizational strategies fail due to lack of effective execution. There are two primary reasons for this. The first is that many companies have no system for focusing, aligning and managing the execution of their strategy.

The second reason is the enormous change in how US organizations produce value. A 1982 Brookings Institute study estimated that 38% of corporate value was in intangible assets. Just ten years later, they estimated it was 72%. Now, most economists estimate 75% to 85% of corporate value is in intangible assets. Organizations need a way to focus and align their organization around their strategy while managing their intangible assets.

The Problems You Face

As a leader you have to ask yourself tough questions. How do I know if our strategy is being executed? How do I know which strategic objectives are most effective? Are we managing our intangible assets effectively?

Solutions

A few organizations have found the answer. Crown Castle, the largest wireless infrastructure company in the US, increased its stock performance by 600% over its industry's stock indexes. Mobile North America Marketing and Refining (MNAMR) and Chemical (Chase) Retail Bank also found the solution.

Mobile North America Marketing and Refining, a \$15 billion division of Mobile Oil, ranked last among its peers in profitability and was sucking \$500 million in cash each year from its parent company. A new executive team changed the strategy to customer-facing alignment and reorganized into 32 business units. To make sure the changes endured and the strategy was executed, they monitored execution with a Balanced Scorecard. In three years they went from last to first and produced profits 56% above industry average.

Profitable organizations can also increase performance with a Balanced Scorecard. Chemical (Chase) Retail Bank merged with Manufacturers Hanover and Chemical Bank. In addition to merging two cultures they had to move away from commoditized services, cut expensive real estate and target new clients. They used the Balanced Scorecard to monitor and communicate their new strategy. In the first year they showed an 8X profit improvement. By the third year they had a 19X profit improvement.

Balanced Scorecards are Essential

90% of the respondents to a survey by the Institute of Management Accounts said their organizations would benefit by implementing a Balanced Scorecard. When Bain & Co., the international consulting firm, surveyed 6,200 of their international clients they found that more than 70% of them used Balanced Scorecards with an 80% satisfaction rate.

What is a Balanced Scorecard?

A Balanced Scorecard is the equivalent of a strategic road trip. It has a destination, a map and a vehicle dashboard. The Destination Statement is what the organization wants to be at some time in the future. The Strategy Map

illustrates the objectives and the links between them that are necessary to reach the destination. (See figure XX.) Like a vehicle's dashboard, the Balanced Scorecard enables the executive team to monitor performance and stay on track.

A Balanced Scorecard displays the organization's performance from four or more perspectives: Financial, Customer, Internal Process and Learning & Growth (people, culture and IT). A real-time view of the 12 to 24 most critical leading and lagging performance indicators gives a quick assessment of how tangible and intangible assets align with strategy. (See figure xx.)

The process of building the Destination Statement and Strategy Map produce as great a value as the Balanced Scorecard. As the executive team works to build the Strategy Map, they come to agreement on links between objectives and definitions of critical leading and lagging performance indicators.

What About Your Organization's Strategic Performance?

Most organizations concern themselves with operational performance, but strategic performance is even more critical to success. Strategic performance directly impacts the organization's strategic goals. For example, how would your organization change if:

- You knew which of your strategic programs were ineffective?
- Departmental silos were breaking down and the organization was aligning around common goals?
- Everyone understood how they contributed to strategic success?

How to Improve Your Strategic Performance

Ron Person of Tor Consulting is dedicated to improving the strategic performance of his clients. His combined skills as a Six Sigma Black Belt, one of Microsoft's first consulting partners, and a strategic facilitator can help you build a Strategy Map and Balanced Scorecard that lets your organization translate strategy into high performance.

Ron can help your organization

- Create a Strategy Map showing the strategic objectives and causal links on your Strategic Value Chain
- Define the 12 – 24 metrics critical to monitoring strategic performance
- Develop a custom Balanced Scorecard that operates in Microsoft Office
- Train your staff to maintain and manage your strategic management system

What You Can Do Now

Ron Person can develop a Balanced Scorecard for your organization in a few weeks to a few months, depending upon the service package that best fits your needs.

If you would like a free consultation or an executive or senior management presentation, please contact Ron directly at:

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Focusing Your Organization on Strategic Performance

The Problems Most Organizations Face

In the early 1990's Ram Charan stated in a Fortune article that 70% of organizational strategies fail due to lack of effective execution. There are two primary reasons for this. The first is that many companies have no method for focusing, aligning and managing the execution of their strategy. They don't know which parts of their strategy are working or why.

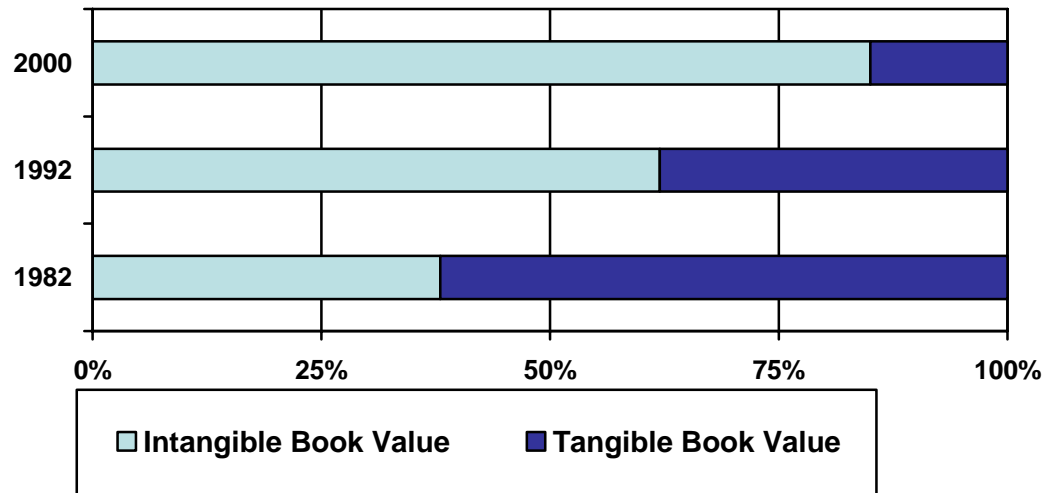


Fig. 1 Corporate Value Has Shifted

The second reason for failure is the enormous shift from tangible to intangible assets in the US. A 1982 Brookings Institute study estimated that 38% of corporate value was in intangible assets. Just ten years later, they put the estimate at 72%. Now, most economists place 75% to 85% of corporate value in intangible assets. Organizations need a way to focus and align their organizations around their strategies while managing their intangible assets.

The Problems You Face

As a leader facing these problems you have to ask yourself tough questions.

- How do I know if our strategy is being executed?
- How do I know which strategic objectives are most effective?
- Where can we increase performance to best increase strategic success?
- Are we managing our intangible assets effectively?

Solutions

A few organizations have found the answer to these tough questions. Crown Castle, the largest wireless infrastructure company in the US, increased its stock performance by 600% over its industry's stock indexes. Two other organizations that found the solution are Mobile North America Marketing and Refining (MNAMR) and Chemical (Chase) Retail Bank.

Mobile North America Marketing and Refining was a \$15 billion division of Mobile Oil. It ranked last among its peers in profitability and sucked \$500 million in cash yearly from its parent company. A new executive team changed the strategy to customer facing and reorganized into 18 customer-facing units and 14 support units. To make sure the changes endured and the strategy was executed, they monitored execution with a Balanced Scorecard. In three years they went from last to first and produced profits 56% above industry average.

Profitable organizations can also increase performance with a Balanced Scorecard. Chemical (Chase) Retail Bank merged with Manufacturers Hanover and Chemical Bank. In addition to merging two cultures, they had to move away from commoditized services, cut expensive real estate and focus on new clients. They used the Balanced Scorecard to communicate and monitor their strategic change. In the first year they showed an 8X profit improvement. By the third year they had a 19X profit improvement.

Organizations use Balanced Scorecards to monitor changes in the organization, not just for “managing by metrics.” Balanced Scorecards track the organizational alignment around a new strategy or other change management program.

Who Uses Balanced Scorecards as the Solution?

A diverse array of profit and non-profit organizations ranging from mid-size to international giants use Balanced Scorecards to execute their strategy and manage intangible assets. A few of these are:

Abbott Laboratories	GlaxoSmithKline	Power Europe
Accenture	GTE	Prudential Financial Group Insurance
AstraZeneca	HomeServices of America	Saudi Aramco
Bank of America	Honeywell International	Saudi Telecom
BellSouth	Johnson & Johnson GmbH	Siemens ICN
BlueCross BlueShield	Kaiser Permanente	Siemens Medical Instruments
BMW	KPMG	Subaru
Brown & Root	Lockheed Federal Credit Union	Texas State Auditor’s Office
Chiron Corporation	Media General	Verizon Communications
CIGNA	Motorola	Wachovia Corporation
City of Charlotte	National Petro Chemical	Wells Fargo
Conseco Insurance Group	Neutrogena	Wendy’s
Duke Children’s Hospital	Nortel Networks	Women & Infants Hospital
Fairview Southdale Hospital	Ortho Biotech	
General Motors	Paymaster	

Problems Implementing Early Balanced Scorecards

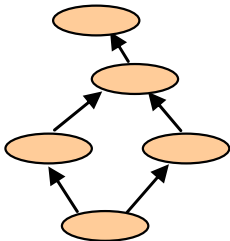
Developing Balanced Scorecards with the input from Strategy Maps has increased the success rate and eliminated problems faced by scorecards developed in the ‘90s. Those original scorecards were little more than spreadsheets showing the same key performance indicators the organization had always used. Some of these scorecards had over 80 metrics. Without a Strategy Map, most organizations used the same metrics they had always used. If you use the same metrics, you get the same performance.

Balanced Scorecards make a dramatic difference. In fact, 90% of the respondents to a survey by the Institute of Management Accounts said their organizations would benefit by implementing a Balanced Scorecard. When Bain & Co., the international consulting firm, surveyed 6,200 of their international clients they found that more than 70% of them used Balanced Scorecards with an 80% satisfaction rate.

What is the Balanced Scorecard Process?

Balanced Scorecards using Strategy Maps to develop objectives and metrics are more successful than earlier forms of Balanced Scorecards. Early Balanced Scorecards just reflected performance indicators an organization was already using. There was no way to tell whether the indicator was on a strategic value chain or how it was linked to other strategic objectives.

Developing a well-done, valid Balanced Scorecard is the equivalent of a strategic road trip.

<p>2008</p> <p>15% ROI</p> <p>25 partners</p> <p>36% market share</p>	<p>Destination Statement</p> <p>Where Does Your Organization Want to Go?</p> <p>The Destination Statement defines precisely what your organization wants to be in three to five years. It is a concise, one-page statement written in concrete, measurable terms that is defined, understood and agreed to by the executive team.</p>				
	<p>Strategy Map</p> <p>What Objectives Will Get You There?</p> <p>A Strategy Map is a visual roadmap to the Destination Statement. It displays the objectives and the causal links between them. These causal links help identify the performance indicators important to strategic success. The process of creating Strategy Maps helps the executive team to:</p> <ul style="list-style-type: none"> • Understand critical links between objectives • Break down silos • Optimize resources 				
<table border="1" data-bbox="407 1289 647 1392"> <tr> <td>Financial</td> <td>Customer</td> </tr> <tr> <td>Learning</td> <td>Process</td> </tr> </table>	Financial	Customer	Learning	Process	<p>Balanced Scorecard</p> <p>How Do You Stay On Track?</p> <p>Like a pilot’s instrument panel, the Balanced Scorecard enables the executive team to see multiple perspectives while moving the organization toward its Destination Statement. A Balanced Scorecard displays Financial, Customer, Internal Process and Learning & Growth (people, culture and IT) perspectives. This view of the 12 to 24 most critical leading and lagging performance indicators gives a quick assessment of how tangible and intangible assets are aligned with strategy. These performance indicators can be automatically updated with links to accounting and operations software.</p>
Financial	Customer				
Learning	Process				

The process of building the Destination Statement and Strategy Map produce as great a value as the Balanced Scorecard. As the executive team works to build the Strategy Map, team members understand and agree on links between objectives and definitions of critical leading and lagging performance indicators.

Destination Statement

An organization's Destination Statement is a single page of specific, well-defined measures that describes how the organization will be in three to five years. This is usually developed from research and the organization's strategic plan. It may also involve a facilitated meeting of the executive team.

Strategy Maps

A Strategy Map is a visual map of how an organization will execute its strategy. Ovals in the map indicate Strategic Objectives. Lines between the ovals (causal links) show how one initiative affects another. (See figure 2)

The objectives and links are built over an invisible grid. Rows across the grid, shown by the labels on the left, indicate the four perspectives used by many for-profit organizations. (Non-profits often use different perspectives in a different order.) These perspectives—Learning & Growth, Internal Processes, Customer and Financial—show the executive team their organization's performance from multiple points of view. This avoids focusing just on financial measures.

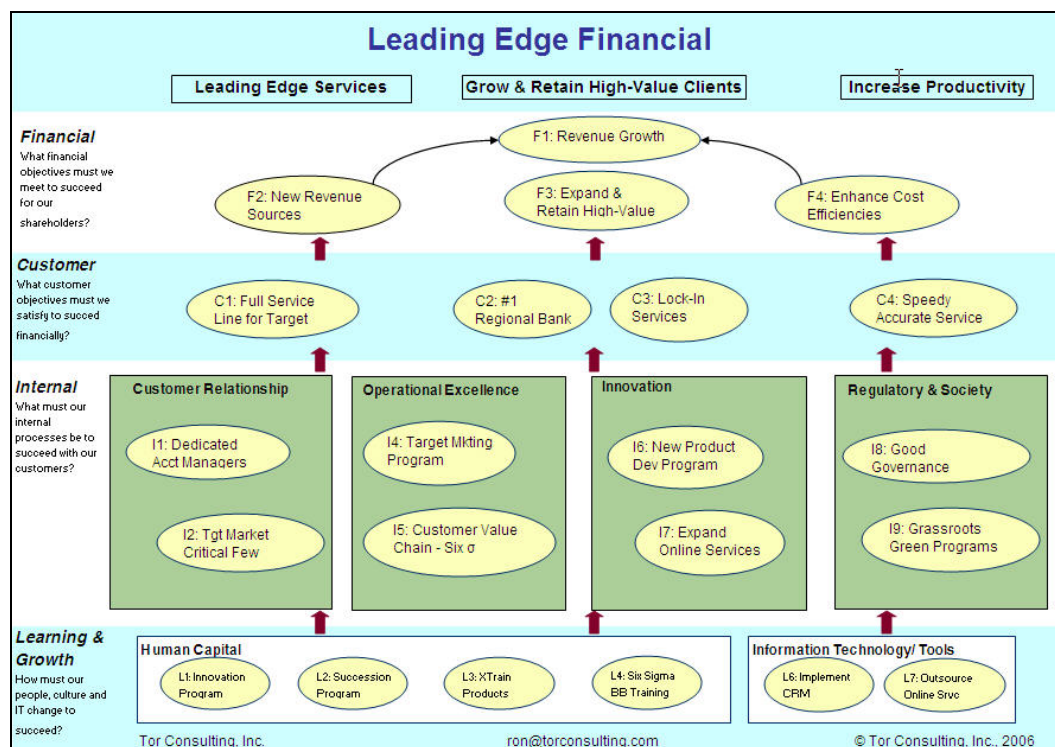


Fig. 2 Strategy Maps Show How an Organization Will Execute Its Strategy

The column layouts in many Strategy Maps are not as well-defined as rows. Strategic Objectives (ovals) are stacked into columns according to the Strategic Theme they support. Examples of Strategic Themes might be Leading Edge Products, Operational Excellence or Customer Intimacy. Most organizations use three or four Strategic Themes with one theme predominating. Results from some objectives affect more than one other objective and may cross themes.

Four Values from a Strategy Map

Having your executive team develop a Strategy Map in a facilitated meeting produces important values for your organization:

- **Building Agreement**
In building the map the executive team must agree on the objectives, their definitions and an accountable sponsor for each initiative.

- **Defining Performance Indicators**
The causal links between objectives make it easier to understand and define the leading (driving) and lagging (resulting) performance indicators in your strategy.
- **Testing Strategy**
Objectives and their links are assumptions about how the strategy works and how objectives interrelate. The combination of a Strategy Map and Balanced Scorecard make it easier and faster to discover wrong assumptions and make mid-course corrections to your strategy.
- **Communication Strategy**
Strategy Maps make it easy for people to see how they contribute to your organization's success.

Balanced Scorecard

If the Strategy Map is the road map to your strategic destination, then the Balanced Scorecard is your instrument dashboard. Operating a mid- to large-size organization is more complex than flying a jet, yet no jet pilot would dream of flying without an instrument panel to keep the plane on track, on altitude and on airspeed.

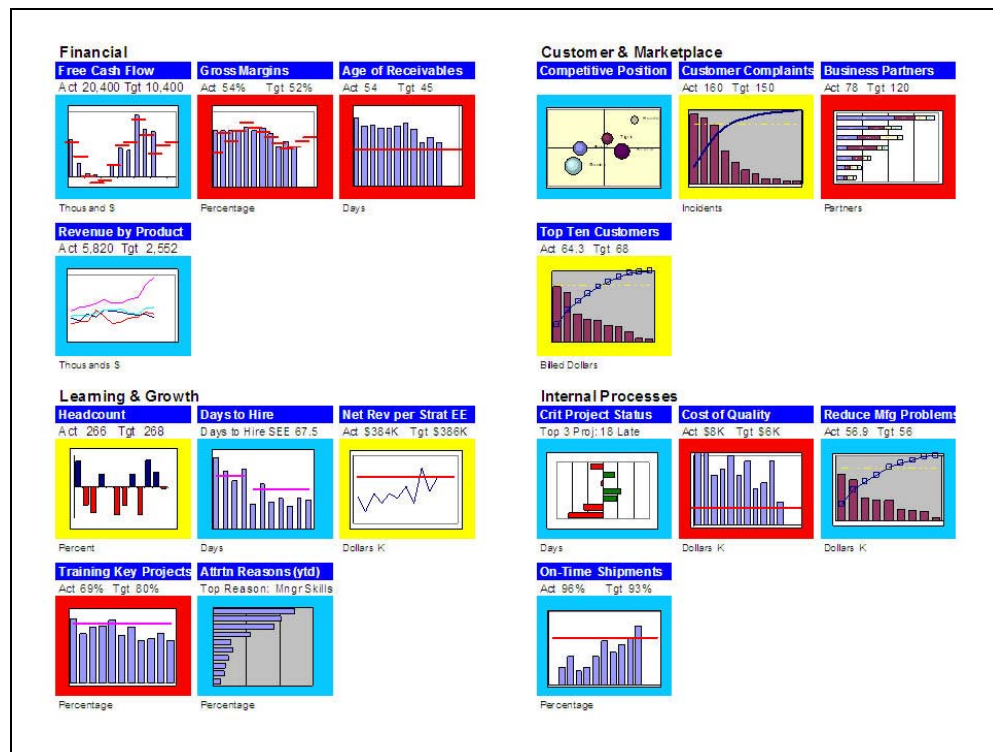


Fig. 3 The Balanced Scorecard Helps Keep Your Strategy On Track

A Balanced Scorecard uses 12 to 24 key performance indicators from the Strategy Map to create a computerized dashboard for the executive team or senior managers. One of the failings of earlier scorecards was the attempt to put too many metrics on a dashboard. Even large complex organizations have been successful using no more than 24 well selected metrics.

The main display of a Balanced Scorecard, shown in figure 3, has quadrants matching the four perspectives of the Strategy Map: Learning & Growth, Internal

Processes, Customer, and Financial. Performance indicators within each of these quadrants reflect the key metrics from the Strategy Map.

The front panel of a Balanced Scorecard shows the key metrics, index values and an alert color that indicates whether the performance indicator is in or out of an acceptable range. A quick glance at the scorecard shows by color where there is a problem. The mini-charts shown here enable executives to quickly see underlying trends.

The Balanced Scorecard shown in figure 3 uses Microsoft Excel for automated data retrieval, analysis and charting. Results display in Microsoft PowerPoint. It displays more and has more analytic capability than most \$50,000-plus software packages.

Drill-Down to Detail

The main screen of the Balanced Scorecard uses color alerts to warn of problems and shows trends, but it doesn't supply the necessary detail to make executive decisions. By clicking on one of the mini-charts you can drill down to see detailed charts or tables as shown in figure 4. Drill-down displays may show multiple charts or tables drawn from multiple databases. A good Balanced Scorecard will enable you to see the charts and tables in the manner that best helps you make decisions.

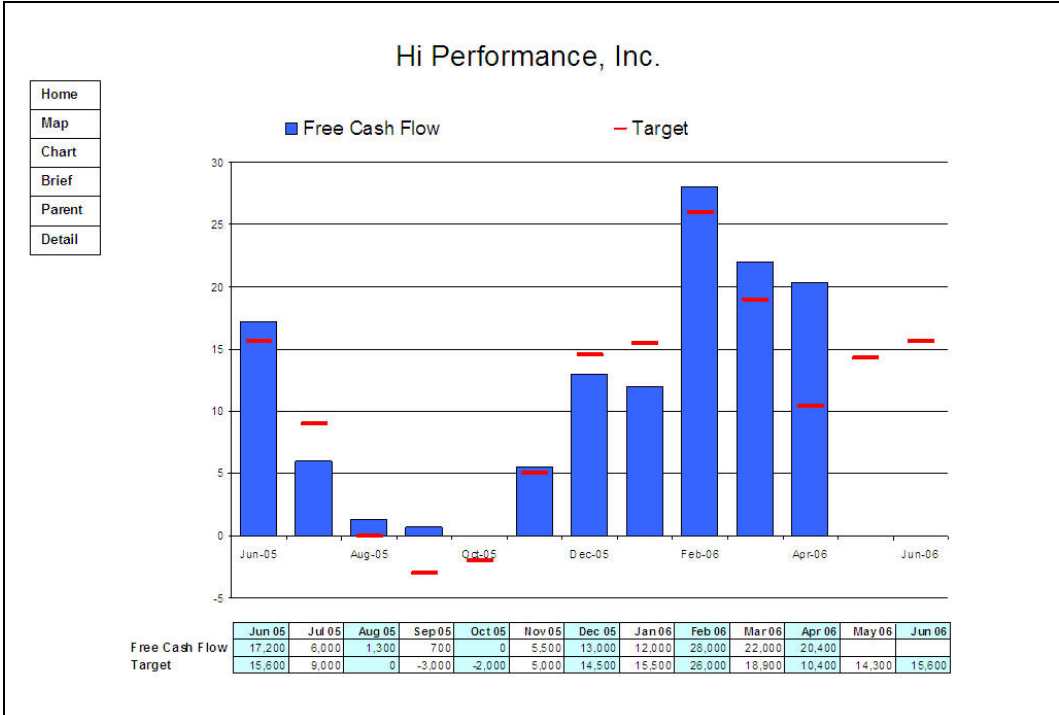


Fig. 4 Drill Down to See Detail Necessary for Decision Making

Good business analytics don't just present data, they help you make decisions. For example, the chart in figure 4 shows a competitive product comparison automatically created from the email inputs sent in by regional sales managers.

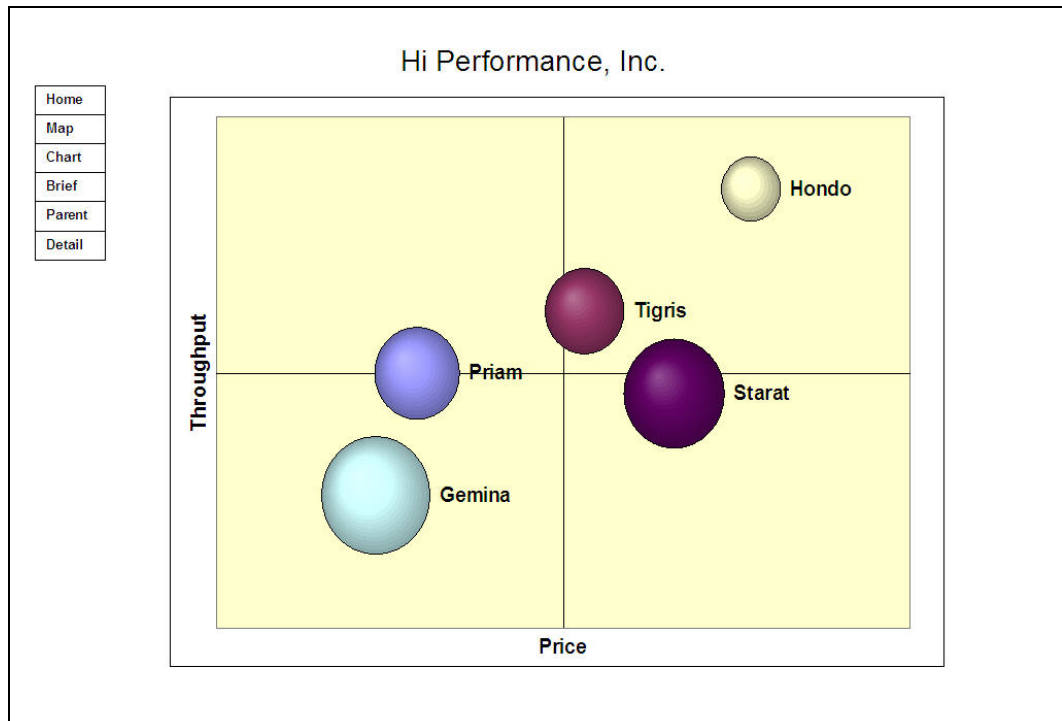


Fig. 4 Your Balanced Scorecard Should Have a Wide Range of Charting and Analytical Ability

Other forms of business analysis shown in your Balanced Scorecard could evaluate product development, project management, Baldrige quality programs, LEAN programs or Six Sigma programs. Figure 5 shows a Six Sigma Pareto chart that reveals the three issues producing 80% of the problems in customer support.

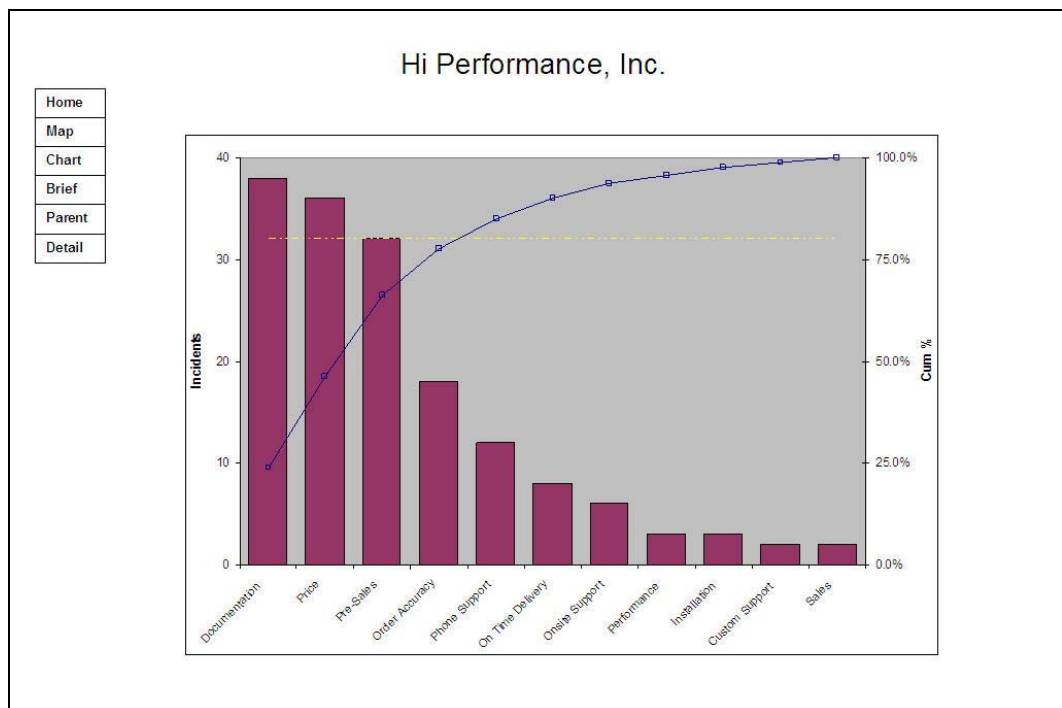


Fig. 5 Charting and Analysis Should Aid Management in Decision Making

In addition to detailed information about objectives the manager accountable for an initiative needs to be able to describe the situation and actions they are taking. A good Balanced Scorecard has a Briefing Book page for each objective where you can see the definition of the objective and metric, the current situation, the action planned and the manager. The Briefing Book shown in figure 6 even makes it easy to contact the managers - with a click an email window opens so you can send the managers an email.

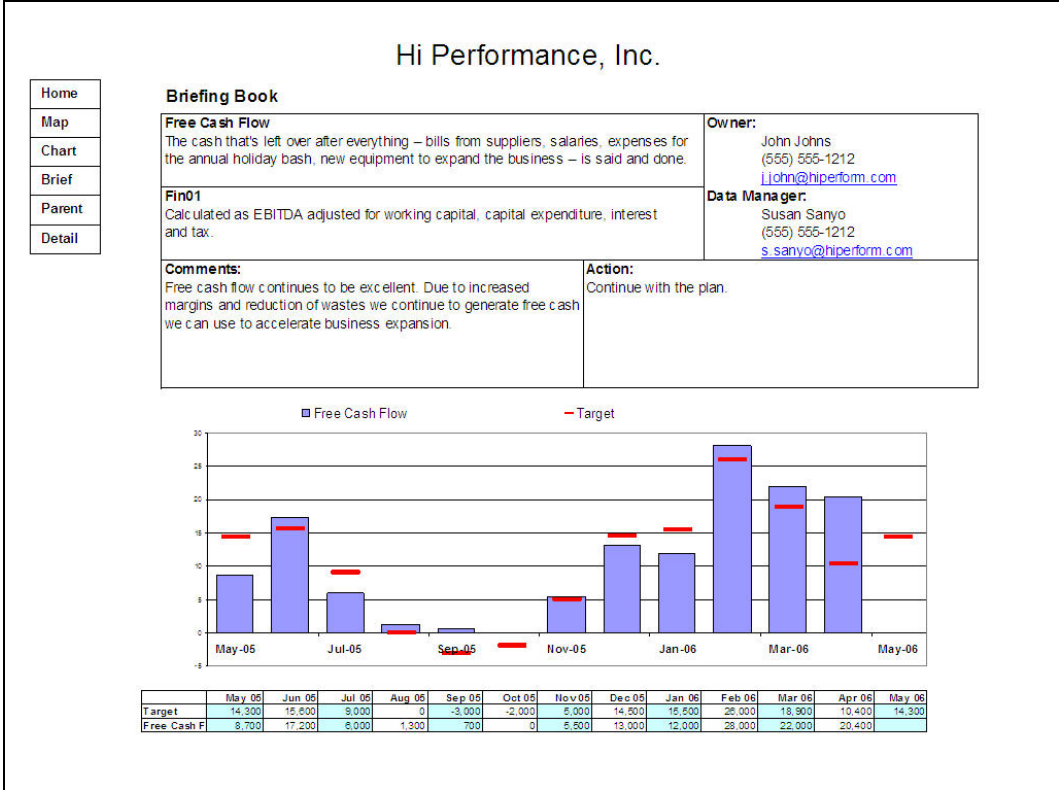


Fig. 6 Management Needs Information It Can Act On

Perspectives into your business are only effective if they show information that is current enough for you to make a decision. Your Balanced Scorecard should be easily updated. You should be able to make updates manually or automatically. Automatic updates occur by linking the Balanced Scorecard to accounting and operations software.

A Balanced Scorecard should also be easy for your staff to maintain and update without support from the IT department. Systems based on Microsoft Excel and Microsoft PowerPoint, like those shown in the figures, make management and maintenance easier.

How We Work with You

Tor Consulting can help you with part or all of your Balanced Scorecard process. There are many ways we help clients:

- **Scorecard Software**
If you already know the performance indicators you want to use we can rapidly develop a custom scorecard in Microsoft Excel and Microsoft PowerPoint and integrate it with your systems.
- **Balanced Scorecard Development Workshop**
This multi-day workshop rapidly develops your organization’s Strategy

Map, Strategic Objectives and performance indicators. We use one-on-one interviews to help executives and managers decide the types of analytics and charts they need for decision making. Within a few weeks after the workshop we'll have your Balanced Scorecard software operational and ready to integrate with your existing accounting and operations software. A rapid Balanced Scorecard workshop like this is a great way to keep momentum rolling for your new strategy or organizational change. Rapid development can be instrumental in implementing your Balanced Scorecard. Balanced Scorecards and Strategy Maps are living documents - you don't have to get them perfect to start with. What is most important is to get them out and get feedback on your strategy. This feedback will help you fine tune your Balanced Scorecard and Strategy Map to make them more accurate.

- **Phased Balanced Scorecard**

A phased development process stretching over two or three months may fit your organizational needs better. This gives you more time to fit tight executive schedules, educate everyone on Balanced Scorecards, work through implications of a new strategy and develop the projects necessary to implement strategic objectives.

Our process includes:

- **Organizational research and interviews**

Prior to meeting with any of the executive team we research your existing strategy and organizational environment. We also conduct one-on-one interviews with executive team members.

- **Balanced Scorecard kick-off**

The kick-off seminar highlights the successes achieved with the Balanced Scorecard. It helps managers understand how it helps organizations focus and align around a new strategy or change.

- **Strategy Map workshop**

This executive workshop develops the Strategy Map containing Strategic Themes and Strategic Objectives that will make your strategy successful.

- **Performance Indicators workshop**

In this critical workshop the executive team and key managers develop the success measures (metrics) and target values used in the Balanced Scorecard.

- **Data analysis and visual display interviews**

One-on-one meetings with each accountable manager or executive and with IT define the data, sources, analysis and charts that will help your managers make the best business decisions.

- **Balanced Scorecard software development**

Our Balanced Scorecard software, developed in Microsoft Excel and Microsoft PowerPoint, comes with most of our Balanced Scorecard development services. We develop a Strategy Map and Balanced Scorecard system specific to your strategy and integrate it with your existing accounting and operations software. We also train your staff to manage and maintain the system.

- **Executive meeting review**

Once the Strategy Map and Balanced Scorecard are complete, we help

you use it in your monthly and quarterly meetings so you can see how to look at your strategic performance from multiple perspectives.

- **Scorecard Audit**

Organizations change and that means your Balanced Scorecard will change. Your staff can handle most changes in our Balanced Scorecard software, but strategy changes or a changing business environment may require an audit of your Strategy Map and performance indicators. Balanced Scorecards are no different than accounting systems, they need to be kept up to date and audited to make sure they are valid.

Why Use Ron Person to Build Your Balanced Scorecard?

A few of the reasons organizations work with Ron to build their Balanced Scorecards are:

- **Balanced Scorecards based on Strategy Maps are more valid**

Using Strategy Maps to develop your Balanced Scorecard increases the Balanced Scorecards validity and increases the understanding of Strategic Objectives within the executive team.

- **Guaranteed Solution**

We guarantee our work. If you believe we have not met our mutually established objectives, we will work with you toward those goals for no additional fee or expense. If, after additional attempts, you still believe we have not met the objectives, we will refund your fees.

- **Total Solution**

We combine experience in facilitating strategy, metrics and software development to give you a total solution. You work with one person who is dedicated to your best solution.

- **Software Included**

Most of our consulting services include the Microsoft Excel and Microsoft PowerPoint system shown in the figures. This system has hundreds of development hours in it and can be managed and maintained by your staff.

- **Faster Development**

Some organizations have taken as long as a year to develop their first Balanced Scorecard. In this time the enthusiasm and momentum are lost. Our development times range from a few weeks to three months.

- **Objective Facilitator**

Your Balanced Scorecard development process should use an independent facilitator who has no vested interest in departmental objectives.

What You Can Do Now

For whitepapers on specific topics such as “Increasing Supply Chain Performance” or “Project Management Scorecards” please call or email us. To learn how to get started improving your organization’s strategic performance, contact Ron for a free consultation or free presentation to senior management.

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