"The Challenge of Strategic Alignment"

The role of Scorecards & Dashboards in Strategy Execution

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Contents

Introduction

A strategy is by definition the starting point for corporate behavior. It expresses an organization's ambitions, sets out its chosen direction and describes the principal initiatives and projects necessary to achieve its mission. Business schools, management gurus and strategy boutiques regularly develop new approaches and methodologies for strategy formulation and all acknowledge its overwhelming importance in setting the tone for the organization and its prospects for success. Despite its significance, aligning an organization to its strategy remains one of the most elusive and unsatisfactory areas of management endeavour. Indeed, research has shown that 85% of executive teams spend less than 1 hour per month discussing strategy and only 5% of the workforce understands strategy. [1]

Executives spend days or weeks devising well-crafted strategies and then throw them "over the wall" to the rest of the company, hoping and praying that their vision will bear fruit. [2]

Yet the notion of aligning an enterprise with its strategy is not beyond the grasp of all organizations. Take for example a football team about to play a vital competitive match. The manager sets out the strategy and each player's role within it so that they understand how their actions affect other players and the delivery of the desired outcome. Decisions all along the chain of command from manager to captain and to the rest of the team are geared to delivering strategic objectives, so why is it so difficult to emulate this behavior in a business setting?

A football analogy may not be a perfect paradigm for the world of government, industry and commerce but there are useful pointers which help to distil the essential components of strategic alignment from the corporate 'noise' that frequently obfuscates the strategic message, namely;

- **A clear understanding of stakeholder requirements and external influences.**

- **An unequivocal statement of strategy, with measurable objectives and clearly articulated performance measures.**

- **Systems and processes which enable the strategy to be communicated in a consistent, relevant and appropriate way to all corners of the organization.**

- **A highly trained workforce that is equipped and competent to act on the strategy.**

- **Feedback mechanisms that enable under or over performance to be identified rapidly so that remedial action can be taken to bring strategy delivery back on course.**

Threading its way through all of these apparent pre-requisites for success is communication and collaboration which are the binding agents that 'glue' the organization (the people) to the process and its enabling technology.

Communication

Strategy development is a curious mixture of science and art, fact and insight, knowledge, experience and creativity. In addition, in today's complex multinational organizations it draws on the skills of management from across the enterprise and in all functional areas. After all, strategy has implications for the development of human capital, information technology, product development and financial management to name a few, as well as the use of all other assets and resources owned by a company.

This in turn means that if strategy is to be delivered successfully by an organization it must be clearly articulated and communicated throughout the business. In other words, the strategy must be widely understood at all management levels so that operational plans and day to day activities are aligned with corporate goals and objectives.

However, the importance of communication in the strategy process is no longer confined to management, employees and internal stakeholders. Changing attitudes to corporate governance and corporate social responsibility throughout the developed world coupled with demanding legislation to protect shareholders in many geographies, means that management are now formally accountable to a wider set of external stakeholders as well. It is now incumbent on management to ensure that strategy development and communication follows a robust and auditable process so that resources deployed in the business are strategically aligned and management actions can be justified, if required, to an external audience.

Capturing such fluid requirements is a challenge. Most management teams resort to flip charts, break-out groups and facilitated meetings to drive out the thinking and record key decisions. Methodologies such as The Balanced Scorecard, Six Sigma, EVA and others can provide a helpful framework but they are largely paper based in the development phase and can be difficult to change and communicate. So they do not readily keep pace with the iterative and creative nature of strategy development.

"When companies commit to a strategy and communicate 'This is how we win', and can align execution with corporate objectives, they begin to create a culture of performance."[3]

Is the message clear?

In large and complex heterogeneous organizations the sheer scale of the task makes it extremely difficult to view the overall strategy and check its integrity, let alone cascade it through the organization. Take for example the development of Key Performance Indicators (KPIs) – measures which support the achievement of specific objectives derived from a strategy.

This stage of strategy development is a demanding and often contentious process. Managers from different geographies, product lines and functional areas can have very different views on what makes an organization 'tick' and may disagree even more on the performance measures that should be monitored, particularly where these affect remuneration policy.

Often, an organization has too many performance indicators and simply achieving functional and organizational alignment of KPIs (Key Performance Indicators) can seem like a Herculean task. Old KPIs can often go unchallenged while at the same time new KPIs reflecting, say, social and environmental initiatives need to be developed.

Recent research also shows that many organizations give too much prominence to internally generated KPIs – controlling the controllable – rather than looking outwards at threats and opportunities on the horizon which can ultimately be far more influential on performance.

There is also a tendency to rely too heavily on trusted financial indicators of performance rather than less familiar non-financial indicators. However, there is a growing acceptance that concentrating purely on financial metrics may not be the best way to increase shareholder value. While financial key performance indicators will always have a prominent role in measuring performance of a business, they are widely acknowledged to be of limited value when predicting future performance. Unfortunately, traditional financial measures such as "profit", "cash generated from operations", and "revenues booked" so called, lagging indicators, provide little insight into future prospects and outcomes.

On the other hand, non-financial indicators are often tightly correlated with future financial performance. For example, measures of customer satisfaction are often linked with a propensity to buy goods and services in the future. Similarly, measures around innovation, such as the percentage of sales derived from new products inform about a company's medium to longer term prospects for success. Likewise, employee commitment gives insights into future workforce attrition and, by implication, the ability to earn revenues in the future.

While these key areas of performance such as employee engagement, customer loyalty and innovation may be impossible to express in purely financial terms and can be difficult to measure, few doubt that they are critical to assessing the health of a company.

There are also internal challenges around the compatibility of KPI's in one part of an organization with another. For example, the strategic decision to take market share in emerging markets with a new product may be at odds with financial key performance indicators such as increasing profit. After all, markets in developing economies are usually expensive to enter and exploit – normally with lower returns. Clearly, this simplistic scenario is capable of generating conflicting organizational behavior around the allocation of capital.

But how do you identify such conflicts from a sprawling mass of information and how do you keep a strategy agile and flexible in the face of increasingly volatile markets?

Strategy Maps and Trees

Visualising a strategy and keeping a handle on the integrity of the links between, corporate vision, strategic objectives and the KPIs which support them is a huge challenge. Yet it is vital that the management team can view the entire performance "world", define the principle objectives and tactics necessary to deliver the strategy, assess the correct relationships and agree on the aspects of performance to measure.

Fig 1: Strategy Trees in Oracle's Hyperion Performance Scorecard application depict both the objectives and how you intend to achieve them.
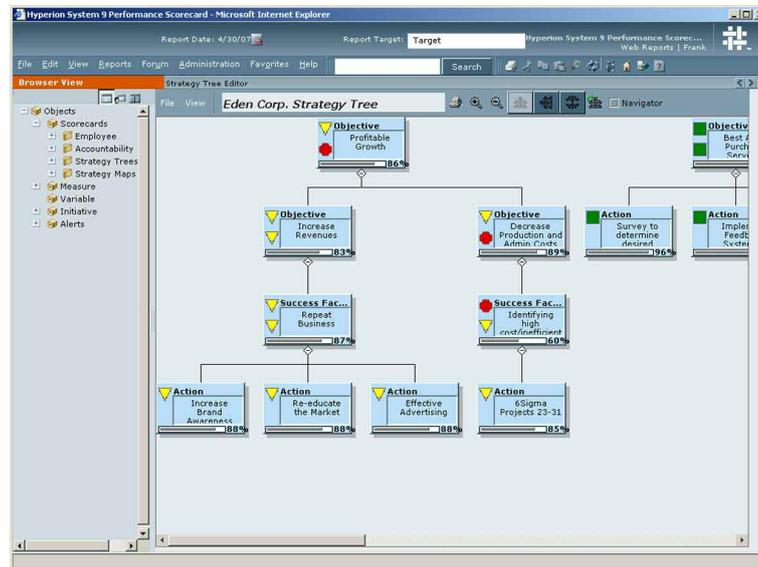
Creating a Strategy Tree is an excellent way to not only layout what it is you are trying to achieve, but also how you intend to achieve it. Strategy trees depict each strategic objective (what you are a trying to achieve), the related critical success factors (what you must have or be good at to achieve the objective) and ultimately the actions or initiatives related to each critical success factor (what you will do in order to achieve the critical success factors and ultimately the objective). Thinking through and illustrating this logical network enables everyone to clearly see the plan. Add to it the people, teams and departments responsible to get it done and you have a solid plan of action.

Strategy maps typically contain a subset of objects from the strategy tree. To create a "single page" view of the organizational strategy, the idea of including only objectives and their relationship to one another on the strategy map has become very popular – especially with executives. Inevitably though, the development of objectives and the relationships between them can become unwieldy and complex in a multinational organization. Maintaining a coherent view of each strategic scenario can be a huge presentational challenge using traditional paper based tools or spreadsheets. Add in a huge number of KPIs and the scale of the problem starts to become clear. It is not surprising that many strategies end up as a collection of printed PowerPoint slides, Excel spreadsheets and Word documents gathering dust on a shelf.

Fig 2: Strategy Maps in Oracle's Hyperion Performance Scorecard application graphically show the key interrelationships between strategic objectives and current performance based on KPIs
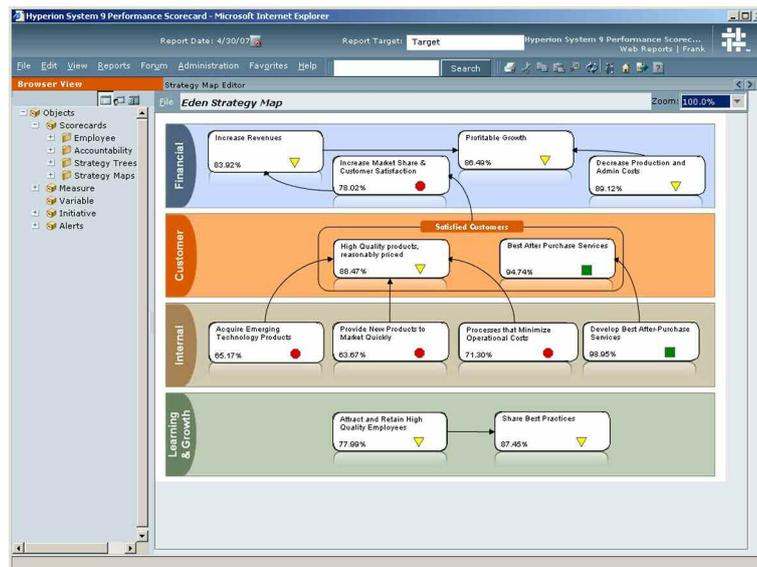
Strategy maps, trees and related scorecards overcome this by using visualization techniques, which enable large amounts of information to be displayed on screen at one time. They enable the integrity of relationships between objectives and KPIs to be explored and confirmed during the strategy development phase and changes can be made on the fly. Once agreed upon, strategy maps become an active window on performance enabling under and over achievement to be monitored together with the consequences for the organization. Finally, they provide a platform for articulating strategy and linking it into operational plans and budgets.

The challenge of alignment

The inherent agility of a strategy map is important since strategy development can no longer be viewed as a standalone activity. In a climate of constant change, the strategy has to be accessible and constantly fine tuned in response to market conditions. In other words the strategy has to be an inextricable part of a broader performance management regime which constantly tests and refines the strategy as new information comes to light. However, the thinking around strategy development and how it relates to broader performance management is still evolving as the very latest methodologies attempt to recognise more complex market dynamics, stakeholder interests and more diverse trading relationships. The traditional performance management cycle (Figure 3) which focuses on a series of linked applications or tasks no longer adequately describes the true nature of these core business processes . The newly emerging paradigm of "Strategy to Success" takes a more process oriented view of performance management, underscoring the real purpose of performance management with more conviction.

For example, the starting point for strategy developments is re-positioned in the phrase "Gain to Sustain" – which more aptly recognises that meeting the needs of multiple stakeholders such as employees, customers and even environmentalists is the crucial first step to creating value in one's own organization. "Investigate to Invest" encapsulates the market perspective and the need to

understand the market dynamics affecting the business – an outside-in viewpoint that has to be married up with an inside-out perspective.

Fig 3: The traditional performance management cycle
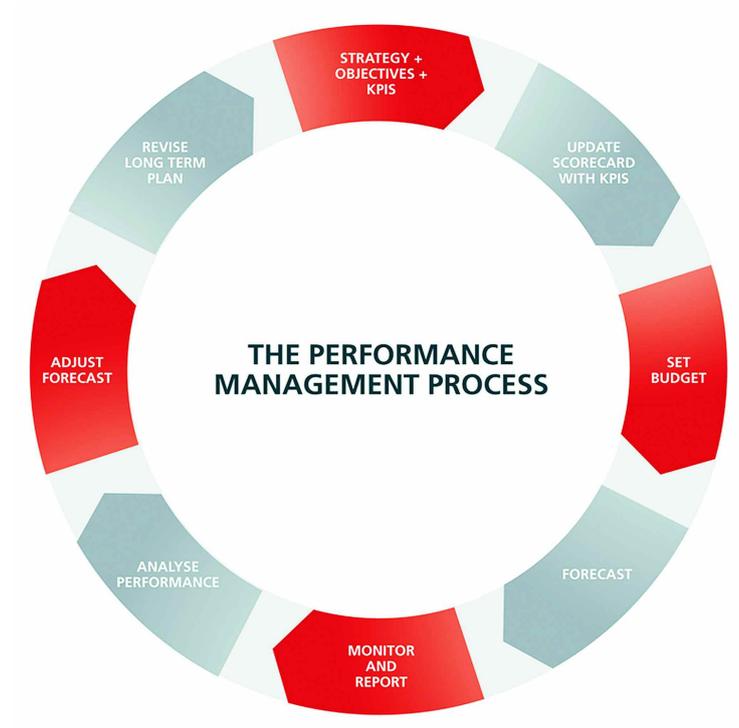
The traditional performance management cycle depicted in Figure 3 above is a continuous process made up of a series of iterative steps. The strategy establishes the goals and performance measures for the organization which are built into business plans, budgets and forecasts which are monitored continuously against actuals, analysed and reported upon. The results of these analyses are then used to inform and refine the strategy which is adjusted as appropriate before the whole performance cycle starts again – which is why performance management is sometimes referred to as a closed loop process.

Hospitality Services Company (HSC) finds that a holistic approach to performance management pays dividends

Hospitality Services Company (HSC) connects people with the world's greatest travel and leisure possibilities by retailing travel products and providing distribution and technology solutions for the hospitality industry. In 2004 it was a sector experiencing massive change, creating a myriad of people and process issues for the business. The lack of communication regarding strategy and its execution led the CEO at the time to conclude that "only 25 percent of our strategy is effectively executed". The leadership team knew that they had to align the entire organization around a common strategy if the company was to achieve its longer term goals.

The new HSC management team had set aggressive and inspirational goals but to achieve them they needed to better align strategy, initiatives, measures and rewards – an integrated approach to Corporate Performance Management (CPM). The initial charter for the CPM initiative included, enhancing the traditional strategic planning process, establishing a "system of sensors" to accelerate identification of, and response to, emerging opportunities, coupled with planning applications that focussed on key drivers of the business.

Having secured project sponsorship at the highest levels of the organization, the organization embarked on a comprehensive change program. The initial phase was to develop a strategy map for the core business units which was closely aligned with Kaplan and Norton's Balanced Scorecard framework. For each objective on the strategy map two to three key performance indicators (KPIs) were identified together with an initial target. When a list of current initiatives was associated with the strategic objectives it was found that 65 percent of discretionary spending was not core to the strategy. Steps were taken to reduce funding in this area. Operational plans were revised to make sure that they had an appropriate mix of specific metrics and targets – some designed to stretch the organization.

Finally, organizational alignment was embedded more deeply through the introduction of a rolling forecast that linked operational drivers to the financial results. After a period of acclimatization this provided greater insight into trends in performance, reduced the burden of traditional budgeting and delivered greater confidence in forecast outcomes.

The program was hugely successful in bringing about more rapid decision making, more effective responses to performance gaps, better (strategically aligned) investment decisions and more accurate forecasting. HSC's CEO concluded "Our CPM program has helped us to focus on the business as a whole and build alignment across the organization.[6]

On the other hand, Oracle's leading edge "Strategy to Success" paradigm depicts the performance management cycle from a more meaningful process oriented view, starting with a thorough assessment of stakeholder interests.

Fig 4: Oracle's Strategy to Success Framework
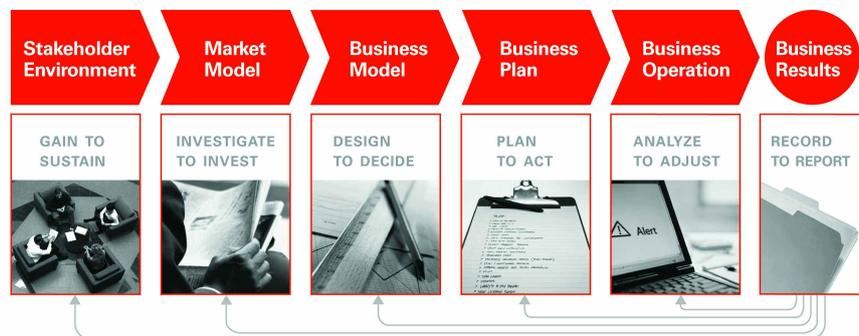
But how does an organization communicate its strategy and imbue its workforce with the knowledge it needs to confidently take decisions knowing they are strategy compliant? How do they take the concept of 'Strategy to Success' and bring it to life? How do they transfer the strategy from the Board table to each employee and embed it in the organization?

"Strategy is completely useless unless the results of the strategy process, the position you choose to occupy, the way you are going to drive your company, is well understood, quite broadly. Because the number one purpose of strategy is alignment, it's really to get all the people in the organization making good choices, re-enforcing each other's choices because everybody is pursuing a common value proposition, a common way of gaining competitive advantage." [4]

Technology and Strategy

Technology is not a 'magic bullet' that will instantly transform an organization and remedy all cultural impediments to change. There is no substitute for traditional forms of communication such as briefings, conferences, webcasts, seminars, workshops and other forms of meeting (both formal and informal) in order to communicate the strategy and make it relevant for a particular part of the organization. Employees and their managers need to know how the strategy affects them, what they might be doing differently and how they will be measured and rewarded. Failure to recognise and embrace the cultural aspects of performance management is courting disaster.

Scorecards

Once the messages are broadly understood this needs to be followed up with the use of scorecard technologies. These are central to strategic alignment as they bind the users to the strategy itself, presenting them with those aspects of the strategy map (objectives and performance indicators) that are relevant to their role, department or division. They provide a method of visualising the key measures of performance, their direction (performance getting better or worse), key responsibilities and what actions are being taken. As such, scorecards make users strategically aware, with a precise understanding of how their actions or inactions affect the achievement of the strategy.

Some sense of the importance of scorecard technology and how it can assist strategic alignment can be taken by considering the example of a commercial aircraft in which the passengers have access to the same information as the flight deck. Individual televisions display the aircraft's position on a map, its height, speed and displays important messages about safety and key activities. Effectively, flight crew and passengers are strategically aligned – there is a common understanding of the destination , how far the journey has progressed and each person's role in helping to get there on-time. Cooperating with the flight crew during on-board activities such as being seated quickly, storing their hand luggage, returning to their seats when requested and cleaning up the seating area at the end of the flight, all contribute to an on-time arrival. A safe, on-time arrival is the mutual objective for crew and passengers alike. Although this analogy is simplistic it serves to underline the essence of strategic alignment - which is communication.

Fujitsu Services OY uses scorecards to promote strategic alignment

Fujitsu Services OY provides information technology (IT) services in Finland, assuming full responsibility for its customers' IT and infrastructure and their enterprise applications. The company, which employs 2,300 people decided to implement a scorecard system in its banking and insurance services businesses for several reasons.

Prior to the implementation of the scorecard system the organization's strategy and objectives were viewed as being too abstract. There was a need to communicate the strategy to everyone simply and clearly as well as the requirement to 'translate' strategy into operational terms. By having appropriate measures at different levels of the organization, systematising the existing scorecard process and providing data more frequently it was considered possible to more readily understand cause and effect between measures and align the organization more completely around its strategic goals.

Supported by senior management, the scorecard methodology followed a tailored version of the Kaplan and Norton Balanced Scorecard framework. Fujitsu track around 20 measures but report only those that are crucial to the strategy on executive scorecards. Of the measures being tracked, 40 percent are financial, 40 percent are non-financial and 20 percent are mixed.

Fujitsu executives review six to ten performance measures which are considered vital to understand the status of the overall organization. These measures are consistent with the organization's annual and longer-term goals. The system enables the same measures to be reported at the level of individual managers, divisions and major accounts and these are linked to employee reward and compensation schemes.

Fujitsu believes that the scorecard system has driven performance improvement, achieved sustainable alignment throughout the organization as it has grown and supported better communication of its strategy to its employees. This enhanced understanding has resulted in more strategically aligned and rapid decision making together with a more responsive organization. [6]

But scorecards are a means to an end – not an end in themselves. Many organizations are littered with failed scorecarding projects because they are divorced from strategic intent. They have little purpose or relevance to the individuals charged with using them and perhaps do not enjoy management sponsorship and support.

Failures also occur because the roll-out of the project uses inappropriate technology. The scorecarding approach needs to be an integral part of the wider performance management platform so that the data required to populate the scorecard, is consistent, meaningful, accurate and available on demand. These objectives cannot be met by a series of disconnected spreadsheets no matter how appealing the initial design of the scorecard may look.

However, scorecards as part of an integrated performance management platform provide an invaluable method of supporting change in the organization. The precise strategy methodology employed, for example, the 'Balanced Scorecard' or '6-Sigma' is a matter of personal choice for an organization. In general the available scorecard technologies are highly adaptable and support all of the leading scorecard methodologies.

The usual way of depicting performance metrics on a scorecard is to use a grid style layout together with icons, such as colored arrows, or other user selected icons to denote the status of performance. Whereas the emphasis of a dashboard is to instantly communicate performance for a limited number of measures in an eye catching way, the scorecard is designed to promote deeper enquiry and analysis.

The exact layout of the scorecard is usually user definable and can normally draw on the full multi-dimensional capability of the underlying database. In this way it is possible to look at different performance measures, in different time periods and for different slices of the organizational hierarchy and other dimensions. It is also possible to review historic performance of say, actual against target for any given measure as a graphical display.

But performance management is about gleaning insights into future performance and guiding decision making rather than simply looking at historic performance through a rear-view mirror. In the first instance, the scorecard should enable users to monitor the status of the objectives and current performance by highlighting under or over achievement and on target performance, but the challenge is then to determine what is driving current performance and what can be done to deliver above target performance or bring below par performance back on track. Scorecards typically make extensive use of threaded discussions, annotations, and attachments to record discussions and document supporting initative progress.

The drill-down capability of a scorecard system enables the user to follow KPIs down the hierarchical organizational structure revealing the performance contribution made by business units or individuals lower down the tree. It should also be possible to drill across the hierarchies to look at performance in different dimensions. It is important that a scorecarding system provides visual cues, flagging where acceptable performance at one level may be masking poor performance lower down the structure.

Crucially, during drill down a scorecarding application should show the interrelationship between the performance indicators and other measures such as projects, goals and objectives and start to form a view about how performance in one area is affecting performance in another. Also typically, data is not refreshed frequently as most organizations to not monitor strategy on a daily basis, but rather a quarterly, half-year or annual basis.

The insights gained through scorecards and the explicit relationship between different performance measures derived from the strategy help to ensure that users understand exactly how their goals support the corporate strategy and how their decisions affect its execution. Scorecards are widely acknowledged to be the best vehicle available for helping organizations communicate and execute on their strategies.

Dashboards

There is no firm delineation between Dashboards and Scorecards. Both are capable of being used in a wide variety of contexts and for example, a dashboard can be employed on a tactical and operational level as well as a strategic level by shifting the metrics to suit the organization at different levels of the hierarchy. Similarly, dashboards which are generally regarded as a window on historic performance can complement the delivery of strategy.

One main principle behind a dashboard is that it should be easy to understand so that users have immediate visibility of the KPIs relevant to their role and function and can assess instantly whether performance is on target or within an acceptable range.

A dashboard is often likened to an aviator's instrument panel or 'head-up' display of key data such as altitude, fuel and compass bearing. In effect a handful of measures tell the pilot how he is performing and, by inference, what remedial action needs to be taken to keep the mission (operational performance) on track. All measures on the dashboard are only relevant to the execution of the current mission but do not indicate the importance of the mission (as would a scorecard).

Dashboards make extensive use of familiar dials and charts that colorfully convey the status of performance at a glance, rather like the fuel gauge in a motor vehicle. Like a strategy map, dashboards often make generous use of color, "traffic lighting", to denote good (green), amber (acceptable) and red (bad) performance. The criteria that determine what constitutes good, acceptable and bad performance are normally completely user definable. Typically, performance bands can be established for whole companies or defined uniquely so that individual employees can set their own personal targets within the overall boundaries defined by the company. The exact information shown on a performance dashboard is usually a matter of choice. An organization, for example, can decide whether performance should be measured at the level of a product / customer, activity or project and may choose to display KPI targets or actual, current performance and status, i.e. below, above or on target. Similarly, performance dials can usually be viewed for different time periods. Typically, dashboard data is refreshed frequently to enable fast tactical adjustments and does not include much textual explanation.

Dashboards provide an intuitive and accessible window on current performance and are therefore highly suited to tactical decisions and managers that are uncomfortable with tabular information and spreadsheet style grids that pervade most information systems. The ability to view current performance at a glance and to increase understanding of variances by navigating to underlying data makes dashboards an invaluable aid to tactical decisions.

However, by using dashboards and scorecards in the same performance environment an organization can encourage both strategic alignment (scorecards) and better operational analysis (dashboards). Ultimately, both of these can be used to inform and trim strategy as and when needed.

Summary

One of the greatest management challenges of the 21st Century is guiding large and complex organizations towards their goals. Value creation, whether expressed in shareholder value terms or delivery of services in the public sector can only be assured if strategic intent flows uninterrupted from board room to shop floor. In this way individuals feel empowered to make decisions, confident in the knowledge that their actions are aligned with the overall goals of the organization.

Communication is at the heart of strategy delivery. A clearly articulated message, accompanied by succinct and relevant performance measures provides the baseline which nurtures and supports the desired management behaviors.

Technology plays a vital role in visioning the strategy and communicating it throughout the organization as part of a broader performance management regime. In complex environments strategy maps help management describe the performance framework, articulate performance measures and ensure consistency across the enterprise while integrated scorecards popularised by Robert S. Kaplan and David P. Norton, have proved invaluable in communicating the essence of strategy across an enterprise in an engaging and relevant way. Closely coupled to budgeting, planning and reporting applications, the full panoply of modern performance management systems provide a robust platform for sound decision making at both a tactical and strategic level.

Ultimately, for executing strategy, dashboards and scorecards are complementary tools. Dashboards typically help you to understand and manage tactical operations while scorecards help you to understand and manage strategy. Great companies do not just happen by accident. Research shows that those which are able to ride the challenge of strategic alignment create long term greatness not just temporary success.[5]

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