Analyst Report

Making strategy execution a competitive advantage

Results of research sponsored by IBM and conducted by the Balanced Scorecard Collaborative

By Dr. David P. Norton

Foreword

What do Exxon Mobil, BMW, Siemens, DuPont, Hilton Hotels, and UPS have in common? Well–they're huge global organizations, they're extremely successful, and they've mastered the art of strategy management. As you'll see in this ground-breaking research by Dr. David Norton, advisor to the IBM Cognos Innovation Center, strategy management is a multi-stage process that requires organizations to:

- *Drive strategy execution from the top.*
- *Translate strategy into terms everyone can understand.*
- *Align every part of the organization.*
- *Make strategy everyone's job.*
- *Make strategy a continual process.*

Jeff Holker
Associate Vice President
IBM Cognos Innovation Center
for Performance Management

Strategy Execution: A vital new opportunity

Imagine Tokyo, Japan, in 1970. The economy is dotted by some creative individuals who are doing admirable work. But overall, Japan is not a big player on the world economic scene. To break away from the pack, Japanese innovators introduce a new idea: statistical quality control in manufacturing. This idea revolutionizes the Japanese economy–enabling companies to create a better product and stand out from the competition.

The advantages created by the idea put Japan in a position of economic superiority that the nation maintains in the coming decades.

Now fast-forward to today. Like Japanese firms in the 1970s, companies today have a vital opportunity to create a sustainable competitive advantage–one that they will retain even with a turnover in top leadership. But to create this opportunity, organizations must master a crucial new competency–Strategy Execution– depicted in *Figure 1*.

Strategy Execution enables firms to put into action the strategy they have formulated to outmaneuver rivals. Even the soundest strategies cannot deliver their promised value unless enterprise leaders implement them effectively.

Yet according to Fortune magazine, less than 10% of companies successfully execute their strategy. The problem shows up in public-sector organizations as well. As stated in a Barron's article, a survey of 794 major

Figure 1 – Strategy Execution: A New Way of Managing

> *"Execution is a specific set of behaviors and techniques that companies need to master in order to have competitive advantage. It is a discipline of its own."*
>
> *Larry Bossidy and Ram Charan*
> Execution: The Discipline of Getting Things Done

Do you have a formal strategy execution process in place?	Yes (54%)	No (46%)	
Describe your organization's current performance.			
▪ …We have breakthrough results	12%	7%	Winners
▪ …We are performing better than our peer group	58%	20%	
Sub-Total	70%	27%	
▪ …performing at the same level as our peer group	18%	30%	Losers
▪ …performing at a lower level than our peer group	9%	27%	
▪ …not performing at a sustainable level	3%	16%	
Sub-Total	30%	73%	

Source: BSCol Research (Survey of 143 performance management professionals, drawn from BSCol On-Line Community, March 2006)

Figure 2 – Breakthrough Results

programs implemented by the federal government revealed that only 15% of these programs carried out their strategies as intended.

When companies fail in strategy execution, they pay a high price—in mediocre growth, lost market share, and less-than-stellar profitability.

The benefits of strategy execution

Firms that practice Strategy Execution enjoy dramatic benefits that typically translate into billions of dollars. And these benefits have begun generating intense interest among business leaders. In a survey recently conducted by the Balanced Scorecard Collaborative (BSCol), 143 professional performance managers were asked to describe their performance management programs. *Figure 2* shows that 70% of those organizations that had a formal Strategy Execution process in place reported superior performance—in the form of breakthrough results or performance that bests their peer group. Among organizations that have not established a formal Strategy Execution process, only 27% report such results. While these findings do not mean that a firm cannot successfully execute strategy without a formal process, it does say that a company's probability of success is 2 to 3 times greater if it has such a formal process. The purpose of this research project is to identify what this process looks like.

A world of winners

Who are these organizations that achieve such impressive outcomes through Strategy Execution? As *Figure 3* shows, they come from a wide variety of industries operating in countries around the globe. The organizations shown in the figure have been inducted into the Balanced Scorecard Hall of Fame—an honor given in recognition of their ability to carry out strategy successfully.

Figure 3 – The World of Strategy Execution

Each of these organizations has beaten the odds–each is the one in ten cited in the Fortune statistic. Note that virtually every industry has representation in this figure: consumer goods, manufacturing, telecom, utilities, financial services, health care. Many of the organizations also come from the not-for-profit sector– federal, state, and local government agencies; military; and education.

Some of the biggest names in U.S. and European business show up in this figure, including Mobil Oil, DuPont, BMW, and Siemens. Other organizations hail from numerous additional places around the globe, such as Tata Motors (India), Korea Telecom, and companies from Japan, Mexico, and Norway.

The lesson? No matter where in the world it operates, or in which industry or sector, every enterprise has the opportunity to deliver outstanding performance by mastering the discipline of Strategy Execution.

Hall of Fame Company Descriptions		
Mellon 21% revenue growth 14% decrease in operating expenses *(2 years)*	**Hilton** 100% Stock increase Guest Satisfaction 6.25 on 7 point scale *(2 years)*	**DaimlerChrysler** Chrysler Group $637 million loss to $1.9 billion operating profit *(3 years)*
E·LAND Revenues more than doubled Net profit from $7.8 million to $150 million *(3 years)*	**Mobil** Last to first in profits $1.2b increase in cash flow 100% increase in ROI *(2-5 years)*	**US Army** • Decision making accelerates with Strategic Readiness System • New commanders easily grasp and implement their units ' respective strategies *(3 years)*
Royal Canadian Mounted Police • Stakeholder satisfaction rose 9% to 16% • Saved $20 million in one year on protective policing • Viewed as model organization by funding organizations *(4 years)*	**KeyCorp** Share price jumped from $15.69 to $35 (5 years) Net income increased $217million (2 years)	**Wells Fargo** 450% increase in # of customers Best on -line bank *(3 years)*

Figure 4 – Spotlight on Success

Spotlight on results

A closer look at the measurable results that firms have gained through Strategy Execution speaks volumes about the value that this organizational competency can generate. *Figure 4* provides a number of striking examples.

Consider DaimlerChrysler–a company that seven or eight years ago had lost three-quarters of a billion dollars in just one year. The firm brought in a new chief executive from the German parent company to engineer a turnaround. He and his team formulated a fresh strategy centering on bringing exciting new models to the marketplace while adroitly managing costs and capacity. Within three years of putting the strategy into action, the terrible loss was reversed, and the company achieved a $2 billion operating profit. Today, amid worrisome headlines about General Motors and Ford, the Chrysler Group continues to gain market share and to set record profits.

Also consider KeyCorp. This regional bank, based in Cleveland, Ohio, developed a new strategy that hinged on cross-selling its portfolio of financial services to the consumer-based market in its region. Thanks to KeyCorp's mastery of Strategy Execution, the company's share price rose from just $15.69 to $35.00 over five years. And over two years, its net income jumped by $217 million.

For all the organizations shown in *Figures 3* and *4*, success derived not from their specific products or personnel. After all, many companies have high-quality offerings and talented people. These enterprises' success came instead from their disciplined approach to executing the competitive strategy they had developed.

Why now?

Clearly, excelling at Strategy Execution affords organizations a vital competitive advantage–a notion captured in *Figure 5*. To be sure, nine out of ten organizations fail to effectively execute strategy. Yet one out of ten succeeds.

Those companies that can become part of that rare 10% gain a crucial edge over rivals. They get to new markets first, they win market share, and they maintain

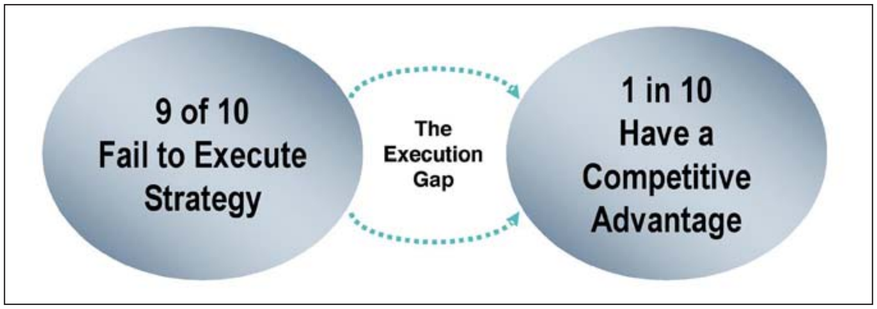


Figure 5 – The Strategy Execution Gap

their position at the head of the pack. Rival firms find it difficult to co-opt these winning companies' approach and reclaim the advantage.

Just as Japanese enterprises in the 1970s seized the opportunity given to them by the new idea of statistically controlled quality, companies from around the world today can become "the one in ten" by making Strategy Execution a core competency.

How winning companies do it

How does a company become that rare "one in ten"? We investigated this question by examining Balanced Scorecard Hall of Fame inductees, surveying performance management programs, and analyzing longitudinal case studies. And we discovered that companies that master Strategy Execution as a core competency implement a consistent set of best practices, shown in *Figure 6*.

First, winning companies drive Strategy Execution from the top. The **executive team takes responsibility** for formulating the strategy and communicating it to the rest of the organization. Indeed, the team uses Strategy Execution as its change-management process–presenting the strategy as the picture of where they want the organization to go and how they believe it can get there by changing skills, incentive systems, products or services, and other levers in the organization.

Second, such companies **translate the strategy** into terms everyone throughout the organization can understand. Once people throughout the enterprise can articulate the strategy, they can see how to support the strategy through their everyday actions and decisions.

Third, winning companies **align every part of the organization** behind the strategy so that individuals and teams throughout the enterprise are all pulling in the same direction expressed by the strategy.

Fourth, strategy-focused companies motivate their entire workforce to **make strategy everyone's job**. These firms achieve this motivation through sharpening companywide awareness of the strategy, helping each employee define personal goals that support the strategy, and establishing incentives and skills development initiatives that also support the strategy.1

The fifth principle–govern to **make strategy a continual process**–forms the focus of the rest of this report. As we'll see, this principle forms the core of the Strategy Execution competency. Companies practice this principle by managing their strategy, resources, and key (strategically vital) processes in

Figure 6 – Strategy Execution: Best Practices

disciplined ways– and integrating three arenas through process changes and supportive technologies.

Linking strategy to operations

To successfully execute strategy, an organization must master each of the five principles identified in *Figure 6.* This research project is focused on Principle 5–"Making strategy a continual process"–which is key to the sustainability of the Strategy Execution competency. Many organizations have achieved one-time performance breakthroughs by implementing Principles 1 through 4. However, unless an enterprise integrates strategy into its governance process and operational management processes, it won't be able to sustain the new approach to management (Strategy Execution) over the long term. Linking strategy to operations requires attention to three distinct processes.

- **Strategy Management**– including formulating and revising strategic plans, communicating strategy to the workforce, and identifying initiatives and projects needed to implement the strategy.
- **Resource Management**– for example, allocating human capital, information technology, and financial assets
- **Key Process Management**–such as identifying customer needs and developing offerings that meet those needs.

Figure 7 depicts these process arenas.

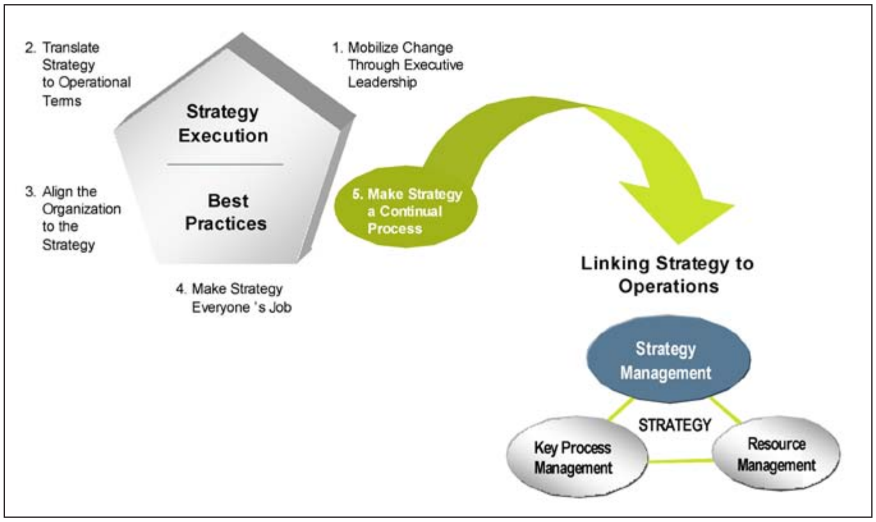


Figure 7 – Linking Strategy to Operations

The key dilemma about these three process arenas? **They each must be managed differently. But they must also be tied together.**

The rest of this report explores the unique challenges of managing each process arena and examines ways to tie them together.

What is Strategy Management?

In an ideal world, companies would manage their strategy in a disciplined way. They might start their strategic planning cycle in, say, the second quarter of every year, update their strategy based on the previous year's outcomes, document the changes and communicate them throughout the organization, update budgets in the third and fourth quarter to reflect the revised strategy, and link the strategy to their human capital at the end of the year by paying bonuses, promoting stellar performers, and so forth.

And as the year unfolded, executives and managers would meet on a regular basis to review progress on strategic initiatives, share best practices, and address challenges.

But as *Figure 8* shows, things don't usually work out this way in real-world organizations. Our research indicates, for example, that 67% of human resource (HR) and information technology (IT) departments don't link their priorities to the company's strategy. Moreover, 60% of organizations don't link their budgets to the strategy, and 70% of organizations don't link incentive compensation to the strategy.

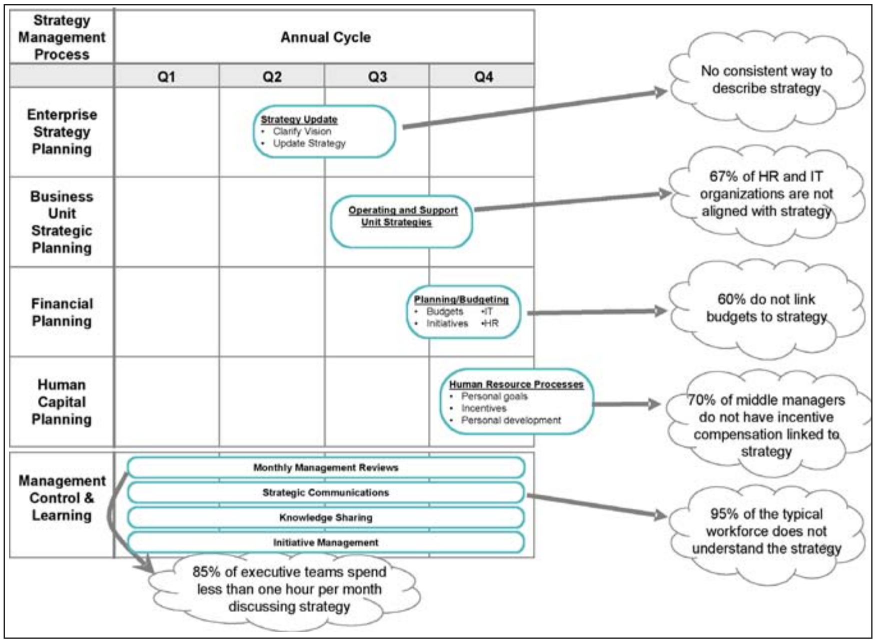


Figure 8 – The All-Too-Real World of Strategy Management

Equally disturbing, as many as 95% of organizations don't tell their employees what the strategy is. Thus people working in these organizations have no way to determine whether their daily activities are helping the company to carry out its strategy as planned. Moreover, 85% of executive teams spend less than an hour a month discussing strategy.

In too many enterprises, the Strategy Management process–which is intended to integrate the organization's many activities–has become a set of siloed disciplines that suboptimize performance within each function. Little wonder, then, that 9 out of 10 organizations fail to execute their strategies.

Strategy Management: The process

As explained above, the ideal Strategy Management process enables executives to update the strategy, monitor progress toward execution of the strategy, share best practices, and–most important–successfully carry out initiatives intended to achieve important strategic objectives. Indeed, the successful management of strategic initiatives is what enables a company to execute its strategy. And successfully managing strategic initiatives requires linking strategy to operations. To create that link, companies integrate Strategy Management with Resource Management (allocation of financial, HR, and IT assets), as depicted in *Figure 9*.

Best practice in Strategy Management

To implement strategic initiatives effectively, a firm must communicate the strategy to everyone in the organization–so that each part of the enterprise (HR, IT, marketing, and so forth) can develop its own strategies that align with the high-level strategy. All of this requires a formal Strategy Management process. And the companies that achieved outstanding results in our study have established just such a process.

Figure 10, drawn from our recent survey, illuminates the differences between companies that have a formal Strategy

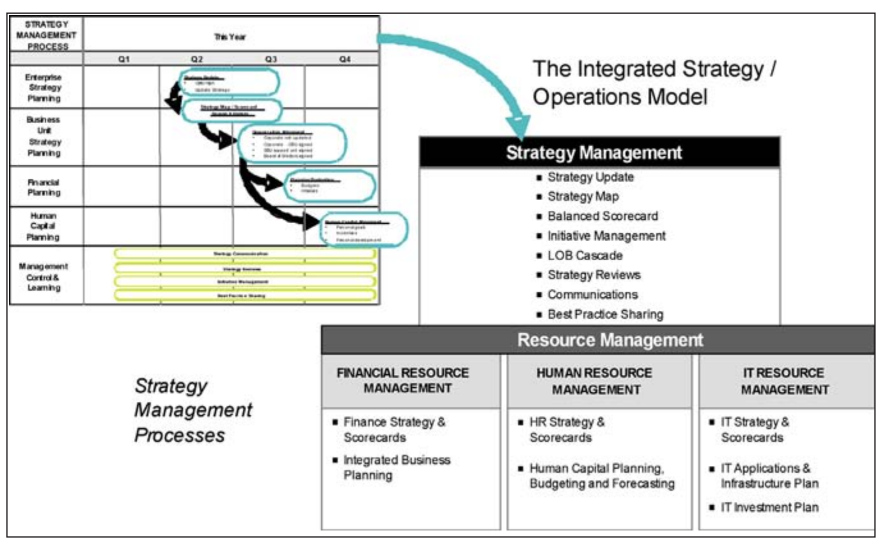


Figure 9 – Linking Strategy to Operations

Management process and those that do not. For example, among “winners” (companies that have achieved outstanding performance), 76% report managing a limited number of key strategic initiatives, while just 46% of “losers” (companies that have not achieved outstanding performance) manage their strategic initiatives in a disciplined way. The figure shows similar differences between winners and losers on six additional Strategy Management processes.

- Strategy measurement
- Strategy updating
- Strategy review meetings
- Strategy communications
- Support-unit alignment
- Best-practice sharing

The message? Successful companies have established these seven Strategy Management processes roughly twice as extensively as less successful enterprises.

Figure 10 reveals something else of interest to companies seeking to master Strategy Execution: We asked our survey respondents to tell us how they managed each of the seven Strategy Management processes–manual approach assisted by spreadsheets, or automated support using significant technology. Interestingly, both winners and losers reported using manual approaches significantly more than technological support. (Of course, this suggests extensive room for progress

Do you have a management process in place?

Process	Winners – YES, the process is...			Losers – YES, the process is...		
	Manual XL Based	Automated Support	TOTAL	Manual XL Based	Automated Support	TOTAL
• Manage a limited number of key strategic initiatives	68%	8%	76%	44%	2%	46%
• Clear articulation of the corporate strategy and measures	65%	12%	77%	41%	2%	43%
• Regular update of strategy to account for changing conditions	70%	5%	75%	41%	2%	43%
• Regular meetings to report on and to manage the strategy	68%	7%	75%	31%	2%	33%
• Communications about the strategy	61%	12%	73%	28%	0%	28%
• Alignment of business units/support units to strategy	59%	4%	63%	28%	0%	28%
• Knowledge management/best-practice sharing	43%	5%	48%	18%	0%	18%
Average Adoption Rate:	62%	8%	70%	33%	1%	34%

Source: BSCol Research (Survey of 143 performance management professionals drawn from BSCol Online Community, March 2006)

Figure 10 – State-of-the-Art Strategy Management

in use of technology to achieve process efficiency–something we’ll discuss in more detail later in this report.) However, winners use automated support eight times more than losers do–indicating another key difference between companies that excel at Strategy Execution and those that do not.

What is Resource Management?

Companies that excel at Strategy Execution effectively manage three types of resources: financial, HR, and IT, as shown in *Figure 11.* The functions responsible for each of these types of resources have their own strategy-related processes–such as developing performance scorecards, planning, and budgeting. We show these processes above the dotted line in the figure.

For example, under “Financial Resource Management,” the process of “integrated business planning” enables the finance department to establish a bridge between, say, the department’s strategy and its budget. Through integrated business planning, the finance team defines initiatives that are going to receive funding and ensures that these initiatives receive top priority and have a place in the department’s budget.

Below the dotted line are operations-related processes for each of the three types of resources. These include function-specific processes–such as performance modeling and analysis (finance), work force planning (HR), and performance reporting (IT). These key processes support the strategy-

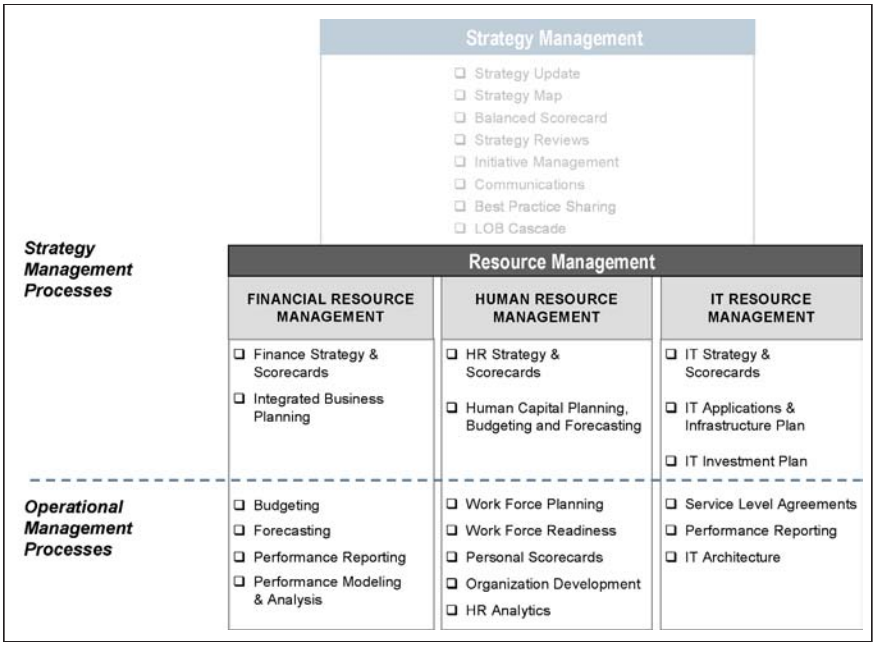


Figure 11 – Resource Management Processes

related processes shown above the dotted line.

For instance, under "Financial Resource Management," the operations-related processes of budgeting, forecasting, and performance reporting support the strategy-related process of integrated business planning.

Best practices in financial Resource Management

Figure 12, also drawn from our study, provides additional insight into how establishing formal processes for Resource Management can differentiate high- and low-performing companies. Note that both winners and losers report roughly equal use of formal processes for budgeting, performance reporting, and operational forecasting. Thus formalizing these three processes is a necessary foundation—but doesn't seem to be a differentiator for success.

However, the process of integrated business planning—by which companies link their strategic initiatives to their budgeting process—is another story. Sixty-four percent of winners report having a formal process for integrated business planning, while just 36% of losers do—almost a two to one differential.

Winners also make heavier use of automated support than losers do for the basic processes—budgeting, performance reporting, and operational forecasting. This suggests that a solid technology platform for these basic processes helps companies lay the groundwork for integrated business planning.

Best practices in human resource management

Successful companies also tend to establish formal processes for HR—about twice as heavily as less successful ones do, as shown in *Figure 13*. Moreover, organizational development constitutes the largest differentiator.

And although fewer companies in this sample reported using technology to support management of human

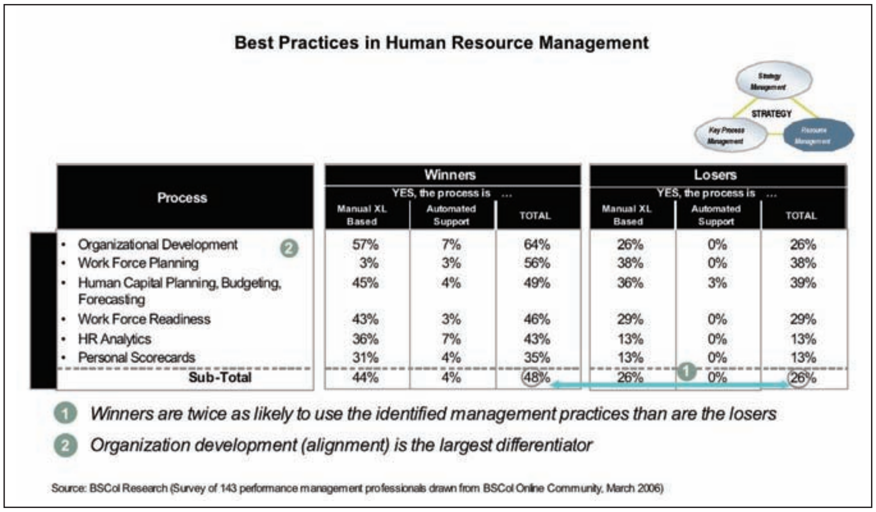
Process	Winners: YES, the process is ... Manual XL Based	Winners: Automated Support	Winners: TOTAL	Losers: YES, the process is ... Manual XL Based	Losers: Automated Support	Losers: TOTAL
• Budgeting	65%	19%	84%	74%	5%	79%
• Performance Reporting	61%	21%	82%	54%	10%	64%
• Operational Forecasting	57%	11%	68%	49%	3%	52%
• Integrated Business Planning (linking strategic initiatives to budget)	61%	3%	64%	33%	3%	36%
• Performance Modeling	29%	8%	37%	15%	13%	28%
Sub-Total	55%	12%	67%	47%	7%	54%

1 *Integrated business planning that links strategic initiatives to funding is the only differentiator*

2 *Automation of the basics seems to create a platform for integrated planning*

Source: BSCol Research (Survey of 143 performance management professionals drawn from BSCol Online Community, March 2006)

Figure 12 – Best Practices in Financial Resource Management


Best Practices in Human Resource Management

Process	Winners: YES, the process is … Manual XL Based	Winners: Automated Support	Winners: TOTAL	Losers: YES, the process is … Manual XL Based	Losers: Automated Support	Losers: TOTAL
• Organizational Development (2)	57%	7%	64%	26%	0%	26%
• Work Force Planning	3%	3%	56%	38%	0%	38%
• Human Capital Planning, Budgeting, Forecasting	45%	4%	49%	36%	3%	39%
• Work Force Readiness	43%	3%	46%	29%	0%	29%
• HR Analytics	36%	7%	43%	13%	0%	13%
• Personal Scorecards	31%	4%	35%	13%	0%	13%
Sub-Total	44%	4%	48%	26%	0%	26%

1. *Winners are twice as likely to use the identified management practices than are the losers*
2. *Organization development (alignment) is the largest differentiator*

Source: BSCol Research (Survey of 143 performance management professionals drawn from BSCol Online Community, March 2006)

Figure 13 – Best Practices in Human Resource Management

resources (through processes such as workforce planning and organizational development), the difference in such use between the two groups is significant: 4% for high performers versus 0% for poor performers.

Best practices in IT Resource Management

Finally, *Figure 14* presents a pattern of best practices in IT management that resembles our findings for financial resources management: Basic processes–such as IT infrastructure planning and investment planning–are formalized in roughly equal proportions by both winners and losers. It's the formalizing of service-level agreements and performance reporting that most differentiate successful and less successful firms. The reason? These processes create alignment between the IT function and the rest of the organization, by enabling a firm to formally define contract terms for services delivered by IT.

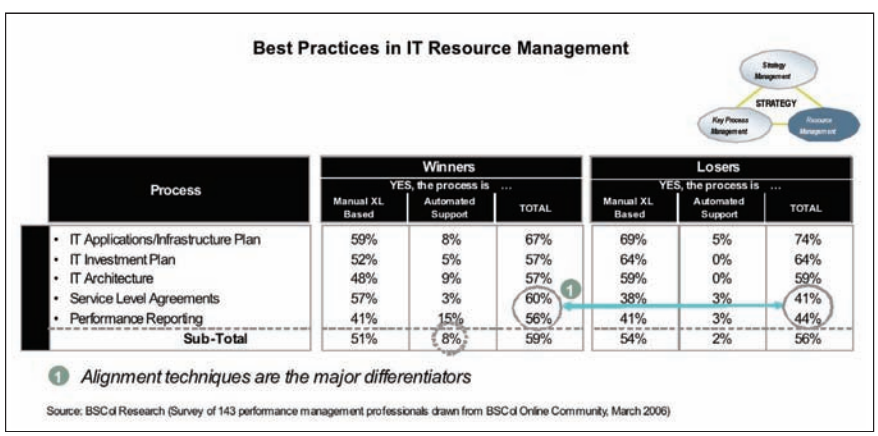
In this IT Resource Management survey, we also saw a difference in high and poor performers' use of supportive technology for managing processes related to information resources (such as reporting performance and creating service-level agreements). Our survey results indicated that four times as many high performers (8%) employ such technologies than poor performers (2%).

What is Key Process Management?

We've discussed Strategy Management and Resource Management–two of the three process arenas that make up successful Strategy Execution. Now we move to the third process arena: Key Process Management. What are "key processes"? An organization must successfully execute hundreds of processes each day in order to continue operating. These processes include meeting payroll, counting inventory, and shipping products.

While essential to the operation of the business, most such processes are not strategic–that is, they don't directly enable the enterprise to carry out its strategy. Only a critical few processes are strategic. If an organization can identify these key processes and give them special attention, it greatly enhances its chances for successful strategy execution.

To identify key processes, executives decompose the high-level strategic


Best Practices in IT Resource Management

Process	Winners: YES, the process is … Manual XL Based	Winners: Automated Support	Winners: TOTAL	Losers: YES, the process is … Manual XL Based	Losers: Automated Support	Losers: TOTAL
• IT Applications/Infrastructure Plan	59%	8%	67%	69%	5%	74%
• IT Investment Plan	52%	5%	57%	64%	0%	64%
• IT Architecture	48%	9%	57%	59%	0%	59%
• Service Level Agreements	57%	3%	60%	38%	3%	41%
• Performance Reporting	41%	15%	56%	41%	3%	44%
Sub-Total	51%	8%	59%	54%	2%	56%

1. *Alignment techniques are the major differentiators*

Source: BSCol Research (Survey of 143 performance management professionals drawn from BSCol Online Community, March 2006)

Figure 14 – Best Practices in IT Resource Management

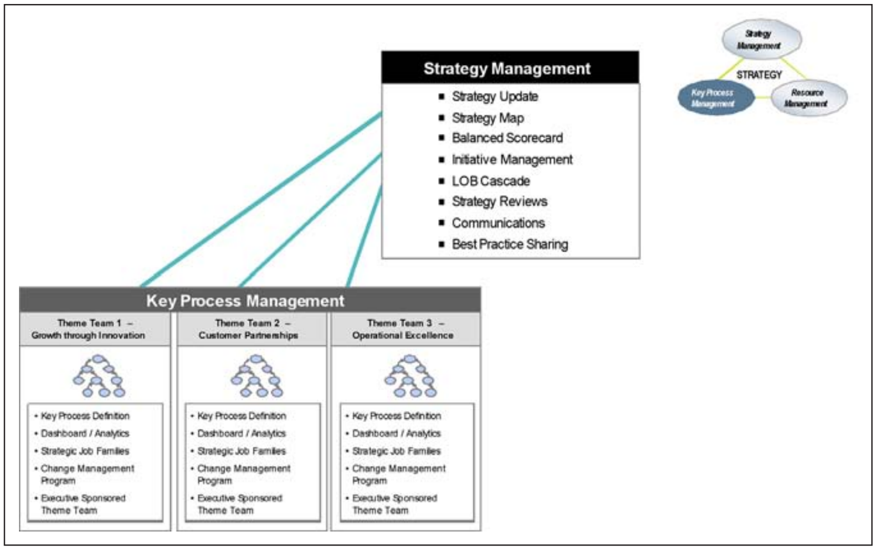


Figure 15 – Decomposing Strategic Themes

themes into more granular details that can be managed, as depicted in *Figure 15*. These would include

- Detailed performance / process model
- Analytic studies to create insight
- Key performance indicators
- Dashboards to monitor performance
- Data warehouses to support dashboards
- Strategic job competencies
- Change-management programs
- Executive leadership to mobilize change

Such key processes enable a company to convert its strategy into measurable results.

Strategic themes: The link between strategy and Key Process Management

Key Process Management entails identifying those crucial few processes required to execute a firm's strategy–and treating them differently from other processes. A technique we call strategy mapping can help executives practice this art.

A strategy map is a one-page depiction of executives' hypotheses about how the company might successfully execute its strategy. The map shows the executives' cause-and-effect reasoning about how achievement of particular objectives (in the areas of workforce growth, internal processes, customer service, and financial outcomes) will ultimately enable the company to carry out its strategy.

For example, if a company's strategy calls for increasing shareholder value, the firm must first satisfy customers. And to satisfy customers, it must know what its unique value proposition is–such as "We offer the lowest price" or "We provide the most knowledgeable partnerships." A strategy should be organized around "themes" on a strategy map, as shown in *Figure 16*.

Identifying a firm's value proposition also provides clues to the company's key processes. To illustrate, if a firm's value proposition is "We offer the lowest possible price," the company's key processes would likely include cost control–squeezing costs out of every possible activity in the organization. On the other hand, if the value proposition centers on the knowledgeable

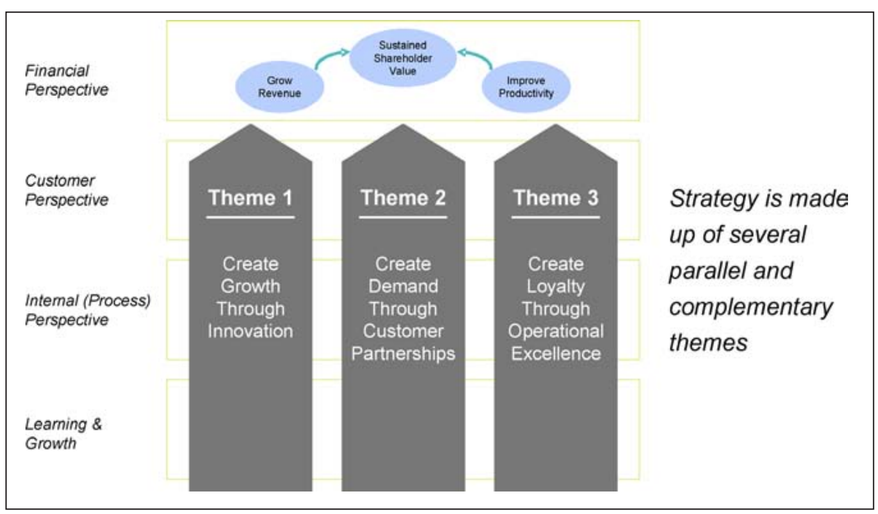


Figure 16 – Strategy Map Themes

partnerships between the company and its customers, key processes would likely include all activities required to help the firm cultivate those partnerships–such as visiting clients, analyzing each client's unique needs, and so forth.

Linking strategy to Key Process Management: A case study

Strategic themes on a strategy map help to focus people throughout the organization on key processes. For example, suppose a company has developed five strategic themes: operational excellence, the order-cash cycle, product portfolio management, customer management, and new product development. The firm would need to identify the processes required by each theme and manage them in a focused way.

To illustrate, managers would ask, "What must we do to improve the order-cash cycle, and how will we know we're meeting our objectives in this theme?" Resolving these questions requires performance dashboards, IT support, and people who are skilled at analytics. Thus it forces executives to think about how best to use and manage two essential resources: the firm's human and information capital.

Figure 17 provides a case study from LoPrice Airline, whose value proposition centers on providing the lowest fares possible. LoPrice's executive team created a strategy map containing themes representing leaders' thinking about which processes would generate the strategic results they were after. For instance, the map depicted their belief that by improving ground-crew alignment, they would accelerate ground turnaround, which would result in fewer airplanes and, in turn, enable them to offer lower prices and attract and retain more customers. Improved customer retention would then enhance aircraft utilization, which would increase LoPrice's return on net assets.

For each key process identified in the map's strategic themes, LoPrice identified objectives, performance measures, and targets. To illustrate, the company would measure performance on the objective "Fast ground turnaround" using two metrics: "On-ground time" and "On-time departure." The target for "On-ground time" was "30 minutes"; for "On-time departure," it was "90%."

In addition to setting measures and targets, LoPrice also identified strategic initiatives that would enable the airline to improve performance on its key processes. For instance, to improve ground turnaround, the company decided to use the Six Sigma methodology to accelerate all ground-turnaround processes not related to maintenance. Changes resulting from this initiative included stricter controls on carry-on baggage and new visual cues from the cabin crew to the boarding agent indicating that a plane was ready for boarding.

Thus LoPrice built a bridge from the highest-level strategic priority ("Plane utilization") to very detailed operational activities ("Cleaning crew in position ahead of time"). LoPrice clearly linked its strategy to its operations.

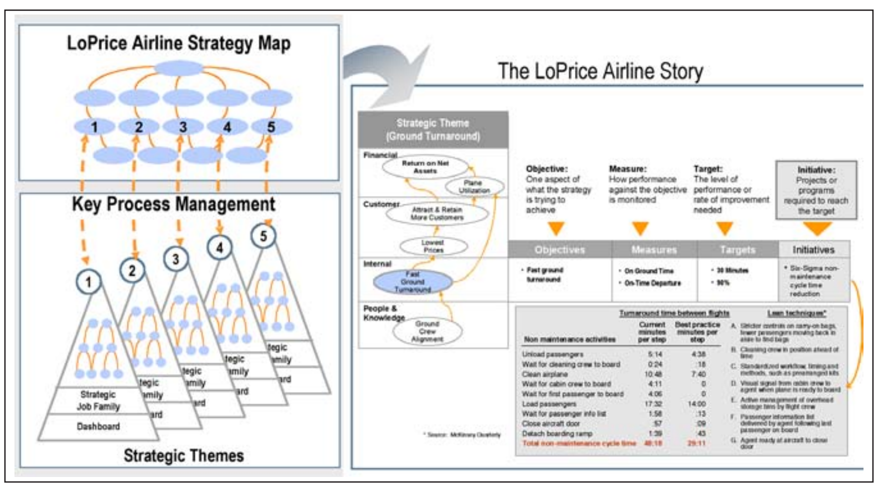


Figure 17 – The Story of LoPrice Airline

The unique impact of Key Process Management

Though all three Strategy Execution process arenas–Strategy Management, Resource Management, and Key Process Management–are important, our research suggests that effective Key Process Management exerts the greatest impact on organizational performance. *Figure 18*, for instance, shows that for 36% of the firms we surveyed, Key Process Management had a “dramatic” impact on their performance, compared to 19% for Strategy Management and 17% for Resource Management.

This isn't to say that Strategy Management and Resource Management are unimportant. Rather, the numbers suggest that these two process arenas play less of a direct role in Strategy Execution than Key Process Management does.

One way to think about it is to view Strategy Management as a tool for focusing the organization: It tells a firm “where the fish [business results] are.” Resource Management ensures that the company has the funding needed to find the fish. But Key Process Management enables it to actually catch the fish–thereby generating concrete results.

How great was the impact on performance?

	Winners			Losers		
	Dramatic Impact	Large Impact	Total	Dramatic Impact	Large Impact	Total
Strategy Management	19%	42%	61%	10%	25%	35%
Resource Management	17%	35%	52%	13%	20%	33%
Key Process Management	36%	32%	68%	15%	30%	45%

Source: BSCol Research (Survey of 143 performance management professionals drawn from BSCol Online Community, March 2006)

Figure 18 – The Impact of Key Process Management

Summary

To truly excel at Strategy Execution, companies need to manage their strategy, resources, and key processes separately–since each of the three process arenas is unique. But firms must also tie the three process arenas together. They can do this through specific mechanisms, including:

- Cross-functional initiatives
- Target setting
- Funding
- Cause-effect models

For example, suppose that during its business planning cycle, a company sets a stretch (ambitious) target–such as becoming number-one in its industry within the next four years. In this case, the firm could integrate the three process arenas by developing strategic initiatives aimed at improving performance on vital strategy-related processes, funding those initiatives through the budgeting process, using IT to report progress on the initiatives, and identifying the skills needed to successfully carry out the initiatives. *Figure 19* depicts these relationships.

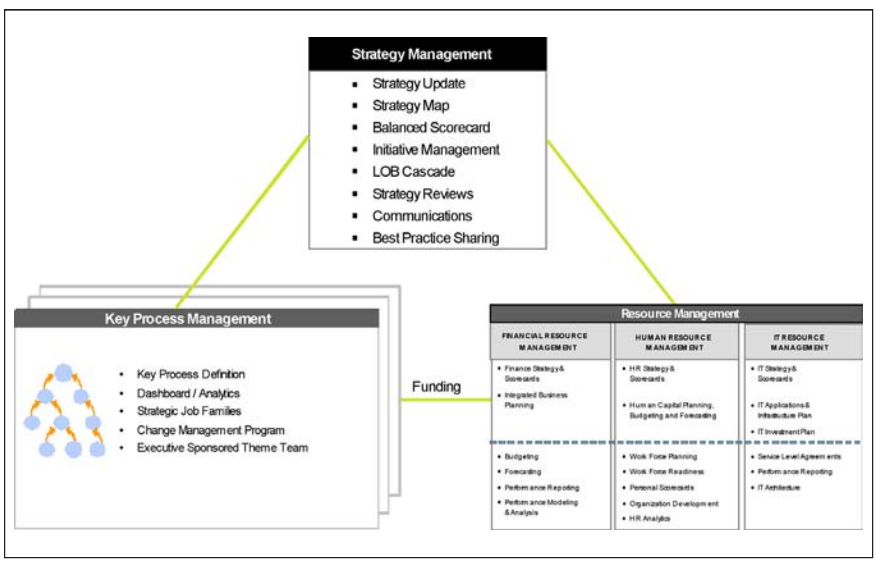


Figure 19 – Linking Strategy to Operations

Turning to technology

Companies that excel at Strategy Execution first identify the sets of formal processes they need for Strategy, Resource, and Key Process Management and then identify ways to link these three process arenas. Only after they have performed these steps do they ask what technology solutions would best support this integration.

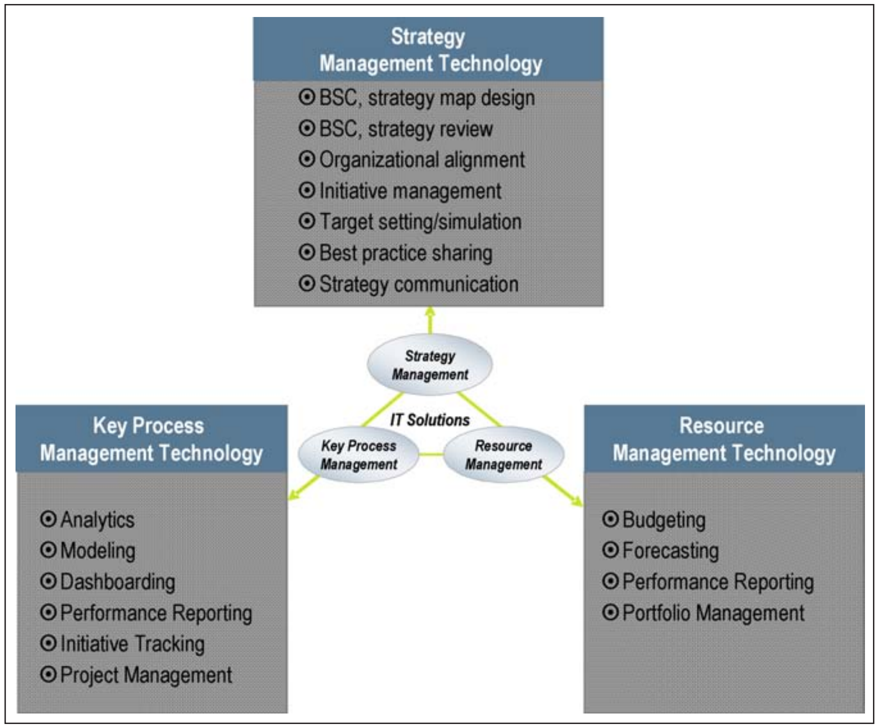


Figure 20 – Three Types of IT Solutions

Leaders at such firms understand that process change precedes technology. Executives who adopt technology without establishing the right processes first will generally find their technology investments wasted.

Once a company has established mechanisms for linking its Strategy, Resource, and Key Process Management, it should quickly define which technologies will best support these three process arenas. As *Figure 20* shows, each arena requires different types of technology solutions.

For example, to support Strategy Management, firms can use Web-based and other tools that help them build and revise a strategy map, track progress on strategic initiatives, conduct online discussions about strategic performance, and so forth.

Not surprisingly, supporting Key Process Management requires different types of technology solutions–primarily analytics and dashboarding. These solutions enable companies to analyze data related to key strategic concerns, such as customer profitability, cycle time, and inventory turnover. Such analysis in turn enables executives to test their cause-and-effect assumptions about what needs to be done to execute the corporate strategy–and to revise those assumptions if necessary.

Finally, IT solutions for Resource Management enable companies to efficiently handle budgeting, rolling forecasts, portfolio and investment management, and other resource-related efforts.

The fact that each process arena–Strategy, Resource, and Key Process Management–requires different technology solutions further testifies to the important of managing these arenas separately.

Technology: The potential and the reality

Of the barriers to Strategy Execution generally faced by organizations–including inadequate leadership, organizational silos, disjointed processes, and misaligned technology–the companies we surveyed identify technology is the least formidable. That's good news for firms seeking to use technology to strengthen their execution ability. However, many of the firms we surveyed acknowledged that they're not yet using IT's full potential to support Strategy Execution.

For example, as shown in *Figure 21*, only 25% of our respondents said

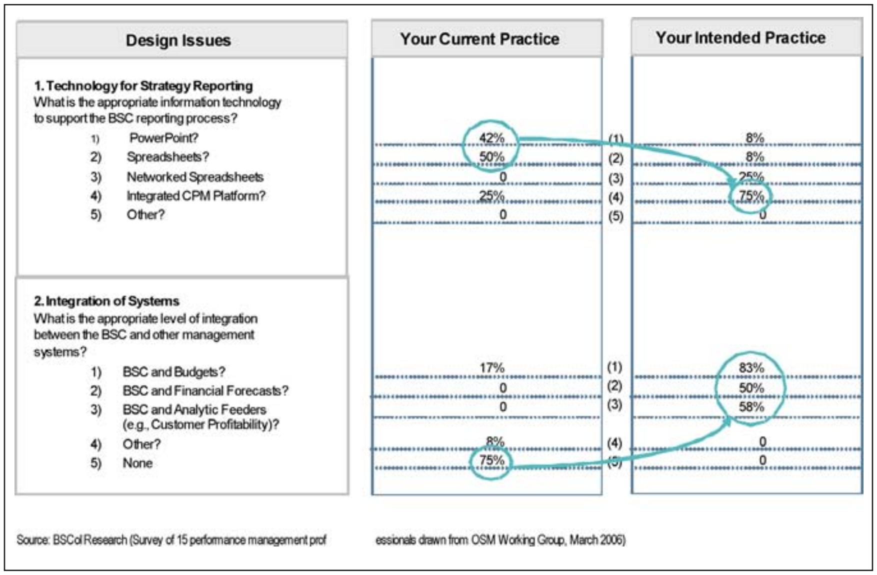


Figure 21 – Technology Use and Intentions

they use an integrated Corporate Performance Management platform to report strategic performance. Most use simpler tools such as spreadsheets and presentation software. In addition only 17% of them said they use technology to integrate strategic reporting with budgeting.

Yet these same companies maintain that they intend to make greater use of technology in the future. For instance, 75% of them see themselves operating in an integrated CPM platform within the next year or two. And 25% anticipate moving to more sophisticated networking of spreadsheets. Moreover, 83% of them understand the importance of linking budgeting to strategy and financial forecasting to analytic feeders.

Clearly, how companies are currently using technology differs markedly from how they believe they should be using it–and how they intend to use it in the future.

The Strategy Execution maturity model

Why the delay in adopting supportive technology–if the technology barrier is reputedly so benign? Our research suggests this answer: Companies that master Strategy Execution do so through an evolutionary process comprising three predictable stages:

1. Mobilization (3-6 months): Executives focus on running the enterprise in a new way and begin building momentum for this change throughout the organization.

2. Alignment (6-12 months): The top team clarifies the corporate strategy and communicates it to the rest of the organization. Unit and functional leaders identify ways in which activities in this part of the organization can support the corporate strategy.

3. Integration (12-24 months): Awareness and execution of the strategy is woven into the day-to-day work and culture of every part of the organization.

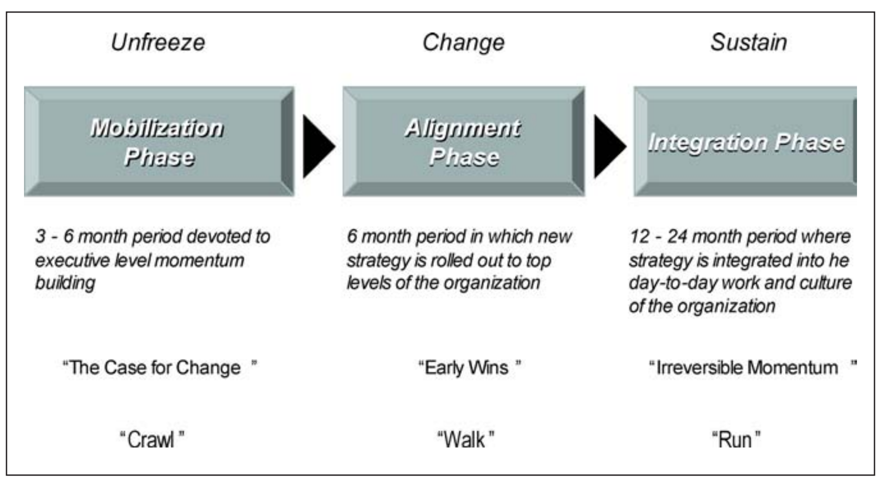


Figure 22 – The Strategy Execution Journey

Different organizations use different terminology to describe the mobilization, alignment, and integration phases of the Strategy Execution journey. As noted in *Figure 22*, examples include "Unfreeze," "Change," "Sustain"; "The Case for Change," "Early Wins," and "Irreversible Momentum"; and (perhaps the most engaging) "Crawl, Walk, and Run."

Technology and the Strategy Execution maturity model

Technology follows process. Thus if a company's Strategy Execution journey follows a predictable evolutionary approach, a similar maturity model should apply to technology. In our review of the technology strategies of successful companies, we observed just such a process, summarized in *Figure 23*.

During the **mobilization phase**, Strategy Management–and its attendant supportive technology–dominates. Top executives get familiar with defining, regularly reviewing, and communicating strategy to the workforce. IT solutions during this phase are intended primarily to support reporting processes, and include strategy meeting management tools, target setting and simulation technology, and initiative management tools.

During the **alignment phase**, Key Process Management begins receiving emphasis as well. IT solutions focus primarily on networking and include Web-based tools and dashboards for analyzing and interpreting performance data. Strategy Management technologies support cascading of the high-level strategy to lines of business and support units, as well as linking of personal goals and incentives to the corporate strategy.

During the **integration phase**, a company continues to use reporting and networking technologies for both Strategy and Key Process Management. But it now begins to use IT solutions (such as integrated CPM platforms) focused on linking strategy to resource-related processes (such as business planning, budgeting, and forecasting), key-process-related processes (including analytics and knowledge management), and strategy-related processes (such as scenario planning).

Clearly, strengthening a company's Strategy Execution muscle and augmenting it with appropriate technology takes time. "Adopting Technology at Hilton Hotels Corporation" provides a glimpse into one company's experience with this evolutionary process.

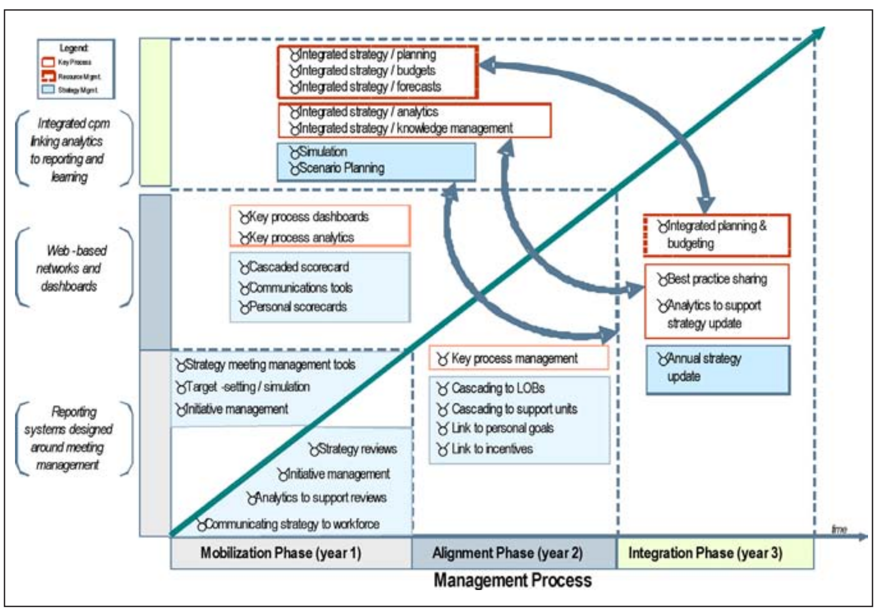


Figure 23 – The Strategy Execution Maturity Model

Adopting technology at Hilton Hotels Corporation

In the early 1990s, the economic turbulence spawned by the first Gulf war, a wave of overbuilding in the hotel industry, and a worldwide recession had left the hospitality industry reeling. Combined with excess industry capacity leftover from the 1980s, these forces were driving down occupancy levels and profits for many big hoteliers–Hilton Hotels Corporation included.

To address these woes, the company defined two new strategies in 1994: pursuing an aggressive growth plan and installing a new performance management system. Thus began the mobilization phase of its Strategy Execution journey. During this early phase–which continued to the end of 2000–the company used several simple tools (presentation software, electronic spreadsheets) to manage its strategies, resources, and key processes. For instance, it displayed its strategy map and performance targets on Microsoft ® Excel® spreadsheets (Strategy Management). It also used spreadsheets to show forecasting (Resource Management) and to report performance and track progress on strategic initiatives (Key Process Management).

During the alignment phase of the journey (2000 to 2003), Hilton continued using these simple tools for some of the activities in the three process arenas. For instance, it employed Excel to manage strategic initiatives and report performance. But it also incorporated a blend of off-the-shelf performance management technology and its own application for many other processes. To illustrate, it developed an in-house, Web-based application to handle performance dashboarding (Key Process Management) while employing off-the-shelf software for numerous other Resource Management and Strategy Management processes.

	Mobilization Phase	Alignment Phase	Integration Phase
Management Process	"embarked on journey of excellence in performance management" • Hilton Hotels • Adopted BSC as core methodology	Launched web -based scorecards to 350 managed hotels • All Brands	Integrates full Hilton Value Creating Process • Business Planning • Goal Establishment • Scorecarding • Continuous improvement • Rewards, Recognition
Technology Solution	• Excel spreadsheet (BSC)	• Web-based BSC	• Integrated CPM Platform

Figure 24 – Hilton's Strategy Execution Journey

In 2004, when Hilton entered the integration phase of Strategy Execution maturity, the company shifted primarily to a custom-built integrated corporate performance management platform that supported most of the processes in all three process arenas. As late as 2005, the company continued using Excel to support several processes–namely, initiative tracking and management.

Figure 24 depicts the stages through which Hilton has progressed in its journey toward excelling at Strategy Execution–and the evolution of its technology choices to support its management of strategy, resources, and key processes.

Getting started

For companies just beginning their journey toward Strategy Execution mastery, it's vital that leaders understand that the process takes time–and that it must begin with the mobilization stage. Though mobilizing is the most obvious starting point, it can also prove the most difficult part of the journey. For this reason, we recommend laying a solid foundation for mobilizing before tackling the later stages, as expressed in *Figure 25*. The following steps can help:

- **Build executive awareness:** Enterprise leaders expose the executive team to a "new way of managing"–building awareness through conferences, assigned readings, in-house training, and visits to other organizations that have advanced farther toward effective Strategy Execution.

- **Assess the company's strategic readiness:** Leaders take stock of the company's current Strategy, Resource, and Key Process Management–asking, "What formal management processes do we have in place for each of these arenas? What processes should we change, remove, or add? What supporting technologies are we currently using? How well are these technologies working for us? Which technologies should we consider jettisoning, changing, or adding?"

- **Lay out a roadmap:** Leaders clarify strategic themes and assign a team to be accountable for each. They also identify strategic initiatives and required investments, define metrics and targets for each strategic initiative, and design mechanisms for reviewing progress and harvesting benefits.

- **Create a Strategy Execution team:** Leaders assemble a team dedicated to Strategy Execution. The team comprises members from different functions (such as finance, HR, IT, and strategic planning) who are accountable for strategic themes that cross varied parts of the organization. The team establishes mechanisms for formulating, reviewing, revising, and communicating strategy.

By establishing a firm foundation for mobilization through the above four practices, organizations can improve their chances of progressing successfully through the phases of the Strategy Execution maturity process. As many companies have discovered, the benefits make the wait more than worthwhile.

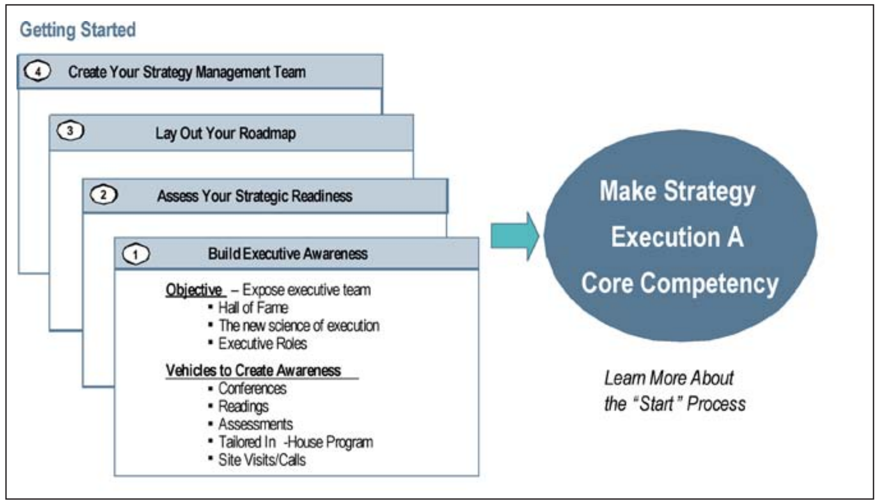


Figure 25 – Getting Started

About our research

The research drew on three sources:

Balanced Scorecard Hall of Fame

The Balanced Scorecard Hall of Fame For Strategy Execution is a program administered by BSCol. Over 60 companies have received this award. Each has successfully executed their strategy. Our studies of their management practices have helped to address the two questions – "How does an organization build the competency to execute strategy? And "What are the payoffs?"

Performance Management Practice Survey

BSCol conducts a bi-annual survey of managers of performance management programs. Our review of their management practices serves as a point of contrast to the BSCol Hall of Fame organizations. The survey also helps us to answer the two questions noted above.

Longitudinal Case Studies

Detailed chronological case studies were developed for a select group of organizations. The case studies allowed us to study the evolution of the management processes over time. The chronologies helped to answer the two questions – "What are the barriers to sustainability" and "How can these barriers be overcome?"

About the author

Dr. David P. Norton is co-founder and President of Palladium. Prior to his career at Palladium, Dr. Norton cofounded and served as President and CEO of Balanced Scorecard Collaborative. He was also President of Renaissance Solutions, Inc., a Balanced Scorecard consulting firm and cofounder and President of Nolan, Norton & Company. He is coauthor, with Robert S. Kaplan, of "The Balanced Scorecard: Translating Strategy Into Action" (Harvard Business School Publishing, 1996), "The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment" (Harvard Business School Publishing, 2000) and "Strategy Maps: Converting Intangible Assets into Tangible Outcomes" (Harvard Business School Publishing, 2004), along with four articles on the Balanced Scorecard in the Harvard Business Review. Dr. Norton earned a doctorate in business administration from Harvard University, an MBA from Florida State University, a MS in Operations Research from the Florida Institute of Technology, and a BS in Electrical Engineering from Worcester Polytechnic Institute.

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