

Executing Strategy in Turbulent Times

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Most organizations have problem executing their strategy.

Less than 10% of strategies effectively formulated are effectively executed.

- Fortune Magazine

Only 15% of the 794 programs reviewed in Fiscal 2005 were rated effective.

- Barron's

Our problem is not about the strategy itself but about our execution of it.

- Tony Hayward, CEO, BP

I'd rather have a mediocre strategy that is well executed than a brilliant strategy executed poorly."

- Jamie Dimon, CEO, J.P. Morgan Chase

Companies on average realize only 60% of the financial performance their strategies promise... more than one-third of executives surveyed placed the figure at less than 50%.

- Harvard Business Review

Even in troubled times, strategy execution remains the leading concern of executives world-wide.

THE WALL STREET JOURNAL
WSJ.com

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Executives Shift to Survival Mode

Work-Force Issues Move to Back Burner as Financial Worries Take Precedence

By GARI TUNA

Business executives are shuffling their priorities and risk-management supplant work-force issues

The Conference Board last month again surveyed business and company presidents who were asked in July and August about their top concerns. The differing results reflect the impact of the economic downturn that deepened in September, and the slowing global economy.

Among the 190 executives who responded to the survey, business strategy remained the top priority. It was cited by 55.4% of respondents, up from 46.0% in late summer — down from 55.4% in late summer — about "speed, flexibility [and] adaptability to change" and "global economic performance" were the four other top concerns. Neither were among executives' top concerns in late summer.

Crisis Management

Top five concerns among executives world-wide

■ Oct.
■ July/Aug.

Relative rankings			Cite challenge as being of 'greatest concern'
July/Aug.	Oct.	Challenges	
1	1	Excellence in execution	55.4% (Oct.) 46.0% (July/Aug.)
3	2	Consistent execution of strategy by top management	47.0% (Oct.) 41.9% (July/Aug.)
7	3	Speed, flexibility, adaptability to change	46.6% (Oct.) 24.5% (July/Aug.)
16	4	Global economic performance	44.6% (Oct.) 17.2% (July/Aug.)
11	5	Financial risk, including liquidity, volatility, and credit risk	43.8% (Oct.) 20.8% (July/Aug.)

Note: The global top 5 list is weighted by regional representation in global GDP as established by the International Monetary Fund

Source: The Conference Board

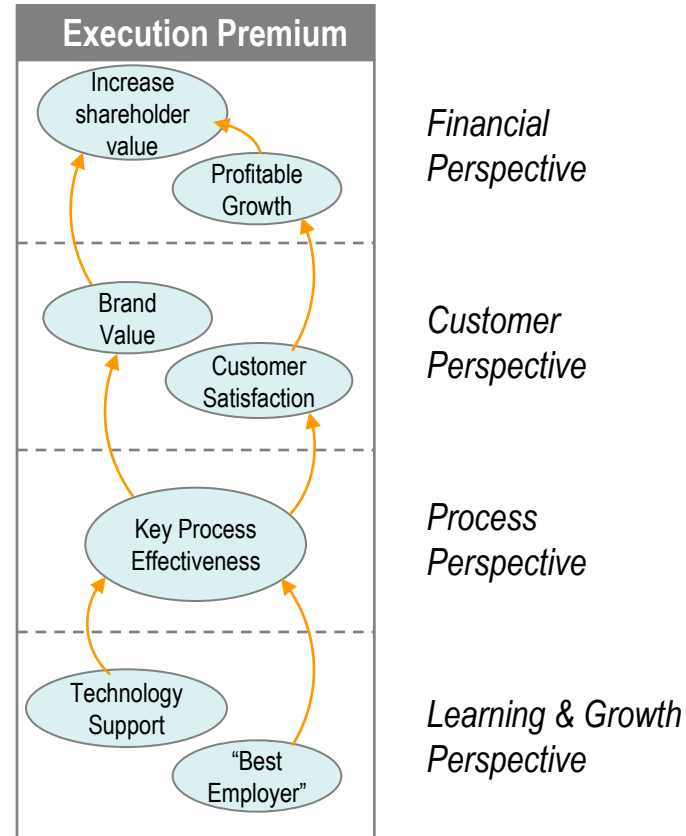
Bain & Co. 2009 Survey, “Management Tools and Trends” shows Balanced Scorecard among the Top-10 tools used around the world.

	Management Tool	Usage
1	Benchmarking	76%
2	Strategic Planning	67%
3	Mission and Vision Statements	65%
4	Customer Relationship Management	63%
5	Outsourcing	63%
6	Balanced Scorecard	53%
7	Customer Segmentation	53%
8	Re-engineering	50%
9	Core Competencies	48%
10	Mergers and Acquisitions	46%

Companies around the world are using the strategy execution system, based on the Balanced Scorecard, to deliver breakthrough results



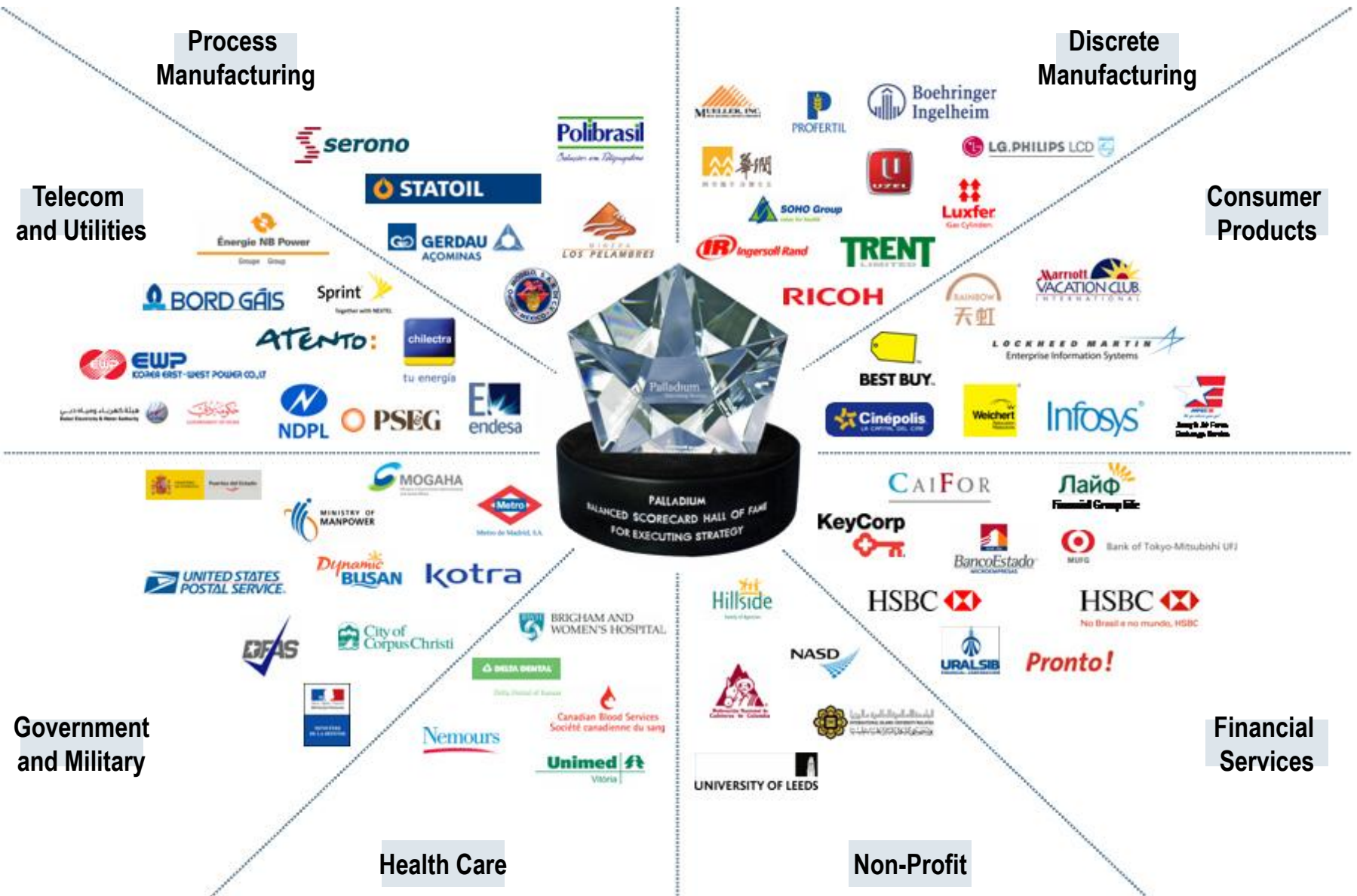
- Revenue up 310%
 - EPS up 305%
-
- Active clients rose from 293 to 500
 - Big accounts (\$20M+) up from 6 to 27
-
- Innovation (new product revenues) up 48%
-
- Ranked #1 employer in IT sector (Dataquest)
 - Ranked India's best managed company



"Our BSC helped us deliver superior performance consistently and predictably in all facets of our operations."

Kris Gopalakrishnan – CEO

Palladium Balanced Scorecard Hall of Fame for Executing Strategy By Industry 2005 – 2008



Why do leaders use strategy maps and scorecards for strategy execution?

EXECUTIVE CONSENSUS AND ACCOUNTABILITY

Building the strategy map eliminates ambiguity and clarifies responsibility.

EDUCATE AND COMMUNICATE

Communicate and educate the workforce about the strategy.

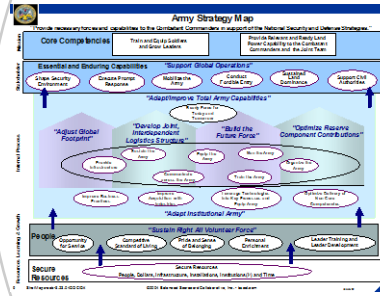
CREATE ALIGNMENT

Each part of the organization and each individual link their objectives to the strategy map.

FEEDBACK AND LEARNING

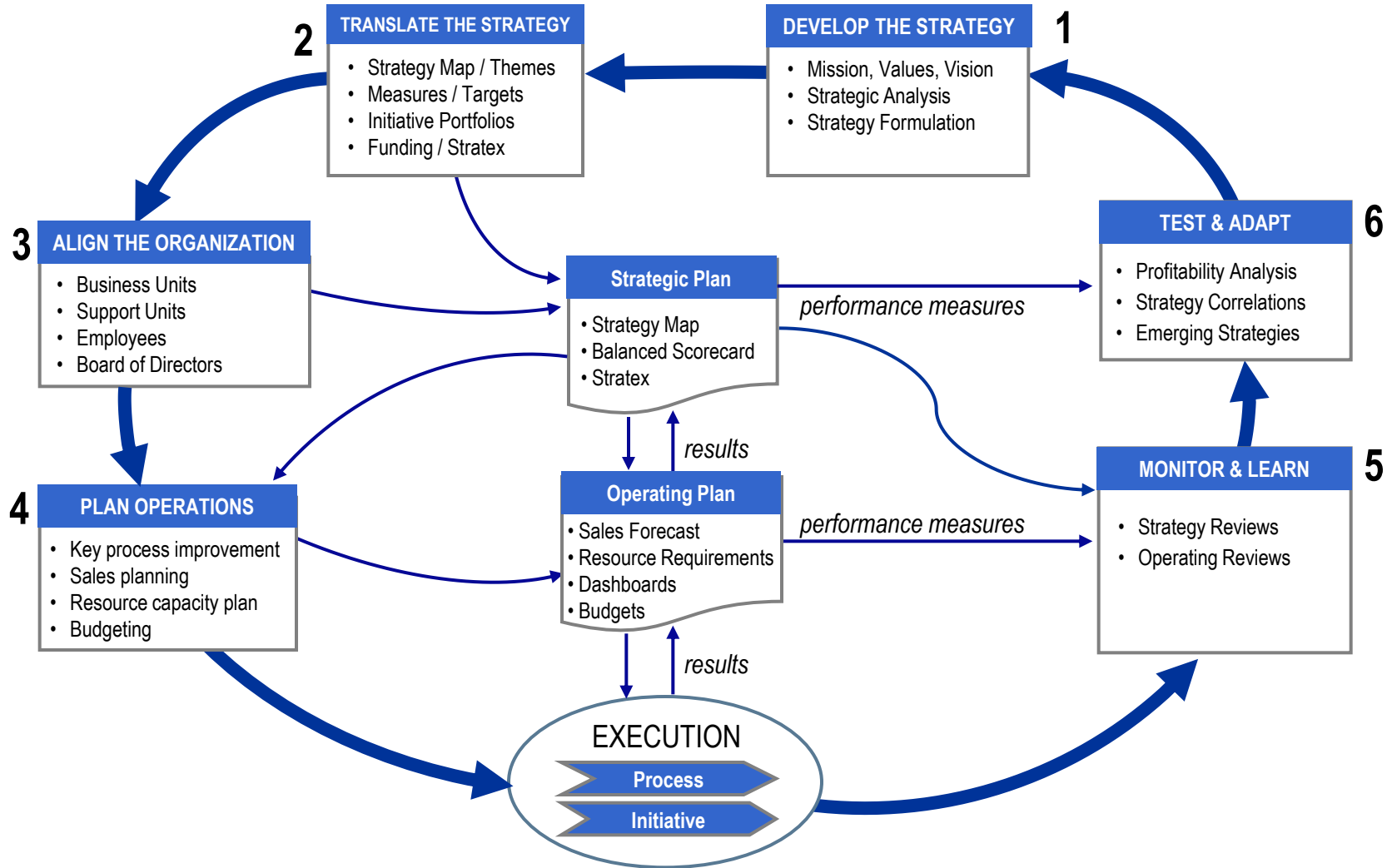
Monitor and guide the strategy

STRATEGY

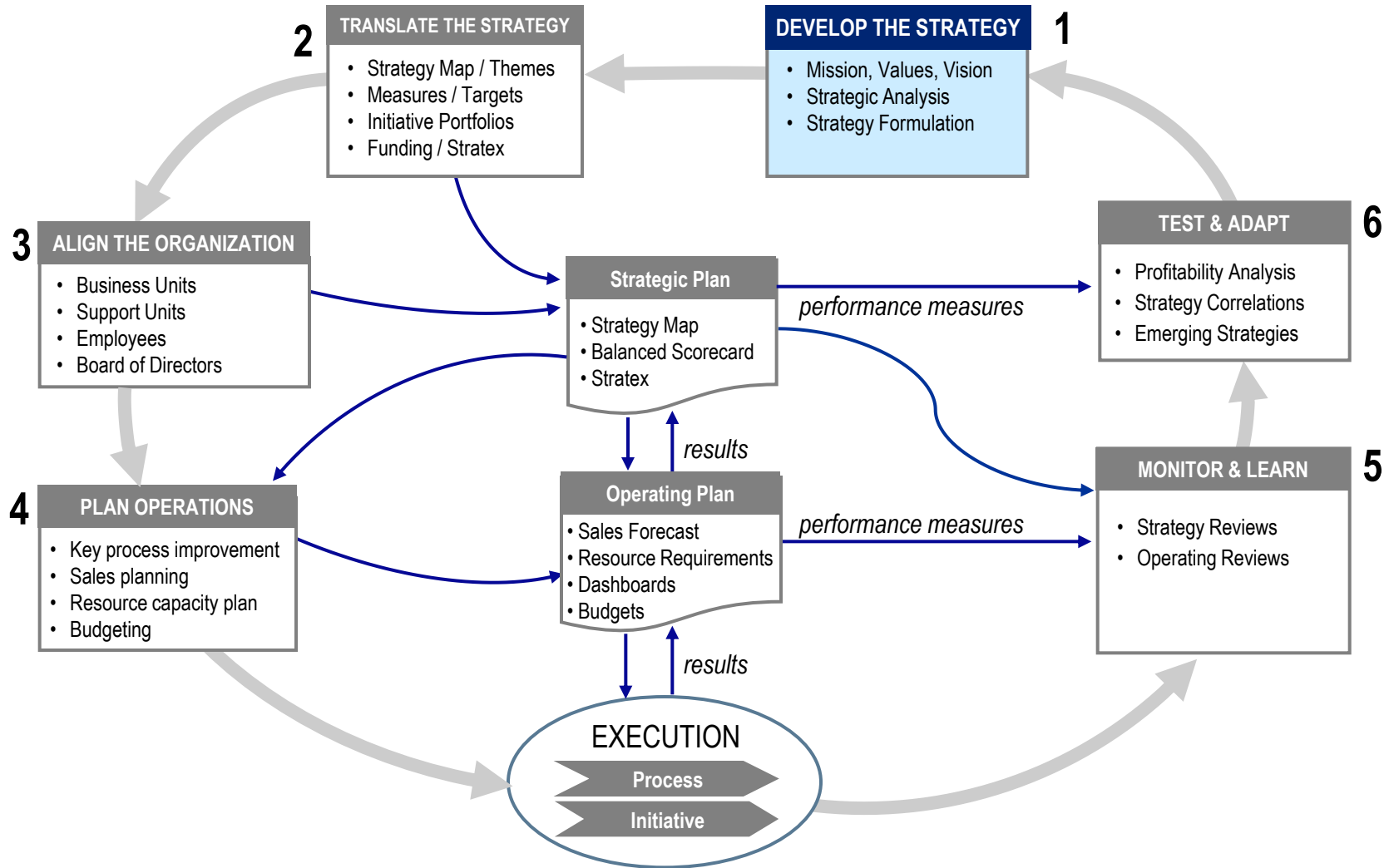


MAP

We have developed a six-stage closed loop management system for Strategy Execution



Stage 1: Develop the Strategy



Before embarking on a transformational change program, leaders must reaffirm the organization's fundamental goals and purpose

The **mission** describes the fundamental purpose of the entity, especially what it provides to customers and clients

“Organize the world's information and make it universally accessible and useful.”

Google

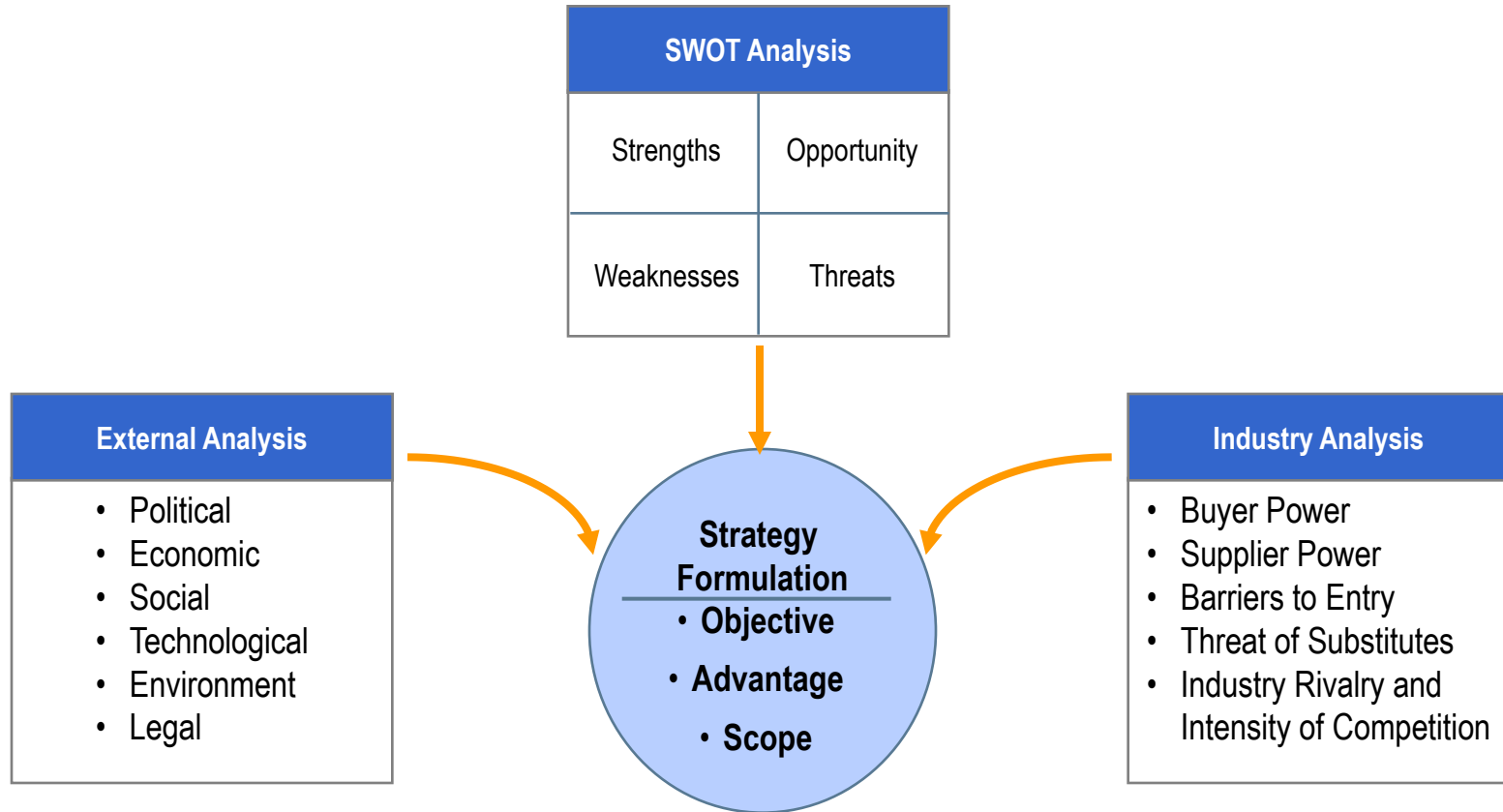
The **core values** of a company prescribe the attitude, behavior, and character of the organization.

- Individuals who are treated with respect and given responsibility respond by giving their best.
- We guard and conserve the company's resources with the same vigilance used to guard and conserve our own personal resources.
- In all our dealings we will strive to be friendly and courteous, as well as fair and compassionate.
- We feel a sense of urgency on any matters related to our customers. We own problems and we are always responsive.

The **vision** is a concise statement that defines an ambitious measurable target (a BHAG) and a date.

- **Cigna Property and Casualty Insurance Company** [when it was the least profitable P&C insurer]
“to be in the top quarter of profitability within 5 years”
- **Large Apparel Retailer** (with \$8 billion in sales)
“to achieve \$20 billion in sales within 5 years”
- **President John F. Kennedy (1962) for the US Space Program**
“to land a man on the moon and return him safely to earth by the end of the decade.”

External and internal analysis helps to identify the strategic opportunity

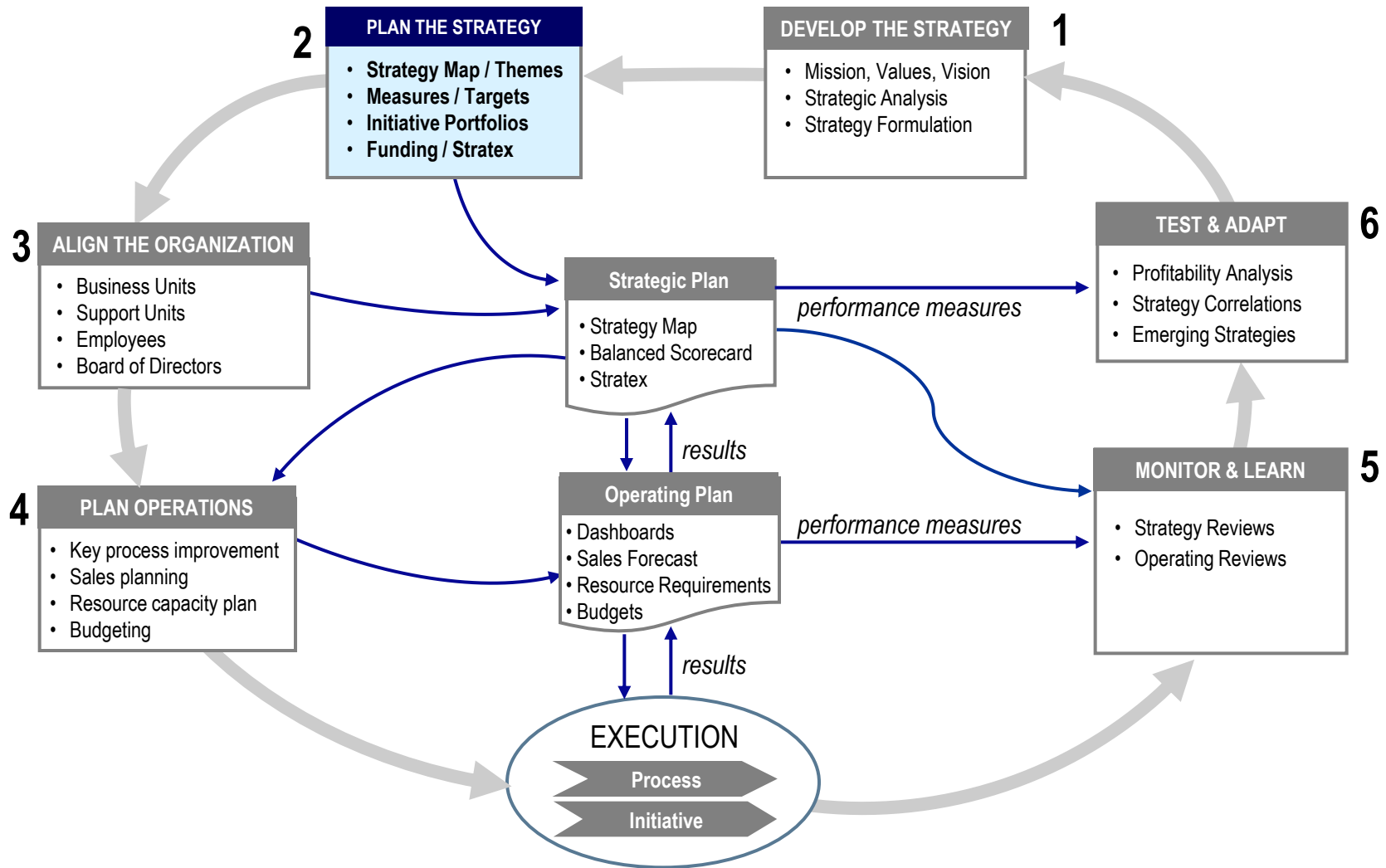


At the end of Stage 1, the company should have defined its mission, values, and vision, and have a clear statement of its strategy

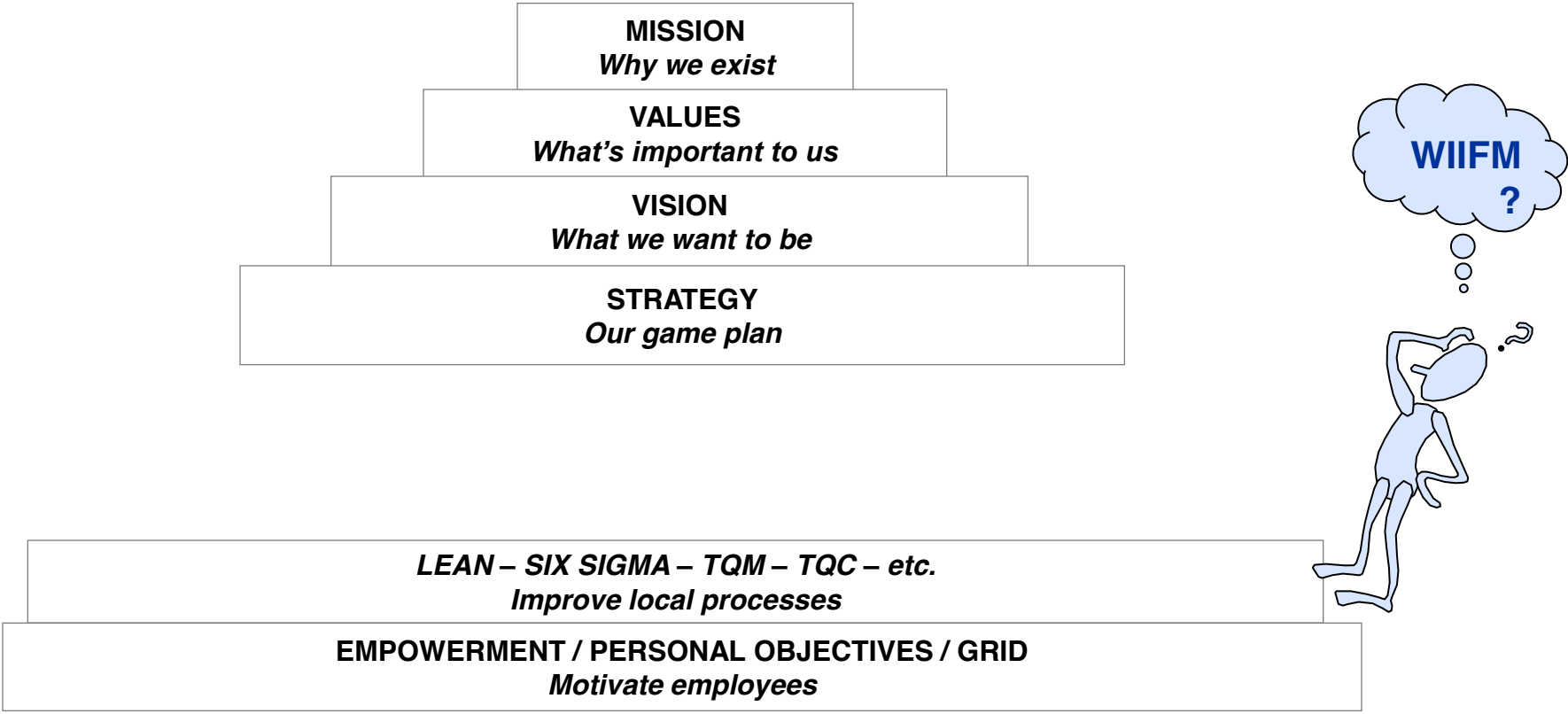
The strategy communicates:

- What the company is trying to achieve
- How the company will measure success
- Where it competes (targeted customers, regions, industry value chain)
- The means (advantage) it will use to accomplish its goals.

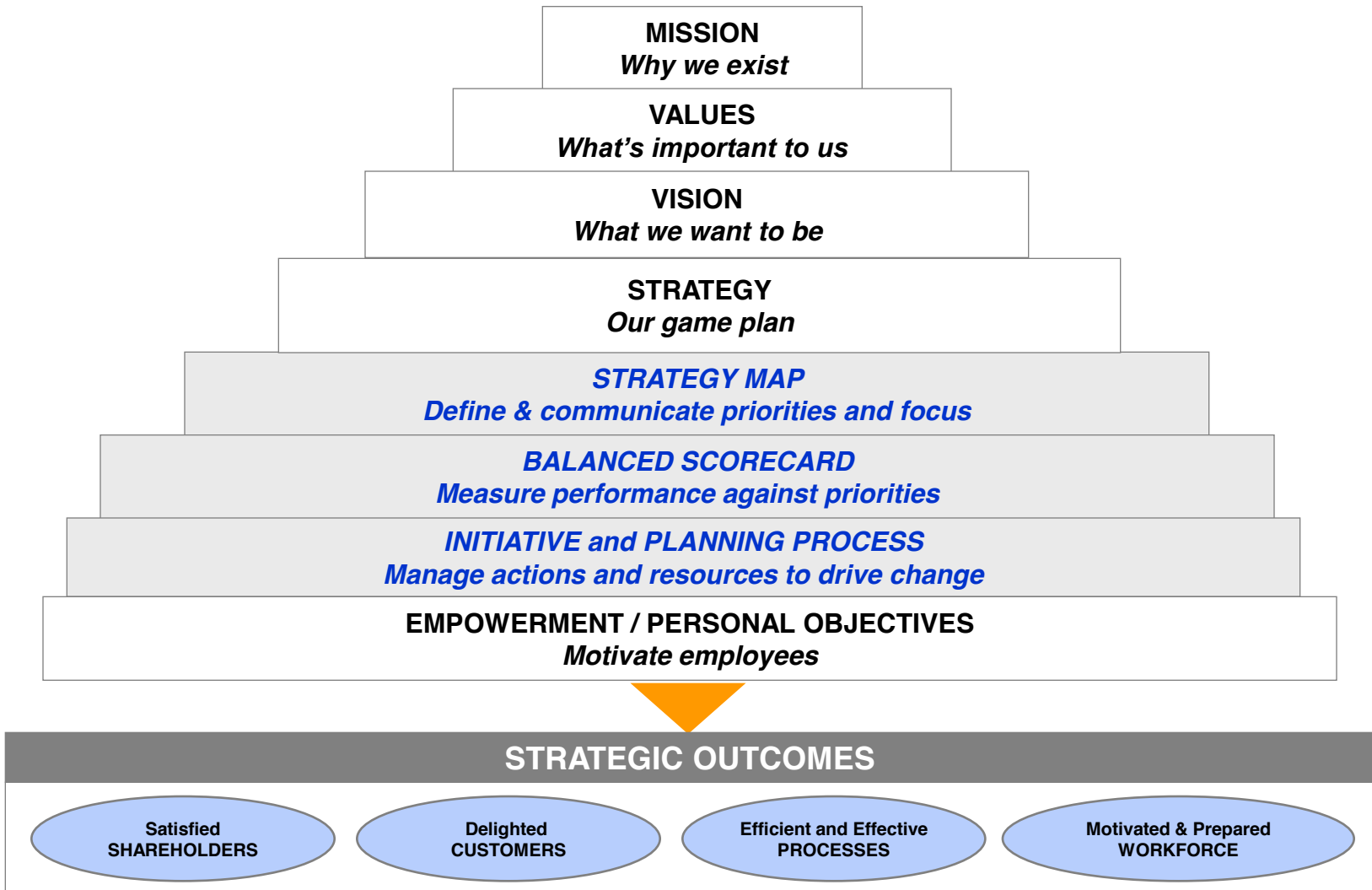
Stage 2 of the Management System: Plan the Strategy



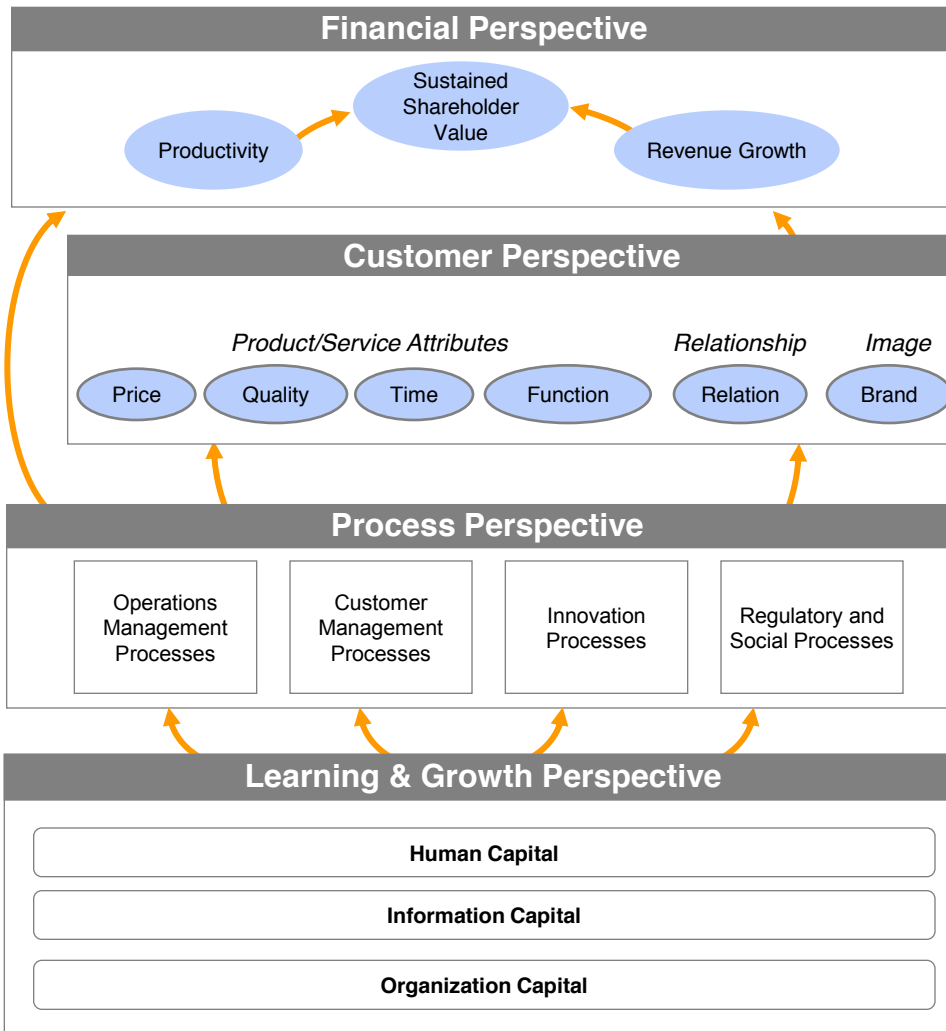
A gap often exists between the senior executive team’s description of mission, vision, and strategy and the understanding by front-line employees and middle managers.



Strategy Maps and the Balanced Scorecard bridge the strategy implementation gap: They link **leadership** at the top to **management** of initiatives, process improvements and employees' everyday actions.



A Strategy Map describes how the enterprise creates value for shareholders and customers.



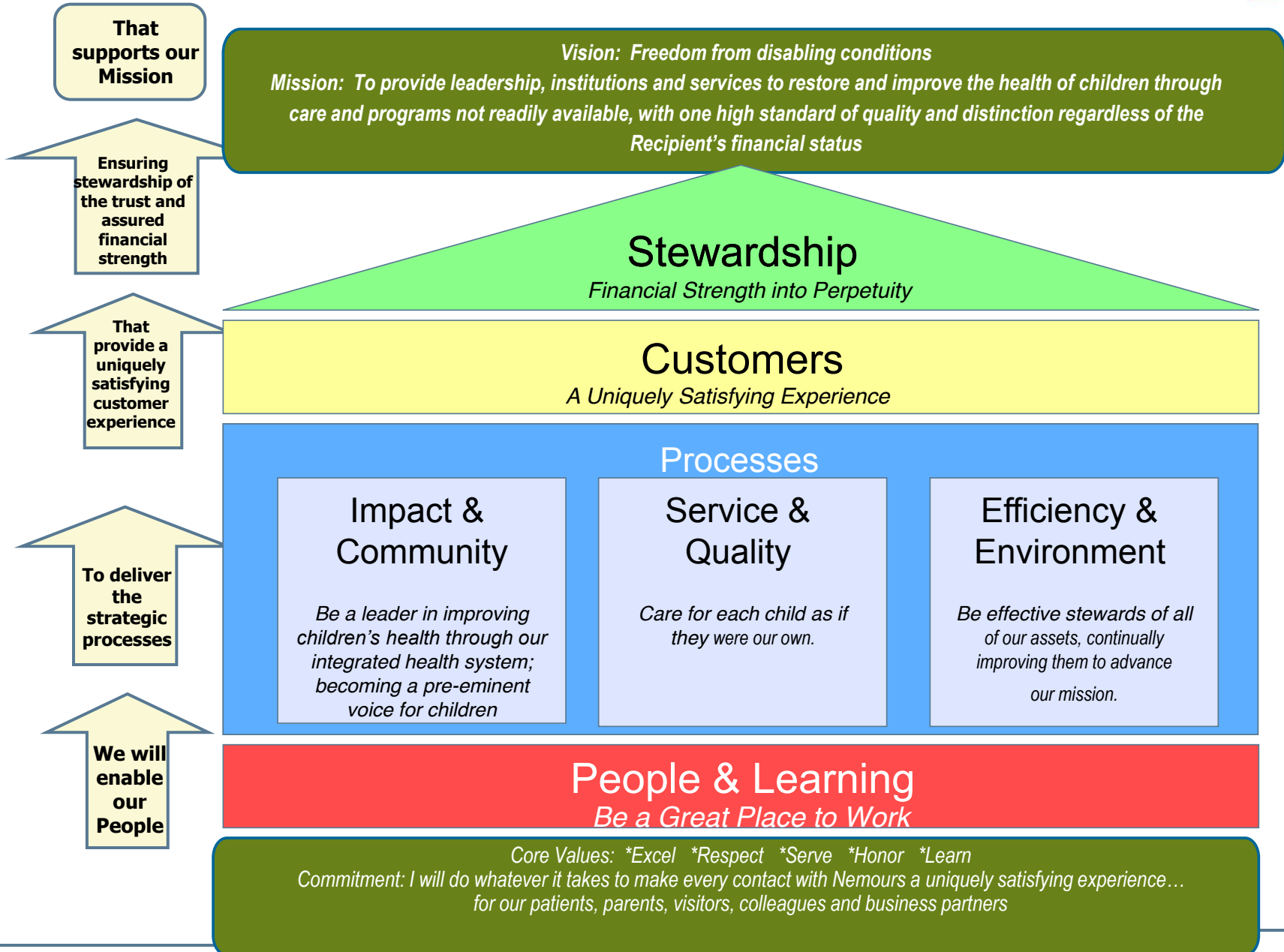
#1. **Financial** performance, a lag indicator, measures the tangible outcomes from the strategy.

#2. The **customer** value proposition defines the source of value.

#3. Strategic **processes** create value for customers and shareholders.

#4. Aligned **intangible** assets drive improvement in the strategic processes

Strategy Map Organized by Strategic Themes: Nemours Hospital

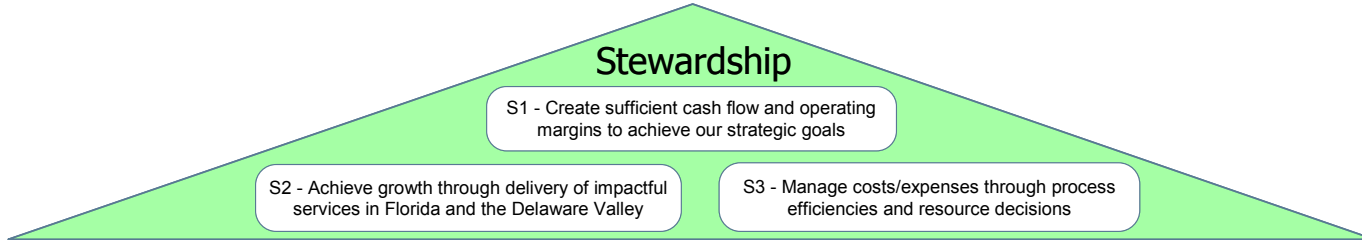


Nemours Children's Hospital Strategy Map Organized by Strategic Themes

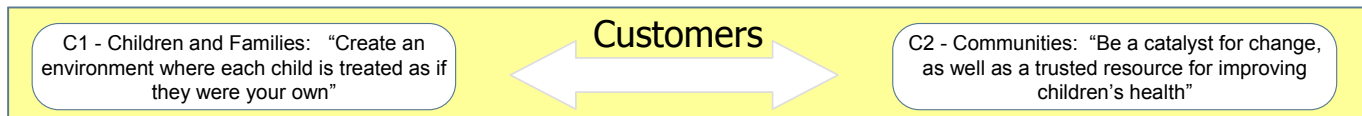
**That supports
Our Mission**

Vision: Freedom from disabling conditions
Mission: To provide leadership, institutions and services to restore and improve the health of children through care and programs not readily available, with one high standard of quality and distinction regardless of the recipient's financial status

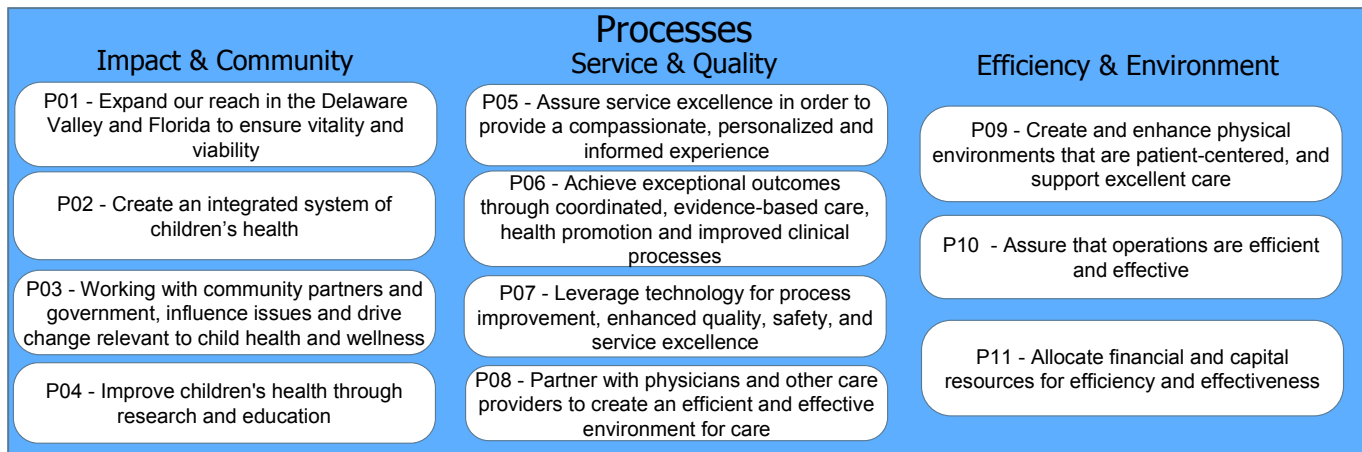
**Ensuring
stewardship of the
trust and assured
financial strength**



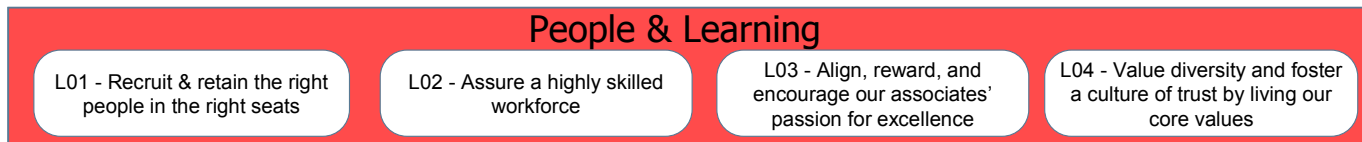
**That provide a
uniquely
satisfying
customer
experience**



**To deliver the
Strategic
Processes**



**We will
enable our
People**



*Core Values: *Excel *Respect *Serve *Honor *Learn*
Commitment: I will do whatever it takes to make every contact with Nemours a uniquely satisfying experience ... for our patients, parents, visitors, colleagues and business partners

The Strategy Map and Balanced Scorecard translate the strategy statement into action

Southwest Airlines: "To remain the most profitable US-based airline by offering price-sensitive travelers who value convenient flights the speed of airline travel at the price, frequency, and reliability of cars, buses and trains."

Strategy Map		Balanced Scorecard		Action Plan	
Theme: Operating Efficiency	Objective	Measurement	Target	Initiative	Budget
<p><i>Financial</i></p>	<ul style="list-style-type: none"> Profitability Grow revenues Fewer planes 	<ul style="list-style-type: none"> Market Value Seat Revenue Plane Lease Cost 	<ul style="list-style-type: none"> 30% CAGR 20% CAGR 5% CAGR 		
	<ul style="list-style-type: none"> Flight is on-time Lowest prices Attract and retain more customers 	<ul style="list-style-type: none"> FAA On-Time Arrival Rating Customer Ranking # Repeat Customers # Customers 	<ul style="list-style-type: none"> #1 #1 70% Increase 12% annual 	<ul style="list-style-type: none"> Customer Loyalty Program 	<ul style="list-style-type: none"> \$XXX
	<ul style="list-style-type: none"> Fast ground turnaround 	<ul style="list-style-type: none"> On Ground Time On-Time Departure 	<ul style="list-style-type: none"> 30 Minutes 90% 	<ul style="list-style-type: none"> Ground Cycle Time Project Quality Management 	<ul style="list-style-type: none"> \$XXX \$XXX
	<ul style="list-style-type: none"> Ground crew aligned with strategy Develop the necessary skills Develop the support system 	<ul style="list-style-type: none"> % Ground Crew Stockholders Strategic Awareness Strategic Job Readiness Info System Availability 	<ul style="list-style-type: none"> 100% 100% Yr 1 - 0% Yr 3 - 90% Yr 5 - 100% 100% 	<ul style="list-style-type: none"> ESOP Ground Crew Training Crew Scheduling System Rollout CRM System 	<ul style="list-style-type: none"> \$XXX \$XXX \$XXX \$XXX
				Total Budget	\$XXXX

Communicate

Measure

Execute

Aligning Strategic Initiatives to the Strategy

Perspective	Objectives	Current initiative	Procurement redesign	Emerging markets strategy	Partner with the winners	Res sec and W&L and hurricane	Quality needs identification	Quality proc for root cause elim	Reformulation	SV commercialization/facilities	Customer complaint tracking p	Side lam VP/partnerships	IT enhancement in value chain	SCOP implementation	Abm	Develop/cascade BSC	Communicate vision	Asia reformation facilities	IT strategy alignment	Scrap rework process improv	Yield improvement program	Facilities upgrade	ISO 90002 NA resin mfg. Cer	Expert systems	Rewards development/implem	Global communications	Training strategic skills		
Financial	Economic value added																												
	Be the lowest cost producer																												
	Pick the winners globally																												
Customer	Create new market demand		■																										
	Price performance																												
	Partnering											■																	
Process	Integrate and align resources															■	■	■	■										
	Sales and customer development				■													■											
	Focused technology development																			■				■					
	Perfect manufacturing		■					■	■				■							■	■	■	■	■					
Learning & Growth	People and change management													■							■	■	■	■	■	■	■	■	
	Strategic competencies						■											■				■					■		
	Individual and team performance		■			■																		■					
	Customer sensitive culture																												

2 initiatives serving no objectives

No initiatives for the Financial perspective

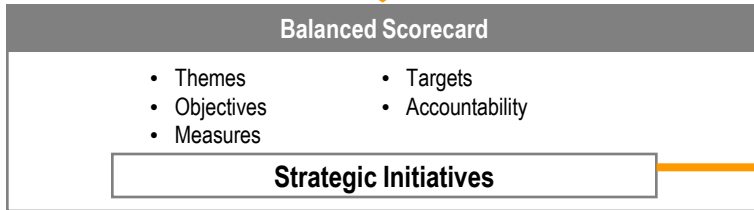
9 initiatives for 1 objective

No initiatives for this objective

Funding the Strategy: Linking Strategy to the Budget through STRATEX

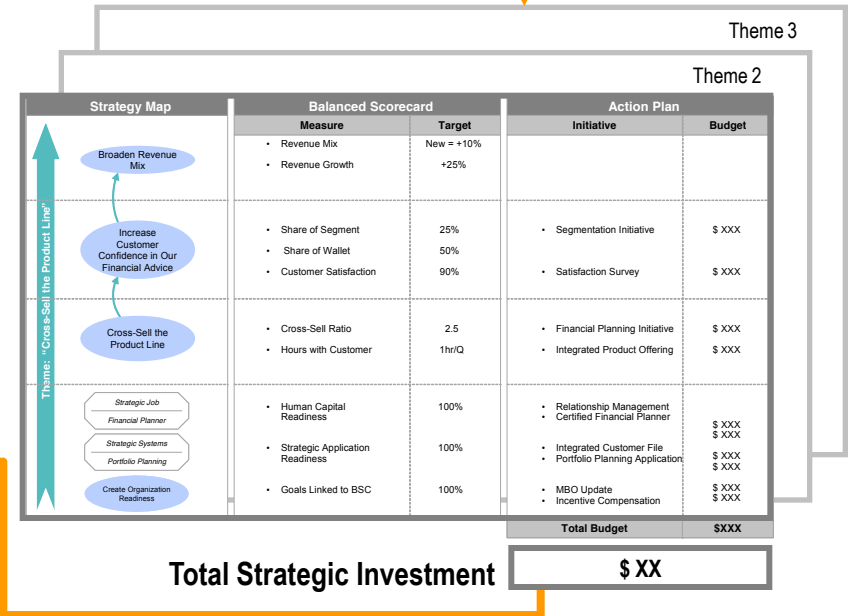
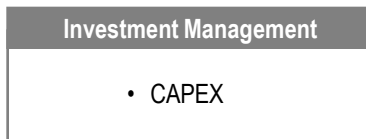
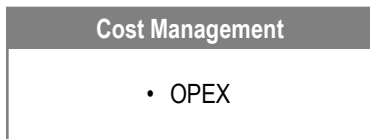


Integrated Strategic Plan

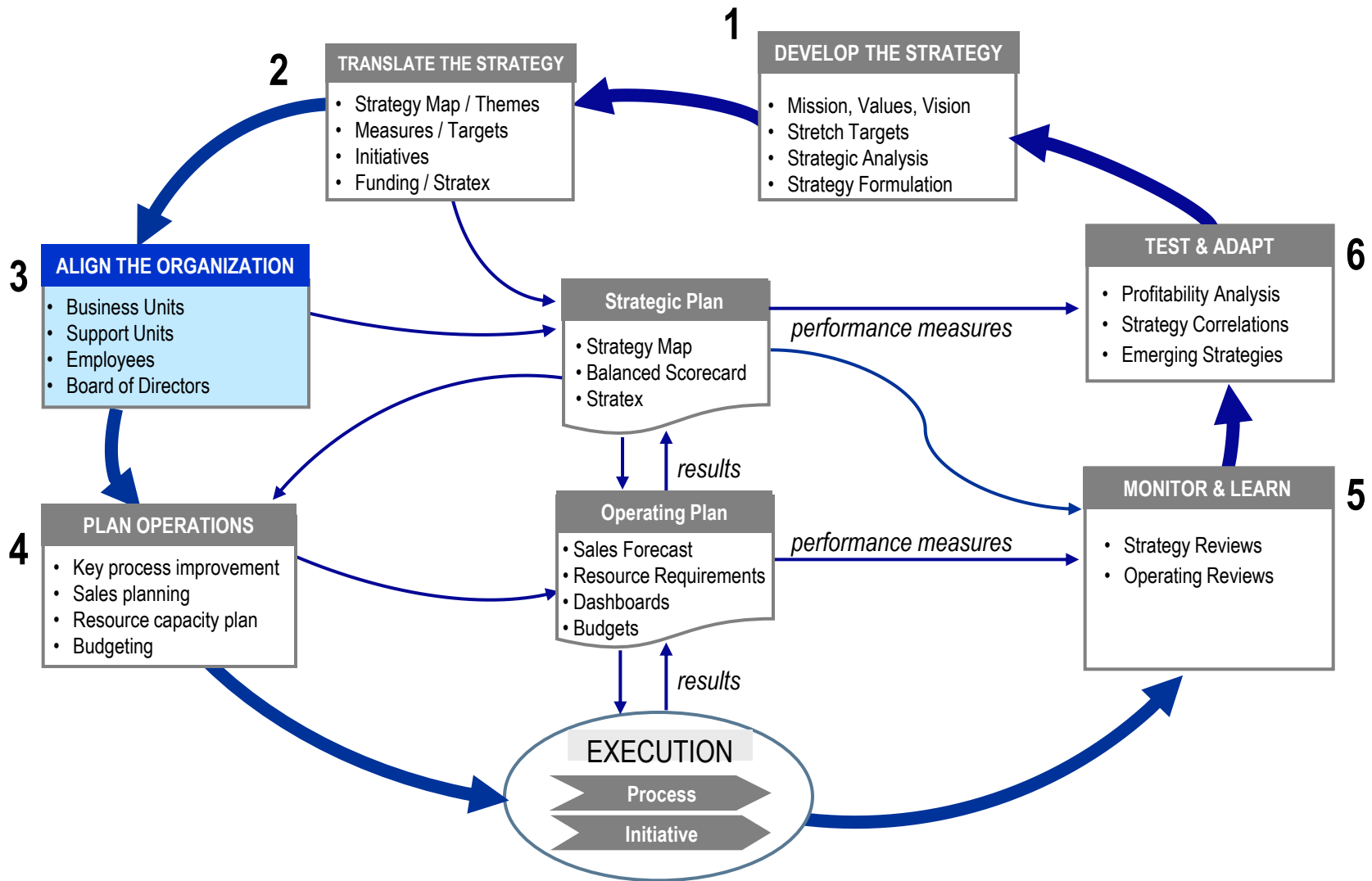


Operational Plan/Budget

Rolling Forecast (Budget)		
	\$\$	%
Revenue	XX	100%
• Direct Expense	(XX)	(40)
Gross Margin	XX	60%
• Indirect Expense		
- Sales	(XX)	(10)
- Prof. Dev.	(XX)	(5)
- G+A	(XX)	(15)
Contribution	XX	30%
• R&D	(XX)	(5)
• STRATEX	(XX)	(5)
EBITDA	XX	20%
• ITDA	(XX)	(5)
Net Income	XX	15%



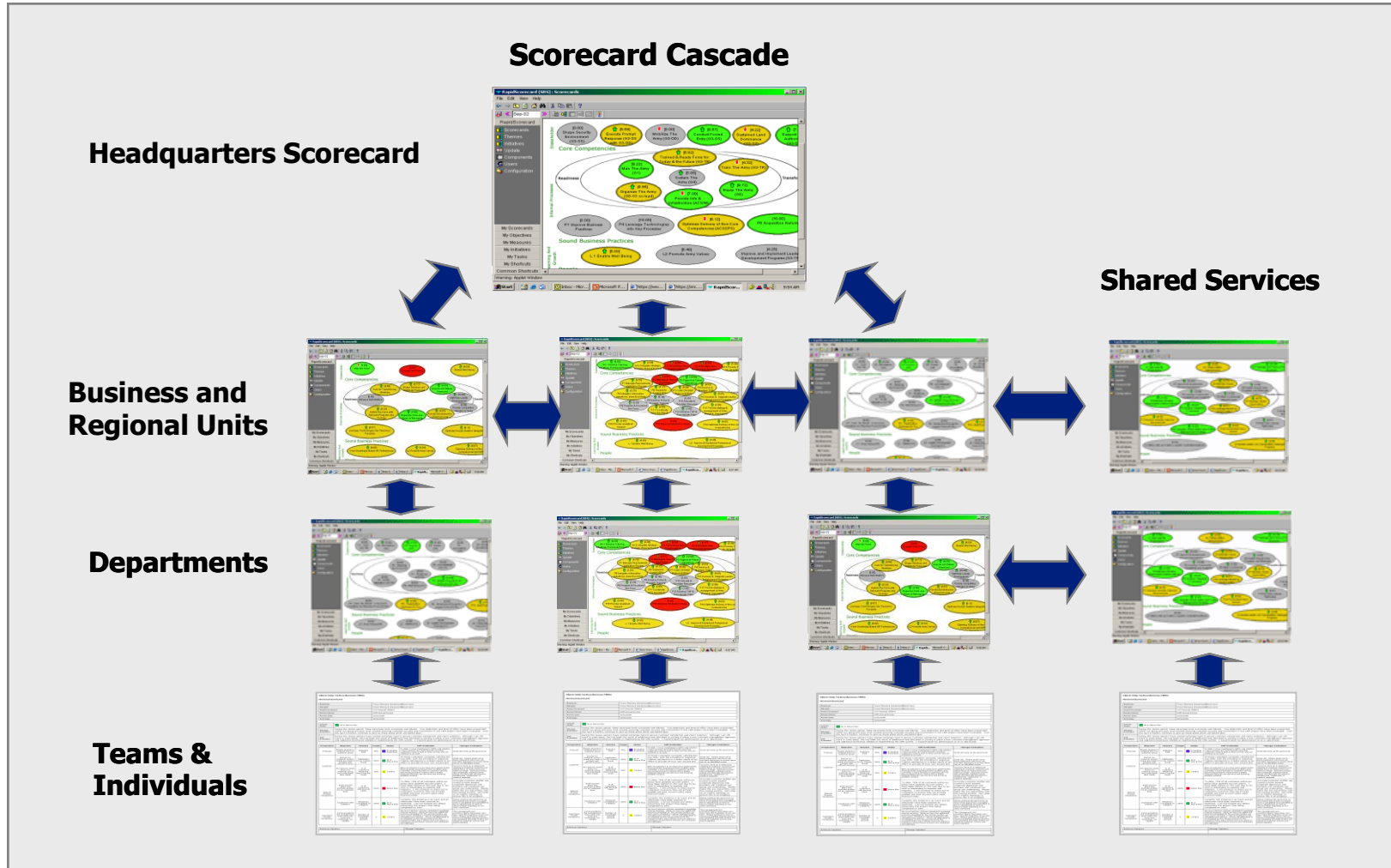
Stage 3 of the Management System: Align the Organization



Alignment in Action

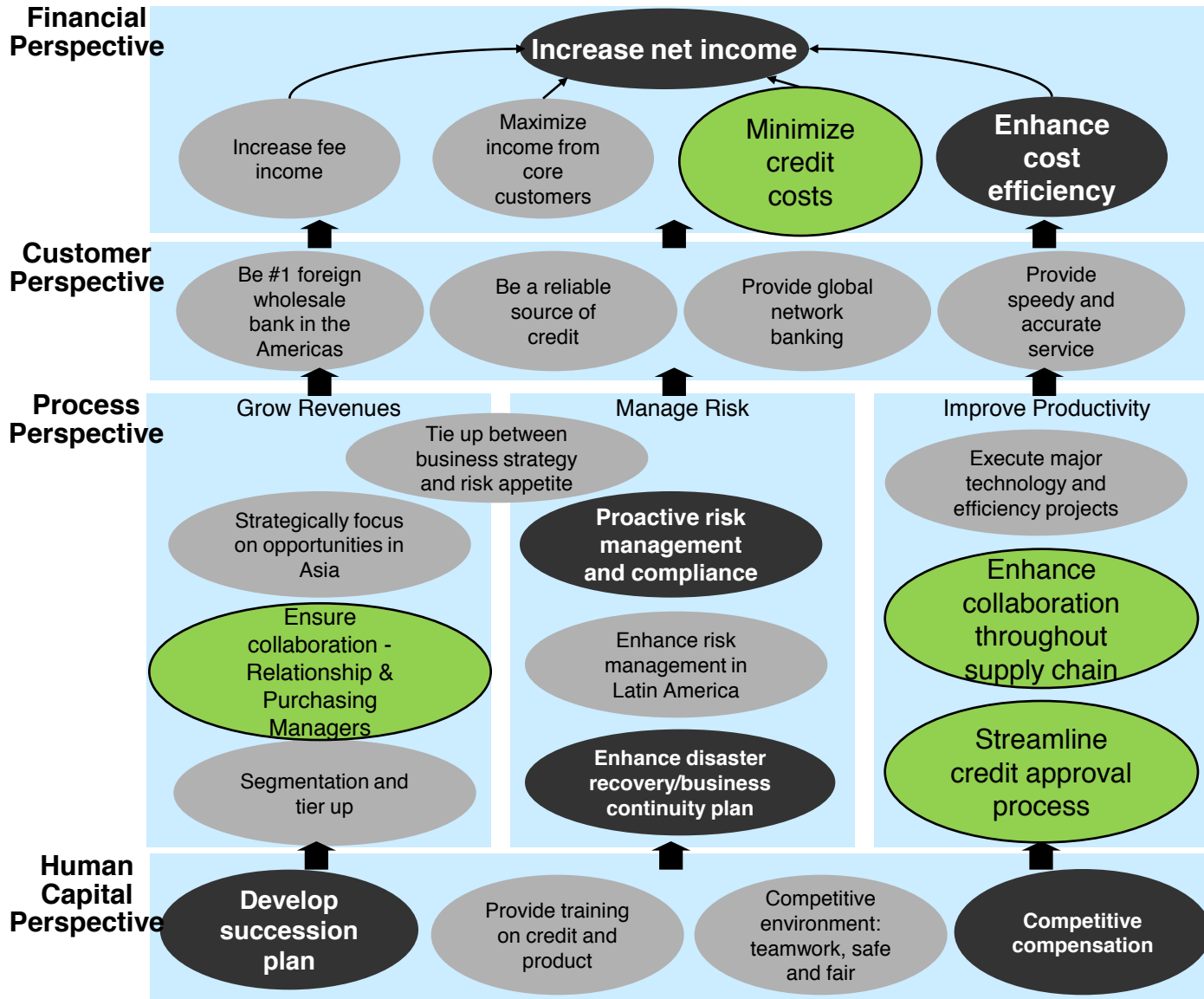





Enterprises Require Vertical and Horizontal Alignment



Shared Objectives Example

Global Corporate Banking Unit (GCBU) Strategy Map



-  Bankwide identical objective (Corporate and Units)
-  Objective unique to GCBU
-  Shared objective (Between Units)

Align Employees to Make Strategy Everyone's Job



Create Strategic awareness : “Communicate seven times seven different ways”

- Personal relevance (WIIFM) brings the strategy to life
- Sustained communication uses different channels to get the message across
 - Leadership meetings
 - CEO random visits to employees
 - Dear Colleague Quarterly Letter in Mellon News
 - Learning lunches & informal discussions
 - Intranet
 - Working groups facilitated by HR
 - Staff briefings



Source: Presented by Jack Klinck, Vice Chairman, Mellon Europe at BSCol European Summit, June 2005

Linking compensation to achieving Balanced Scorecard targets: Public Service Electric and Gas

Eligibility for a payout is based on earnings *and* meeting scorecard targets:

Earnings:

- \$5 million better than 2007 business plan target
= 1% of base pay
- \$10 million better than the 2007 business plan target
= up to 2% of base pay
- \$15 million better than the 2007 business plan target
= up to 3% of base pay

Scorecard targets: Employees will be eligible for up to a 100% payout if all goals are met

**Shared Savings is intended to improve profitability
without compromising safety or service quality**

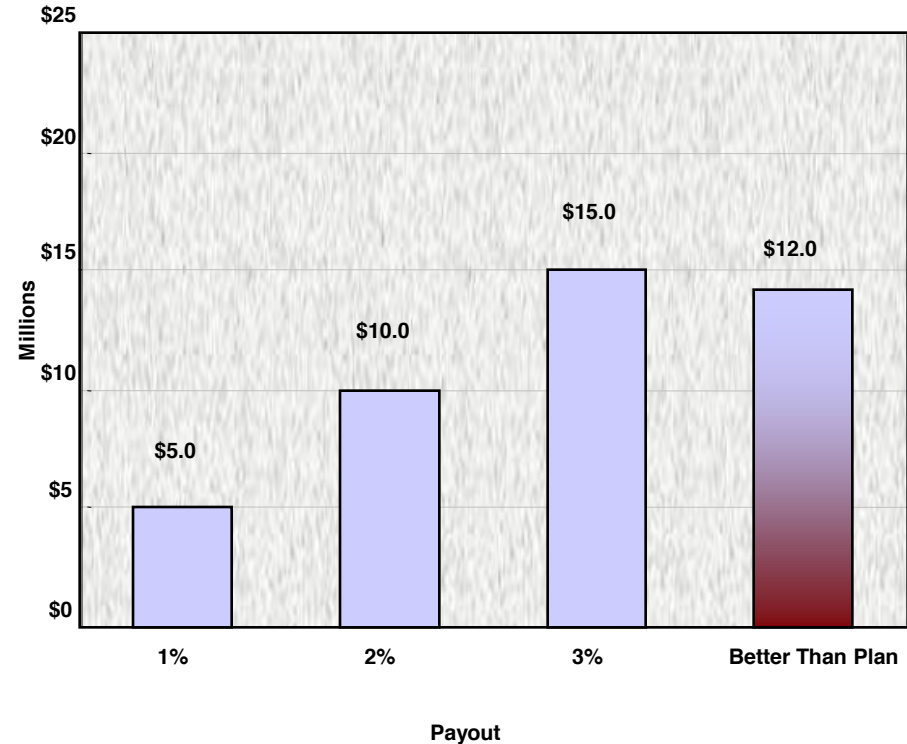
Shared Savings

Scorecard Targets

	June 07	2006 YE	07 Target	Year End
People				
OSHA Index	1.70	1.24	1.76	●
MVA	33	85	68	●
Availability-Illness	96.1%	96.3%	96.5%	●
Customer				
CAIDI	70.88	66.44	70.00	●
BPU/Exec Inquiries	98	350	266	●
Operations				
SAIFI	.34	.69	0.70	●

Above Target ● At Target ● Below Target ●

Earnings



Bargaining unit employees "own" key measures and are mindful of the "bottom line"

Note: Illustrative data only

Shared Savings payout example

PSE&G Represented Employee (Active and worked full year in 2007)

Annual Base Pay: ----- \$50,000

Met 4 out of 6 goals: ----- 4/6

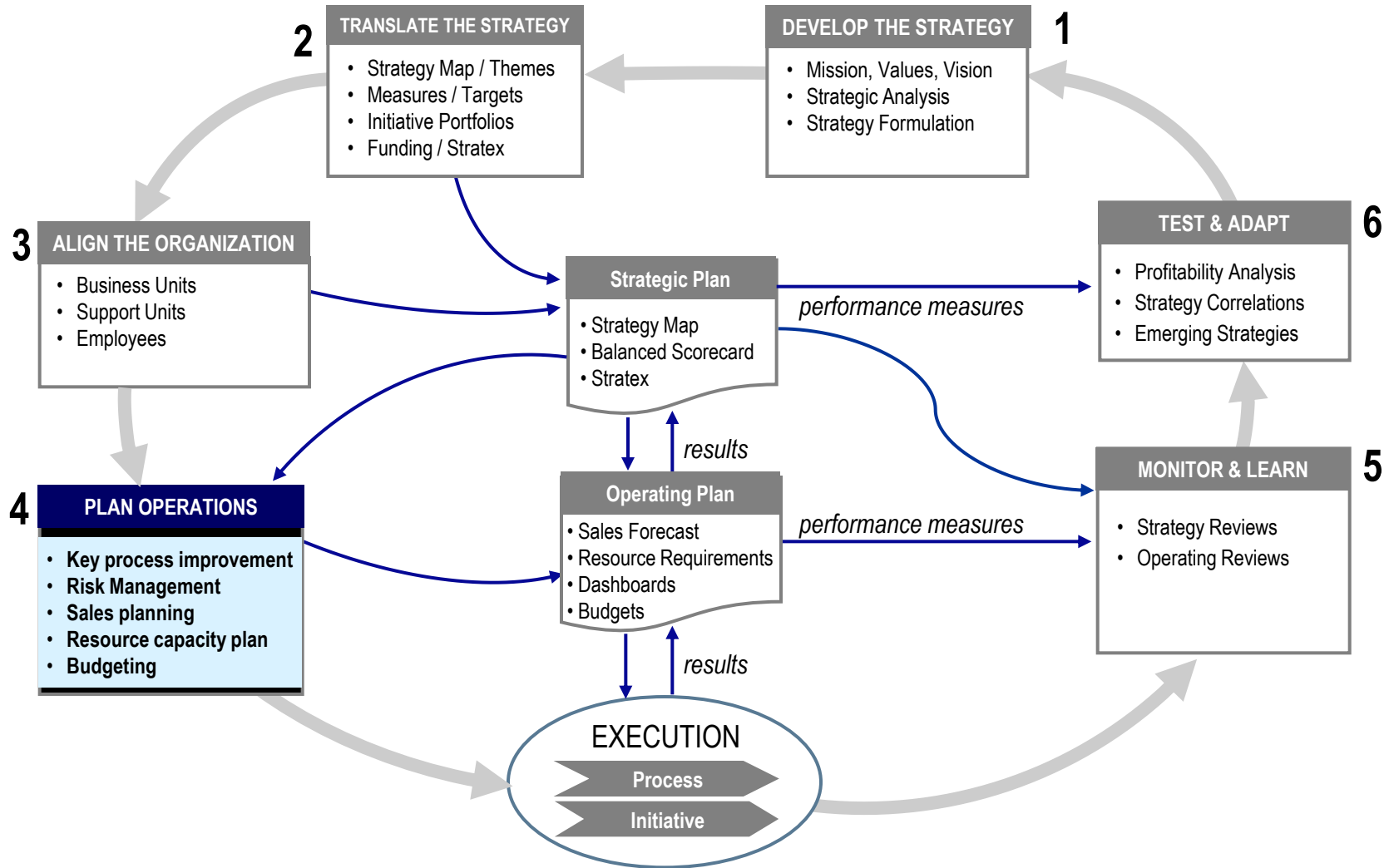
Earnings \$12 M over plan ----- 2.4%

2.4% Maximum Payout x \$50,000 base salary ----- \$1,200

Actual Payout

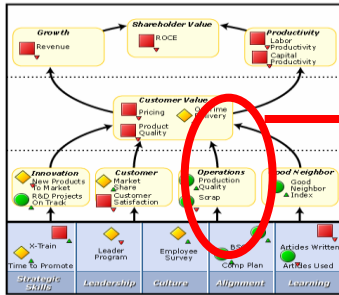
4/6 x \$1,200 ----- **\$800**

Stage 4 of the Management System: Plan Operations



Dashboards articulate the critical link between strategy management and operations management.

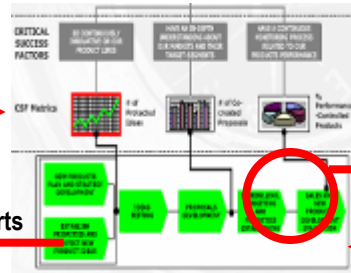
Strategy Map



THEME linked to PROCESS

PROCESS supports THEME

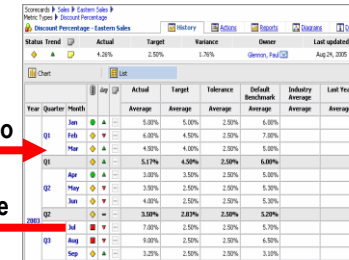
Cause-and-Effect Model of Each Key Process



PROCESS linked to METRICS

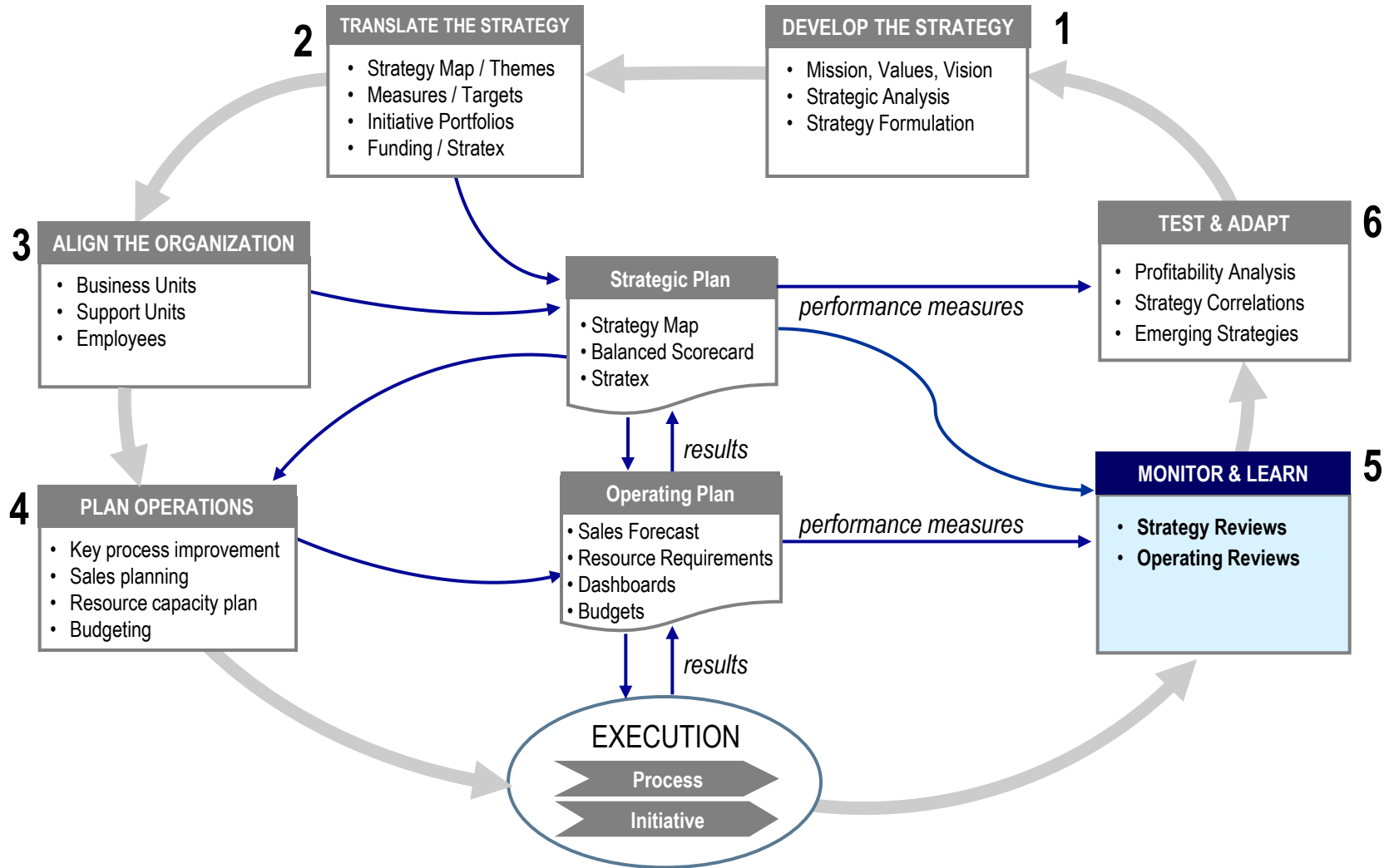
METRICS improve PROCESS

Web-based Dashboard of metrics used to manage a Key Process



- Identify operational processes key to executing strategy and manage those processes using analytical models rather than instincts
- Analytical models identify drivers to the process and display these drivers on a dashboard accessible to managers that can make an impact

Stage 5 of the Management System: Monitor and Learn



Companies use operational dashboards and strategy scorecards to inform their different management meetings.

Operational Review Meetings: Role for **KPI Dashboards**

- Frequent (daily, twice weekly, weekly)
- Departmental and functional personnel
- Identify and solve operational problems (late deliveries, equipment downtime, supplier problems)
- Promote continuous improvement (better, faster, cheaper)



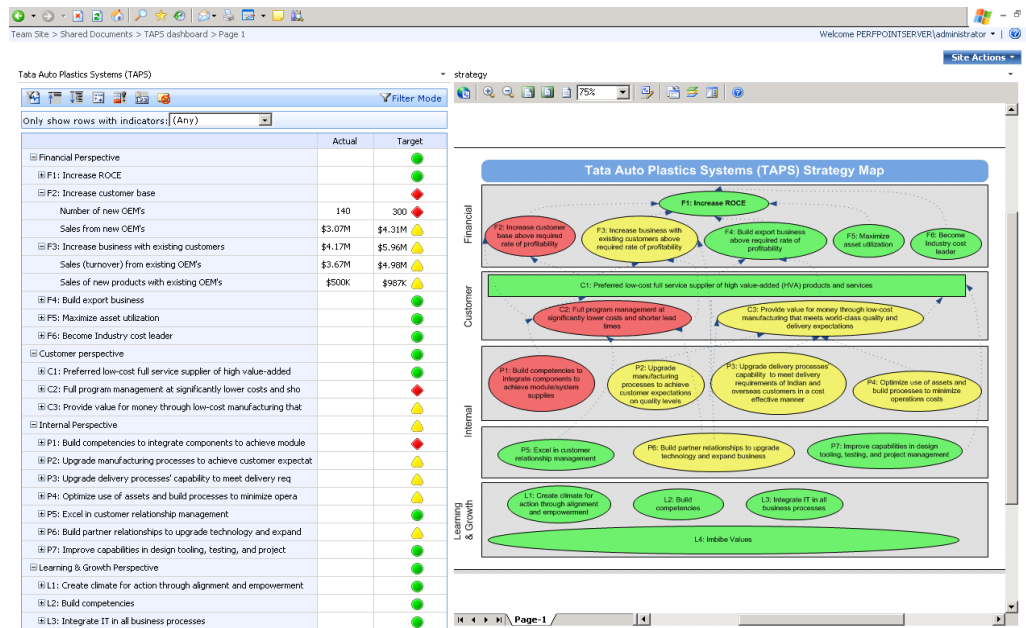
Critical Ingredients for Effective Operational Review Meetings

- Hold as frequently as data become available about operating results
- Meetings preceded by distribution of accurate and timely data
- Managers not blamed for reporting problems
 - “The only thing worse than bad news is bad news late.”
- Purpose of meetings is to understand problems, react to them, and develop solutions that can be implemented rapidly
- Accountability clearly assigned

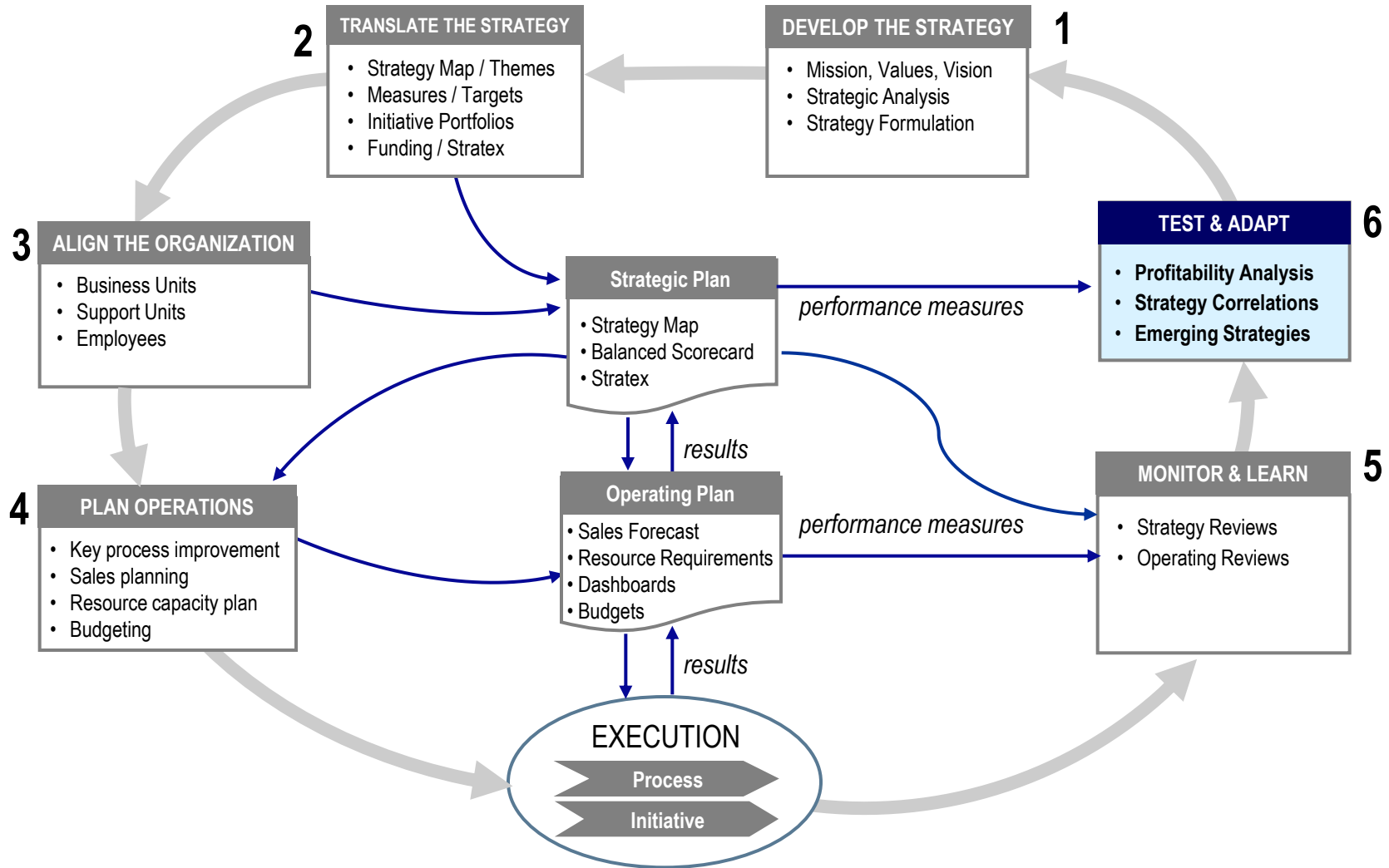
Monthly strategy review meetings are informed by strategy maps and scorecards.

Strategy Review Meetings: Role for **Strategy Map** and **Balanced Scorecard**

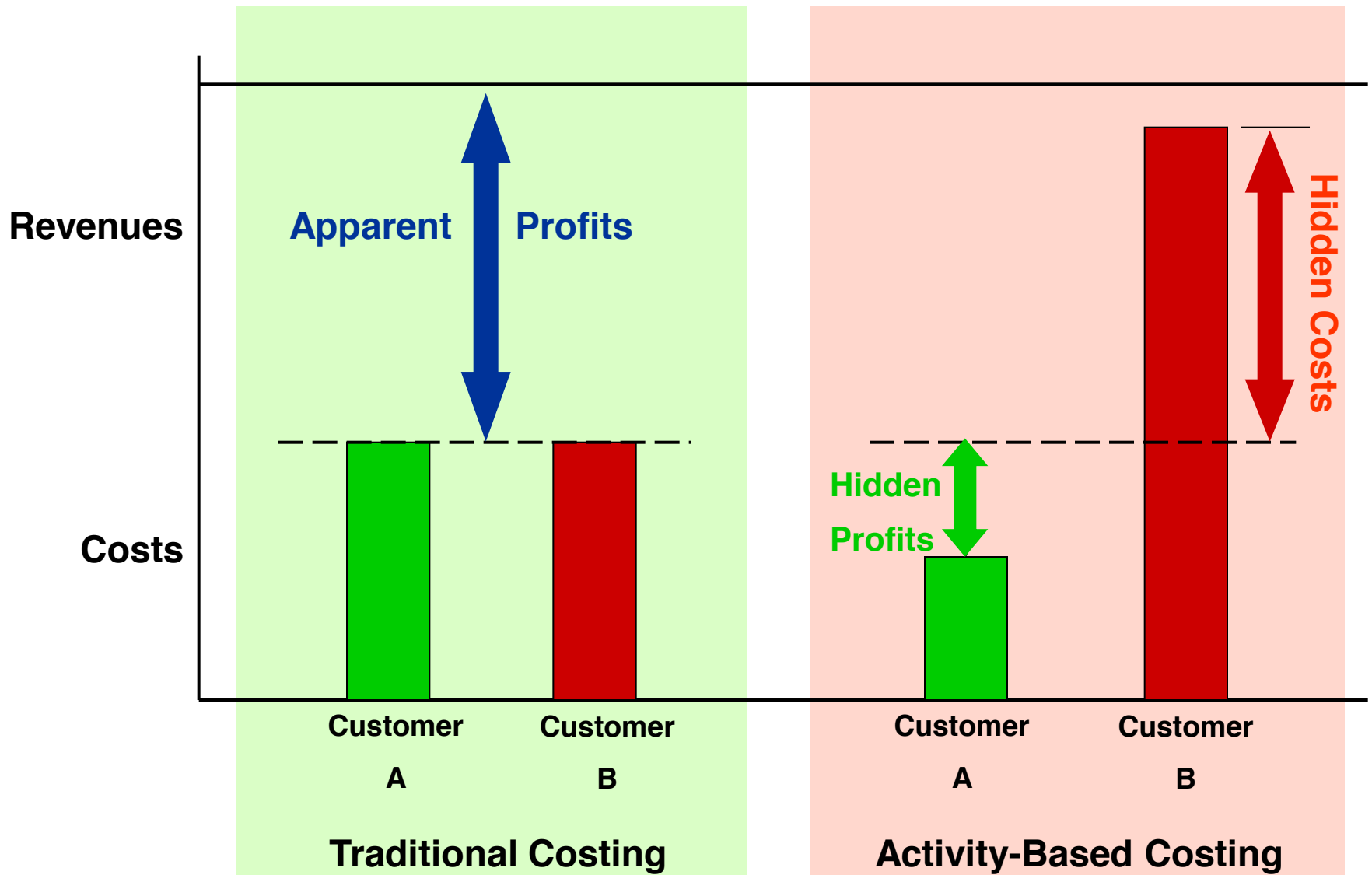
- Monthly
- Management team; cross functional, multiple business units
- Discuss and solve problems with strategy implementation
- Manage product and customer profitability



Stage 6 of The Management System: Test and Adapt

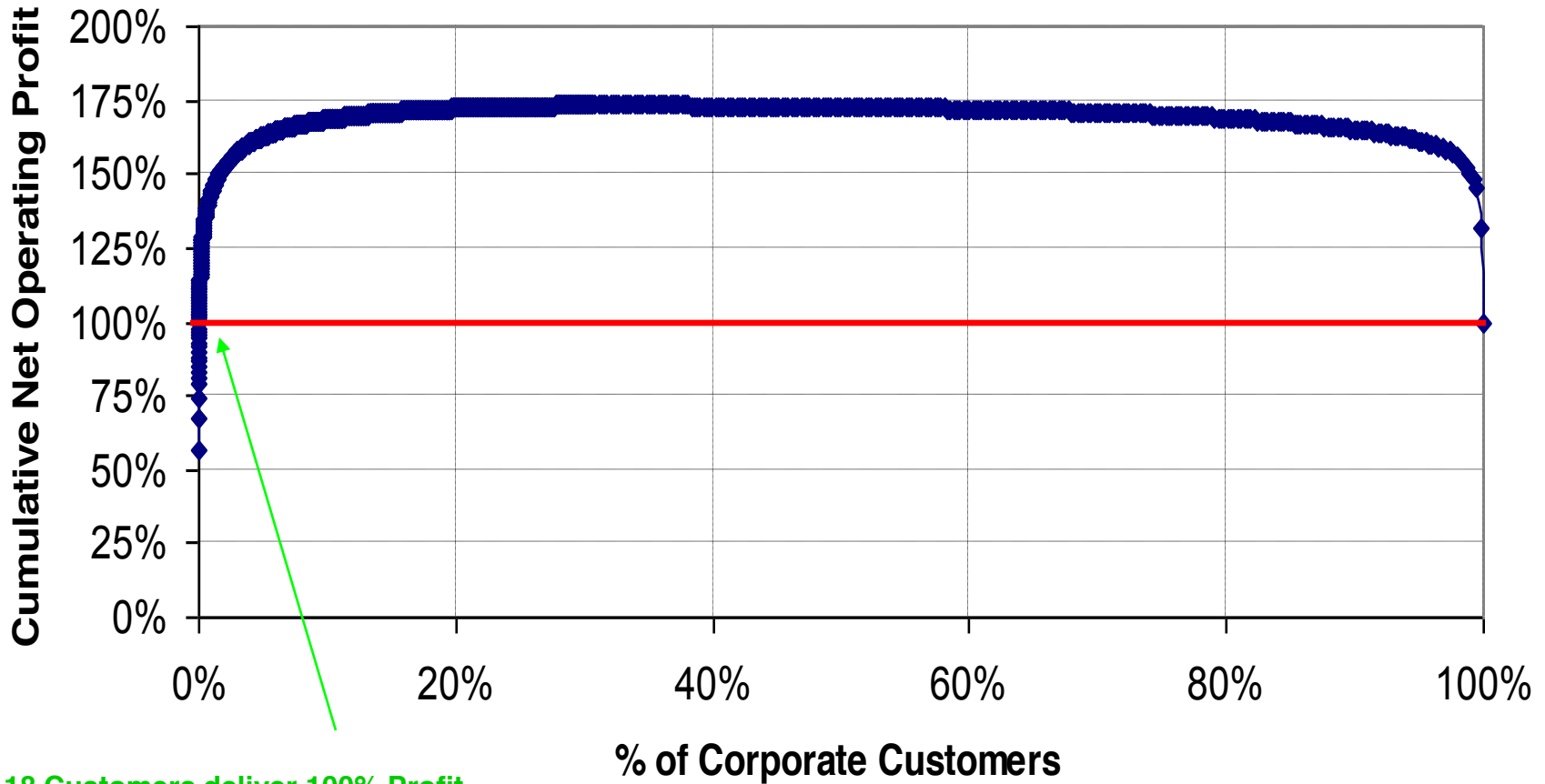


Activity-Based Costing Reveals the Hidden Profit and Hidden Cost Customers



One Company's Cumulative Customer Profitability Chart

Operating Profit Profile



18 Customers deliver 100% Profit

2,022 Total Customers

1,139 with Operating Income > 0 (56% of Total)

Managing Customer Profitability:

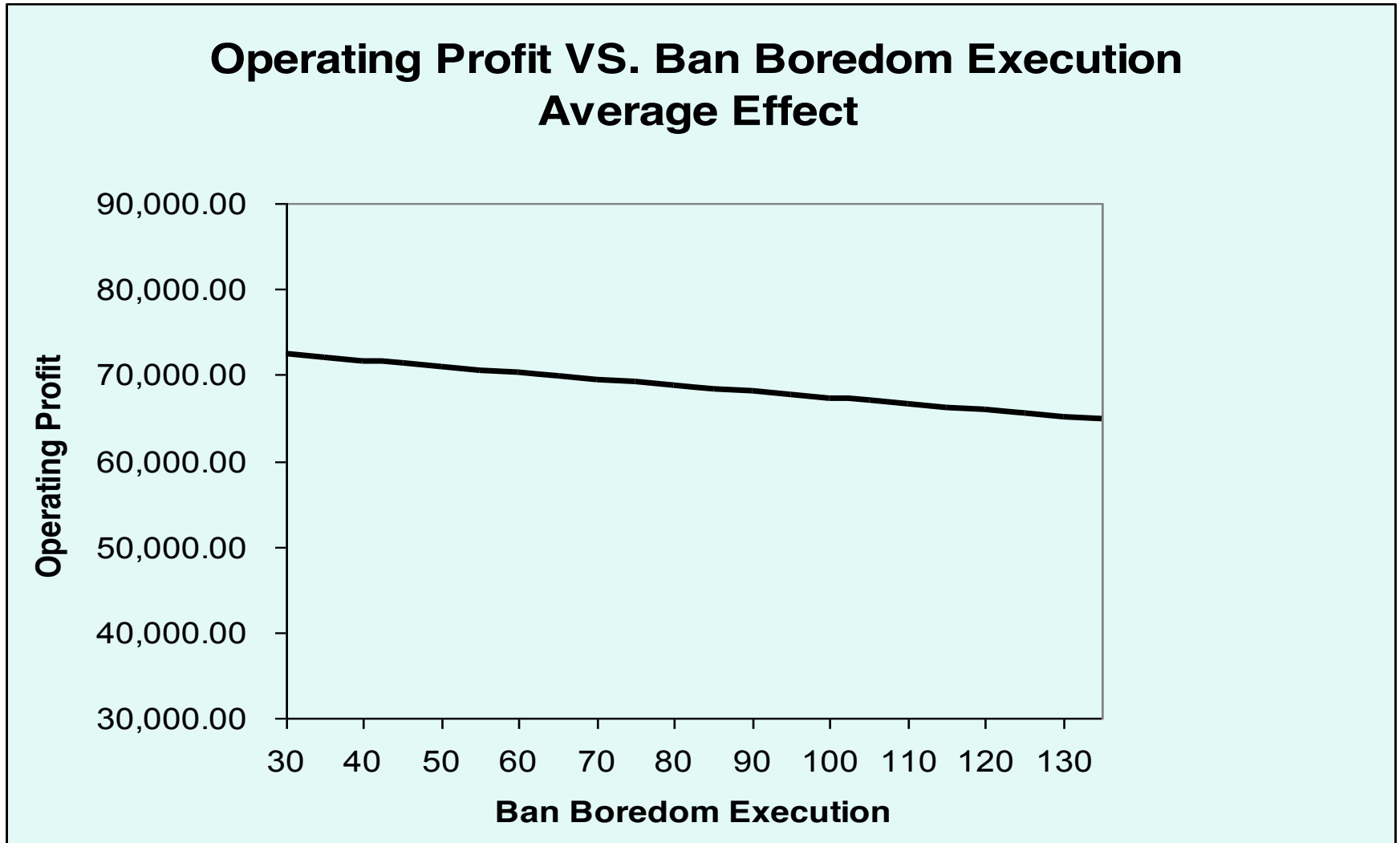
Customers can place very different demands on the organization; need to understand customer profitability at the individual customer level

Companies can improve customer profitability by:

- **Process improvements that lower the cost of servicing customer demands (e.g., electronic ordering, electronic self-help and self-service)**
- **Product design decision: de-feature products to match the price points and value proposition to price-sensitive customers**
- **Menu-Based Pricing, allowing customers to choose the level and features of service they wish, and also to pay for them**
- **Managing customer relationships: minimum order size, standard packaging and shipping, small orders through distributors**

Companies must then exploit the unused capacity they create by the actions above – either sell more or spend less – if they are to capture the gains from their actions

Testing the Strategy



Lessons learned about whether strategies are working well.

Companies need activity-based costing to tell whether:

- Δ Value created from innovation $>$ Δ Costs required to accomplish the innovation?
- Where is the innovation strategy leading to higher profits and where are profits declining?

Then take targeted actions to transform unprofitable products and customers into profitable ones

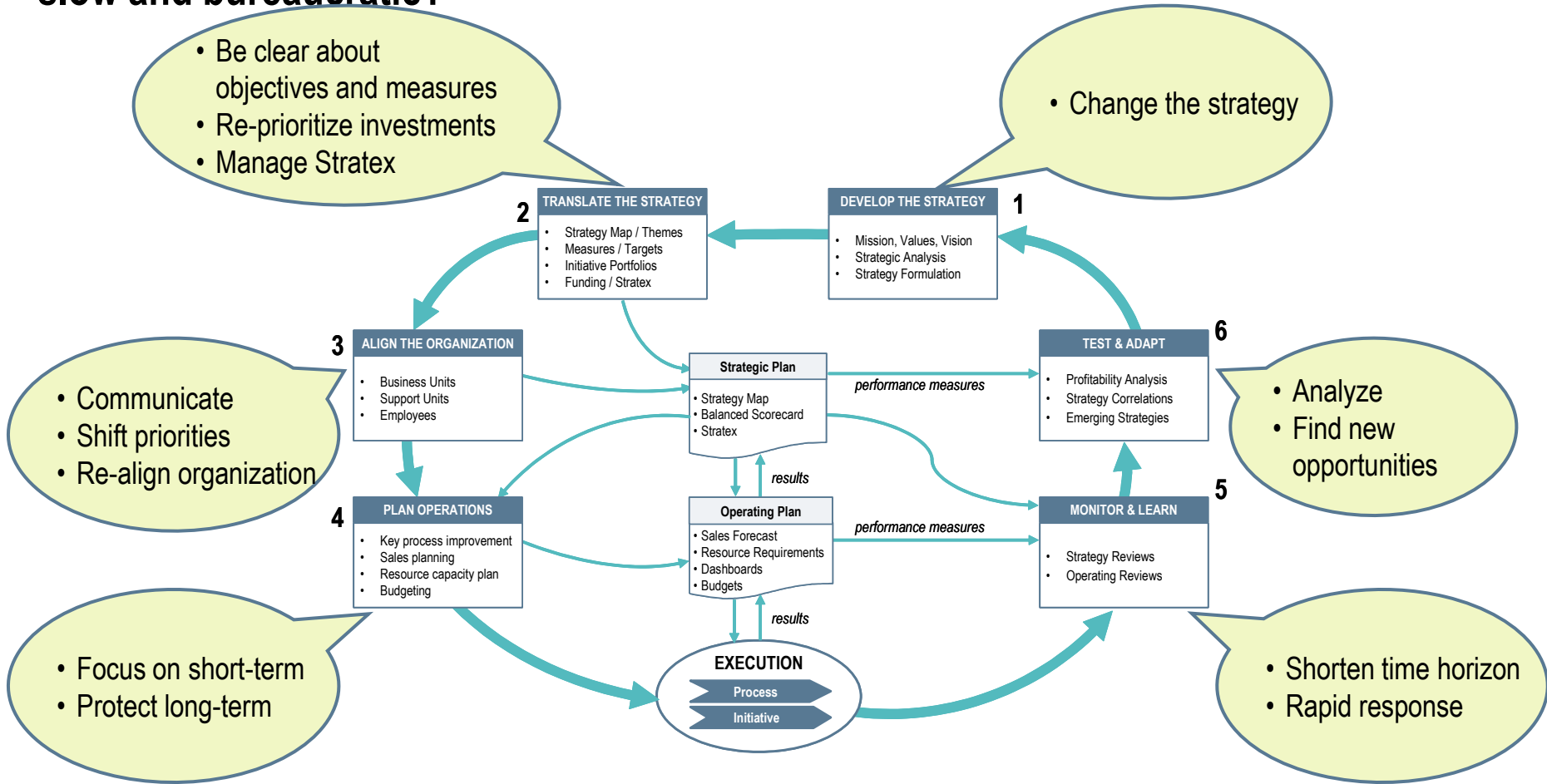
Companies should retain all their BSC data so that they can statistically test the causal linkages in their strategies:

- Are the expected correlations occurring between drivers and outcomes?
- Is the strategy flawed or is the implementation of the strategy faulty?

Summary of Three Types of Management Review Meetings

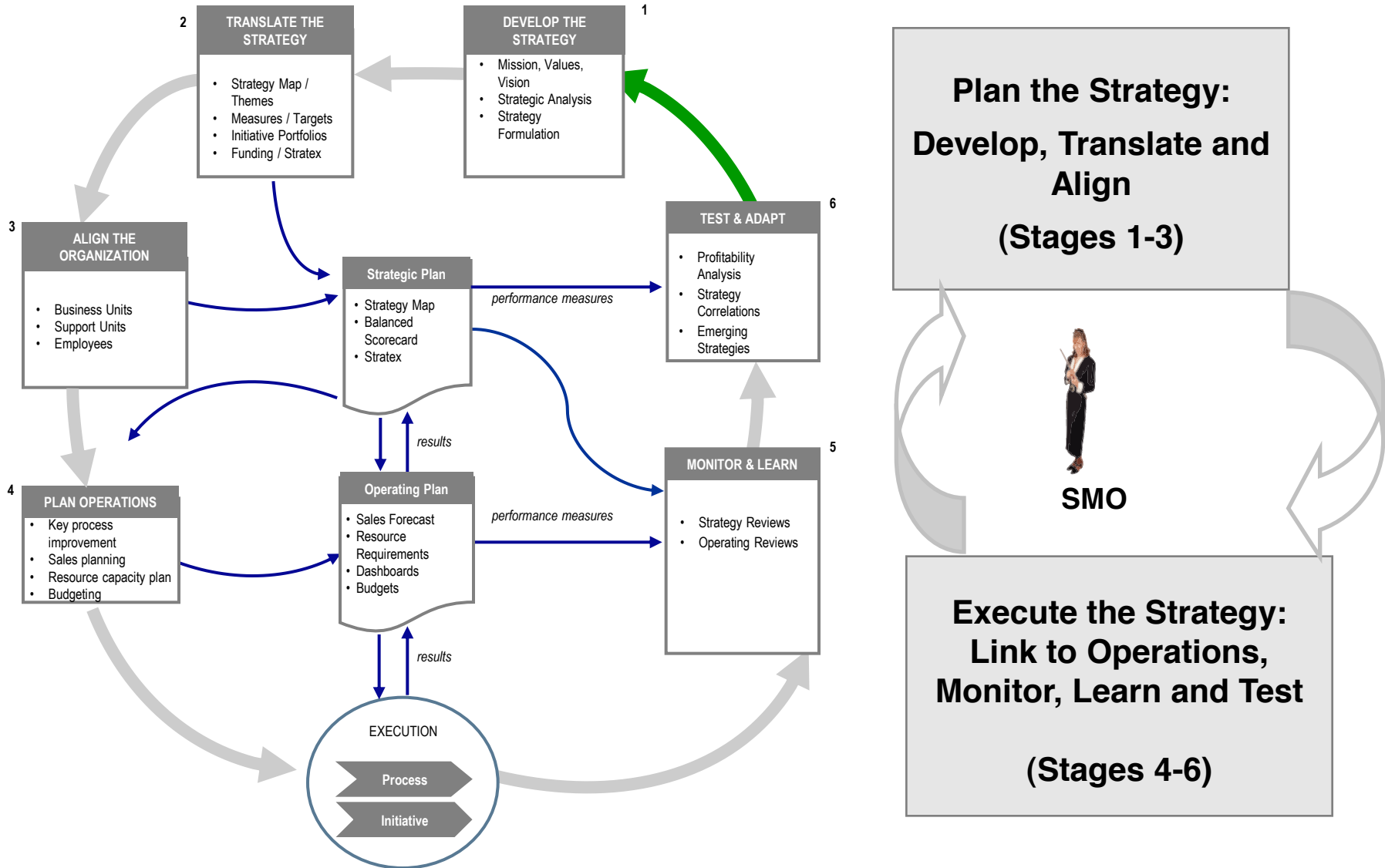
	MEETING TYPE		
	Operational review	Strategy review	Strategy testing and adapting
Information requirements	Dashboards for key performance indicators; weekly and monthly financial summaries	Strategy map and Balanced Scorecard reports	Strategy map, Balanced Scorecard, ABC profitability reports, analytic studies of strategic hypotheses, external and competitive analyses
Frequency	Daily, twice weekly, weekly, or monthly, depending on business cycle	Monthly	Annually (perhaps quarterly for fast-moving industries)
Attendees	Departmental and functional personnel; senior management for financial reviews	Senior management team, strategic theme owners, strategy management officer	Senior management team, strategic theme owners, functional and planning specialists, business unit heads
Focus	Identify and solve operational problems	Manage strategy implementation issues Assess progress of strategic initiatives	Test and adapt strategy based on causal analytics; Use scenario planning to evaluate tail risk events; War games to test against competitors' strategies
Goal	Respond to short-term problems and promote continuous improvements	Fine-tune strategy; make midcourse adaptations	Improve or transform strategy

How does the 6-Stage system help managers during an economic downturn? Is it too slow and bureaucratic?



The strategy management system promotes speed, flexibility and adaptability to change

A Strategy Management Officer Coordinates the Six Stage Management System



The Office of Strategy Management is the process owner for several strategy execution processes.



Define, develop and oversee execution of close-loop processes required to manage the strategy.

Develop the Strategy: Help the CEO and Executive Team to formulate and adopt the strategy.

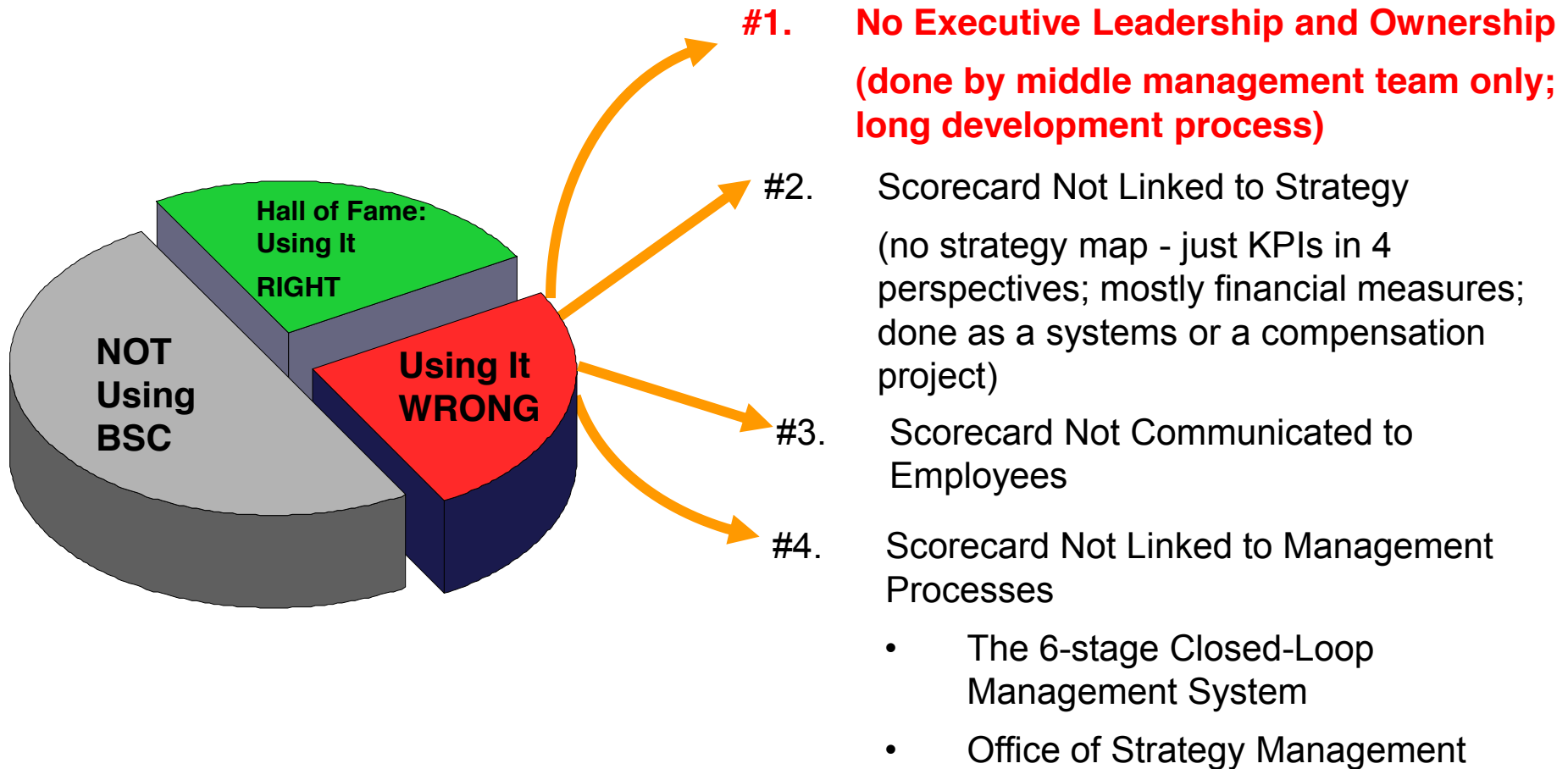
Translate the Strategy: Design the Strategy Map and Balanced Scorecard.
Manage the reporting system.

Align the Organization: Ensure that all business and support units are aligned with the strategy.

Plan & Fund the Initiatives: Link financial, HR, IT, and marketing plans to the strategy.

Review the Strategy: Shape the agenda for strategy review and learning meetings.

Why do organizations fail to get results from their Balanced Scorecard programs?



QUESTIONS?

