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The Office of Strategy Management—The State of the Art, 2011

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Many organizations throughout the world have already established an Office of Strategy Management (OSM). Palladium Group has worked with more than 70 organizations that have embraced the concept and adapted it to fit within their unique contexts, and through the Palladium Balanced Scorecard Hall of Fame, has learned of many more OSM implementations. In this article, Norton and Russell (who have worked extensively with OSMs) review the current state of the art of this management innovation, highlighting examples of noteworthy practices at Hall of Fame organizations. They also offer several suggestions about next-generation adaptations.

It's been more than six years since Robert Kaplan and David Norton introduced the concept of the Office of Strategy Management (OSM)—first, in the May–June 2004 *BSR* article "Strategic Management: An Emerging Profession," and then more definitively in the October 2005 *Harvard Business Review* article "The Office of Strategy Management." Kaplan and Norton recommended the OSM as an approach that organizations could take to help close the gap between strategy development and execution. In theory, an OSM brings together the people responsible for formulating strategy with those responsible for executing it. Bringing these specialists together under the same umbrella should markedly improve the chances of executing the strategy. And, given the role that the Balanced Scorecard plays for many organizations—making the strategy both measurable and manageable—it seems likely that those that have adopted the BSC would be at the forefront of this organizational innovation.

In practice, the OSM has become an essential ingredient for any organization that wants to ensure the survivability of its strategy management system. But that's no guarantee the OSM will endure. Even organizations that have achieved breakthroughs in strategy execution run the risk that a change in executive leadership might result in the OSM's elimination. It's a fact of organizational life that the arrival of a new CEO often means that winning concepts are scrapped to allow room for the new leader's brand of leadership and execution.

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Now that the OSM has reached critical mass of sorts, it seems appropriate to look at the state of the art in its design, roles and responsibilities, staffing, and reporting lines. We also wonder what organizations are doing to institutionalize the practice—much as many have done with their strategy management system in general—to protect it against the vagaries of leadership changes. Through multiple surveys and interviews, we investigated these practices and plans among exemplars of strategy execution: Palladium BSC Hall of Fame winners.

The OSM Concept in Practice

Originally, the OSM was conceived to handle up to nine functions. Later design formulations include 10 or more roles and responsibilities. But no matter how many specific functions or processes the OSM is responsible for, at its core it plays three primary roles:

1. *Architect* of the integrated strategy management system. The OSM is responsible for defining the strategy management framework and its governance conventions, as well as designing the strategy management processes themselves.
2. *Process owner* of certain strategy management processes. Among those it is uniquely qualified to orchestrate are designing strategy maps and scorecards, cascading the scorecards throughout the organization to ensure alignment, and managing the strategy reporting process.
3. *Consultant and coordinator* with other key strategy support functions, such as finance, HR, and IT. The OSM works with these departments to ensure that the necessary resources are available to enable strategic initiatives. This role can also include focusing on process management to ensure that the strategy is linked to the operational system: overseeing process analysis, reengineering, and quality management.

OSM ROLES: ORGANIZATION	GOV'T/NONPROFIT	FOR-PROFIT	AVERAGE
ARCHITECT			
Define Process	● 100%	● 86%	● 93%
Oversee Process	● 100%	● 100%	● 100%
PROCESS OWNER			
1. Develop Strategy	● 100%	● 72%	● 86%
2. Translate Strategy	● 86%	● 100%	● 93%
3A. Align Organization	● 100%	● 86%	● 93%
3B. Communicate Strategy	● 58%	● 72%	● 65%
4A. Plan Initiatives	● 72%	◐ 44%	● 58%
4B. Manage Initiatives	● 86%	● 86%	● 86%
5,6. Review Strategy	● 100%	● 86%	● 93%
INTEGRATE WITH OTHERS			
Human Capital	◐ 16%	◐ 44%	◐ 30%
Financial Resources	◐ 44%	◐ 44%	◐ 44%
IT Resources	◐ 16%	◐ 16%	◐ 16%
Key Business Processes	◐ 44%	◐ 44%	◐ 44%
Quality Programs	● 58%	◐ 30%	◐ 44%
Best Practice Sharing	◐ 44%	● 58%	◐ 51%

● Significant Responsibility ◐ Some Responsibility ○ No Responsibility

FIGURE 1: *HALL OF FAME ORGANIZATIONS' ADOPTION OF OSM ROLES AND RESPONSIBILITIES*

The greatest difference between for-profits and governments/nonprofits in a process ownership role is in planning initiatives.

Recently we examined the approach taken by Hall of Fame organizations in assuming these three roles. *Figure 1* presents data derived from 20 organizations; 10 each from the for-profit and government/nonprofit sectors.

These Hall of Fame organizations have clearly taken the OSM message to heart. All of them are using the OSM to play the role of architect. In these organizations, the OSM takes the leadership role in defining and overseeing the strategy management system (i.e., its processes), and is also responsible for overseeing its ongoing evolution. In addition, many of these OSMs have undertaken the role of process owner for all seven of the processes listed. The majority of the nonprofit organizations (72%) assume responsibility for initiative planning, whereas fewer than half of the for-profit organizations play this role (44%). In contrast, 86% of OSMs in both sectors assume responsibility for initiative management. (To be clear, by "planning initiatives," we mean being instrumental in designing and administering a process for rationalizing and prioritizing initiatives in conjunction with resource allocation and planning; by "managing initiatives," we're referring to the ongoing process of monitoring initiative performance against targets, evaluating their strategic relevance over time, and assessing the performance of the portfolio of initiatives—rather than project managing.) We believe that most, if not all, organizations will come to value the role of the OSM in both initiative planning and initiative management and that any residual political resistance to the idea will continue to erode in most organizations.

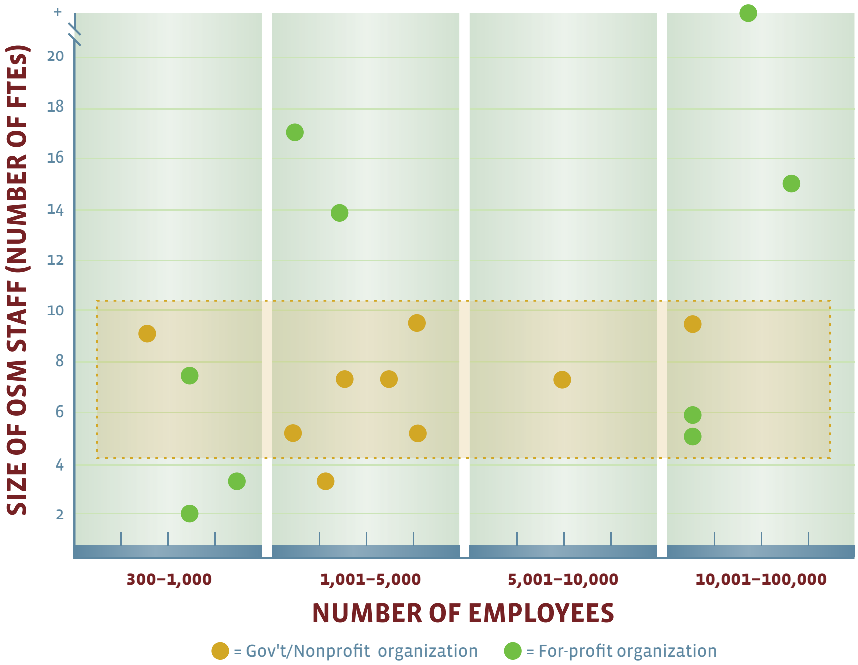

FIGURE 2: *OSM STAFF SIZE IN 18 HALL OF FAME ORGANIZATIONS*

Most OSMs, regardless of organizational size, had between 5 and 10 FTEs, as shown by the dashed box.

The OSM at New Zealand's ***Kiwibank*** *is the steward of enterprise portfolio management and coordinator of strategic initiatives. It influences the allocation of resources for these initiatives and ensures that the initiatives are balanced across strategic themes. The OSM also runs the bank's Strategy Network, which facilitates best practice sharing. It sits within the business transformation team alongside the business improvement (Lean Six Sigma) team. This arrangement helps embed process improvement and operational excellence in the bank's organizational DNA. Recently the program management office (PMO) was also co-located within the business transformation team. When asked what it would do differently if the bank had it to do over, our contact said, "Build the OSM faster. What's important is having sufficient capability to support the business units. It's not necessary to have a large OSM, but it is important for a small number of people to be able to develop skills in critical areas so that needs can be addressed quickly."*

In the course of developing a well-integrated management system, it makes sense that an organizational entity that is responsible for managing a process also plays a significant role in planning that process's activity.

Another example of this reasoning—the logic of connecting planning and managing activities—concerns the OSM's role in strategy communication. Most organizations have a corporate communications office that is responsible for connecting with internal and external audiences, whether to share news, explain the strategic direction, or educate the marketplace. Historically the people responsible for setting strategic direction and performance monitoring have worked through the existing communication capabilities (i.e., corporate communications) of their organization.

We have seen many examples where those responsible for strategy execution have been frustrated by the inadequacies of the existing communication system. Corporate communications departments don't always do a good job of communicating the strategy. Many organizations with an OSM have let the OSM assume responsibility for strategy communications; in our sample of Hall of Fame organizations, more than half have taken this on (58% of the nonprofits and 72% of the for-profits). We believe that organizations will increasingly adopt this approach. They will either establish their own communication capabilities in the interest of more effectively executing their strategies, or they will work more closely with the existing corporate communications office to ensure that people there are up to speed on the importance and implications of the strategy. Helping people understand the strategy—and their role in making it happen—is one of the most powerful levers that an OSM has available.

Size

By now the evidence is clear: the OSM has become a valuable organizational structure for making strategy execution a sustainable capability in any organization. Based on a 2009 survey of 25 Hall of Fame organizations (conducted to establish the benchmark for strategy management processes), nearly all (84%) have established this function. Most of the rest are in the planning phase. But, given the long list of roles and responsibilities that an OSM can assume, the question arises, How large should the OSM be? How many FTEs (full-time equivalents) are needed to get the job done? After all, there is a limit to how long your senior staff can accept the responsibility of managing so crucial a task as strategy on nights and weekends. We examine this question through the lens of 18 Hall of Fame organizations. (See *Figure 2*.)

The area outlined with the dashed box shows that the predominant response is somewhere in the range of 5 to 10 FTEs. This finding holds across a wide range of organization sizes. The right size for the OSM seems to be the same whether your organization has only a few hundred or tens of thousands of employees. The

	REPORT TO TOP	REPORT TO ONE LEVEL DOWN	REPORT TO TWO LEVELS DOWN
GOV'T/NONPROFIT	40%	60%	0
FOR-PROFIT	80%	20%	0
TOTAL	60%	40%	0

FIGURE 3: *OSM REPORTING LEVELS FOR HALL OF FAME ORGANIZATIONS*

We wonder: Why the disparity between for-profits and governments/nonprofits?

primary activities of the OSM require a core team to design and administer the processes. Then, depending on the size of the organization, the strategy management model can be implemented by leveraging an extended team of FTEs assigned to the strategy execution process across the organization. For example, at **Bahrain Electricity and Water Authority**, an eight-member core OSM team is responsible for coaching theme leaders. This OSM team documents issues that require cross-organizational decision making. And it ensures that strategic priorities, identified during strategy reviews, are brought up at operational review meetings and assigned to appropriate operations personnel for implementation. The core OSM team is responsible for capturing important strategic information and uses its knowledge to tap other parts of the organization for action.

Other organizations reveal a different story through the size of their OSM. For example, at **Grupo Modelo**, the OSM became very large during the time of this survey because of a major reengineering and systems integration effort. And because of the strategic importance of this project, the reengineering team was temporarily attached to the OSM. Apart from this special circumstance, there are currently eight FTEs in the company's OSM. Another 10 to 12 people are responsible for initiative management, and a distributed group of 25 individuals (one per scorecard) spends about half its time on strategy management activities. In total, there are 20 FTEs with another 25 half-timers. In other cases, larger OSM organizations reflect the combination of other functional specialties that are considered to be strategically important, such as risk management, quality management, the project management office, and so on. We discuss the implications of these developments a bit later.

Reporting Relationship

As is true with much of organizational life, the higher an entity's reporting lines in an organization, the more important the entity is considered to be. We have argued for many years that strategy execution is the most important responsibility of the chief executive officer—after all, it's in the job title! Any CEO who wants to execute strategy successfully should play a direct role in overseeing or orchestrating this function. We have therefore advocated that the OSM report directly to the CEO. The next best option is reporting to a direct report of the CEO (such as the CFO or the COO) and allowing direct access to the CEO through a dotted line reporting relationship. We call this a *dual relationship*. Any other reporting relationship (two or more levels away from the CEO) is a bad sign. It could mean that the CEO doesn't view strategy execution as part of his responsibility. Or it could mean that the OSM is still early on in the process of "educating up" and that the CEO doesn't yet appreciate the value of investing in a Balanced Scorecard and strategy management system. For many organizations, the journey from performance measurement to strategy management can take months, if not years.

In our sample of 20 Hall of Fame organizations, the OSMs report directly either to the CEO or to an executive one level down. (See *Figure 3*.) In this figure, we see that for-profit firms typically have the OSM report directly to the top of the house. In nonprofits this arrangement happens in fewer than half of the organizations. In mission-driven organizations, it's possible that strategy effectiveness is viewed in less concrete terms than in for-profit firms, where success is often measured in financial terms. This difference in outlook might explain the apparent difference in reporting approach taken by these two sectors. Nevertheless, in no instance does the distance between the OSM and the CEO span more than a single level. Therefore, based on these examples, we would proclaim this to be a best practice example—what other organizations should strive for.

*At the pediatric healthcare institution **Nemours**, the Nemours Center for Process Excellence (effectively its OSM) reports directly to CEO David Bailey. The center supports enterprise strategy by developing teams of internal educational and business process consultants who are deployed where needed to promote an understanding of the strategy management system and to improve processes to meet performance targets. Says Bailey, "The OSM was the single most important factor in the success of our strategy execution program."*

The Nemours case provides fitting testimony to our call for positioning the OSM at the level of other senior staff offices. Reporting to the CEO (or no more than one layer down) signals the importance that strategy execution is given and the authority it can then use to ensure that its roles are performed and responsibilities met.

The Evolution of Process Ownership

By tracking the evolution of OSMs, we have witnessed growth in the roles and responsibilities OSMs have taken on. There appear to be at least three phases in the evolutionary life cycle of OSM organizations. During the first phase, the OSM deals with the basics of strategy management: the processes that fall within the architect role (defining and overseeing the strategy management system) and the process owner role (develop, translate, and review strategy using strategy maps, BSCs, and their related elements; align the organization; and plan and manage initiatives). Once it has mastered the basics, the OSM moves to the next phase: integrating the basic strategy management processes with other specialized functions that also have a cross-cutting role in the organization. So, in phase 2, the OSM works increasingly closely with HR, Finance, and IT to ensure that the right mix of resources is available to enable the strategic resources called for by the strategy and may also begin to link strategy with operations. For example, a new strategic initiative to provide training to a customer support service center could require funding to obtain new software, select staff or recruit new personnel, and provide IT integration services to embed the new tools in the support infrastructure. All these resources must be lined up as part of bringing the new initiative online. Making the link to operations often requires that OSM personnel develop expertise in process design and innovation along with a focus on quality management (e.g., Lean Six Sigma). The ownership and mastery of strategic communications are other competencies that the OSM usually takes on during phase 1 or 2.

Once the basics are well established and as the OSM reaches its second phase of maturity, it often begins to play an even larger organization-wide role by providing a home for other cross-business functions. Specialty capabilities such as risk management, project management, innovation, and even financial control have been assigned to the OSM in some instances. For example, **BancoEstado Microempresas**, Chile's first microlender and a market leader in Latin America, grew its OSM into the Office of Strategy Development and Control over the course of four years. (See *Figure 4*.) By mastering the basics, this OSM was able to become the locus of an expanding set of roles that now includes strategic planning, project management, ownership of the strategic control model, innovation, and, in 2010, financial control. This OSM reports functionally to the planning division but also works directly with the CEO.

During this evolution, BancoEstado's OSM grew from three FTEs in 2006 to 11. In addition to hosting strategic management meetings, this OSM convenes strategic learning workshops in which management teams meet to share lessons about strategy execution and operations throughout the organization. The strategic learning workshops provide a forum for developing leadership and building high-performance teams that gain an understanding of how their contributions yield strategic performance outcomes.

Strategy execution is the most important responsibility of the CEO. Therefore, any CEO who wants to execute strategy successfully should play a direct role in overseeing or orchestrating this function.

*At **Korea Customs Service** (KCS), the OSM was initially operated separately from the organization's strategic planning, budgeting, and finance units. Cross-unit communication and collaboration suffered, hampering strategy execution. KCS took corrective action by consolidating performance management, strategic planning, budgeting, and finance under one roof—the Planning and Coordination Bureau. Today its OSM includes 14 full-time employees and reports to the bureau director, with dotted line reporting to the CEO.*

The evolution of an OSM's role within the organization is often reflected in its name, which may change over time to signal the broader areas of responsibility it has assumed. For example, at China's **Rainbow Department Store** the OSM goes by the name Department of Strategy Management and includes the strategy planning, process management, and initiative management functions, the latter two added in 2008. At the **Bahrain Ministry of Works**, the Strategic Planning and Quality Management Section now integrates with the Project Management Office. And at **Lakshmi Machine Works**, the OSM is now called the Office of Strategy and Risk Management.

These examples support the idea that because successful strategy execution requires a cross-functional integrative function—à la the Office of Strategy Management—this function can become the home of other specialized functions as well. Thus, we see many examples of how risk, quality, sustainability, project management, and other specialized functions can benefit from being brought under this umbrella. However, a word of caution is in order here. The OSM is intended to provide guidance and integration to such specialized capabilities when they constitute important resources required by the strategy. But the OSM should not be viewed as a parking lot for specialties that are not truly strategic. For example, large-scale reengineering efforts or

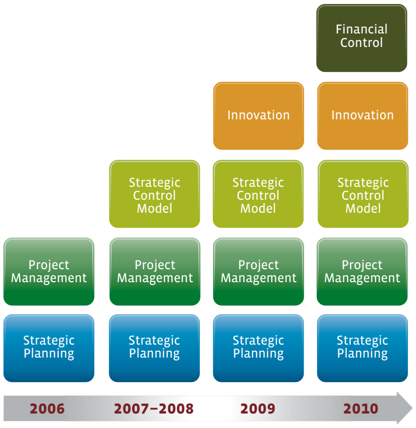

***FIGURE 4:** EVOLUTION OF RESPONSIBILITIES OF BANCOESTADO MICROEMPRESAS'S OSM*

ambitious IT investment projects may not be strategically aligned, and yet there may be pressure to locate them under an office that, by its very name, creates an aura of strategic significance. We advise strategy management officers to assess the political motivation of any would-be partners to confirm the legitimacy of the new initiative in the context of the strategic agenda. Especially during the early years of an OSM, it is critical to establish a track record of successful implementation upon which additional responsibilities can be based. Better to tackle the basics before accepting new roles that cannot effectively be shouldered.

***Bahrain's Ministry of Works** focuses on managing and improving strategy through the lessons it gleans from reviewing strategy performance and execution. These lessons provide the feedback that the ministry uses to refine and adapt the strategy. The OSM is responsible for conducting quality assessments of strategy documentation, implementation activities, and best practices. Philosophically, it views strategy as a hypothesis that must be tested and refined. Therefore, strategy is constantly evolving. This mental model facilitates organizational agility because managers willingly respond to feedback from strategy updates that may require action before the next regularly scheduled review cycle.*

Next-Generation OSM

We have now laid out a model for evolving your OSM. The three phases—introduction (mastering the basics), integration (collaborating with other specialized functions), and extension (giving a home to other extended capabilities)—provide a growth trajectory that will occupy even the most aggressively Strategy-Focused Organizations for three or more years.

Making your OSM evergreen is an important requirement once you have successfully implemented your first-generation OSM. For many organizations, the initial incarnation of the OSM is dedicated to managing the traditional activities associated with the Kaplan-Norton Balanced Scorecard methodology: translating the strategy (building strategy maps and scorecards) and aligning the organization (including communicating the strategy). But these are only two of the six stages of the Kaplan-Norton Execution Premium model. Once these basic capabilities are established, the OSM must expand its capabilities to facilitate strategy reporting and reviews (to answer the question, "Is the strategy working?") and then move on to further test and adapt the strategy ("Is this the right strategy?"). The closed-loop system then brings you back to the beginning of the process, and strategy development begins anew. The OSM can and should play a role in each of these stages, as either an architect, a process owner, or a process consultant or coordinator. Bahrain's Ministry of Works provides a useful example of how the Kaplan-Norton philosophy is used to drive the continuing cycle of strategy execution, review, and update. (See *Figure 5*.) ■

***FIGURE 5:** THE CYCLE OF STRATEGY REVIEW AND IMPLEMENTATION AT BAHRAIN'S MINISTRY OF WORKS*

The OSM is at the heart of the strategy cycle at this government organization.

David P. Norton, along with Robert S. Kaplan, created the Balanced Scorecard concept. The two have coauthored five books (most recently, The Execution Premium*, 2008) and eight articles for* Harvard Business Review*, and dozens of articles for* Balanced Scorecard Report*. They have also been named among the world's most influential business thinkers by Suntop Media's "Thinkers 50."*

Randall H. Russell (BSR's executive editor) facilitates a global community of strategy execution professionals (Office of Strategy Management—Advisory) that meets regularly to share best practices, learn about next-generation practices, and advance the strategy management profession. He also leads Palladium's Execution Premium Assessment practice.

Continue the dialogue

*Join Randy Russell in a conversation with other members of the global community on the question "How mature is your OSM?" at **www.thepalladiumgroup.com/bsr/OSMStateOfTheArt**.*

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