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Balanced Scorecard REPORT
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Special Book Preview

An exclusive preview from Kaplan and Norton's new book, *The Execution Premium,* due out this spring.

Developing the Strategy: Vision, Value Gaps, and Analysis

By Robert S. Kaplan and David P. Norton, with Edward A. Barrows Jr.

During the past 30 years, much attention has been focused on how companies can formulate new strategies for sustainable advantage. In this first of two articles on strategy development, adapted from Kaplan and Norton's forthcoming book, *The Execution Premium,* the authors explore the key steps that establish a foundation for formulating strategy, from defining mission, vision, and values to strategic analysis.

Our work on strategy execution over the past 15 years has generally assumed the organization had a strategy in place. We've viewed the strategy development process as a "black box" that produced a strategy to be implemented using strategy maps and Balanced Scorecards. After much additional experience, we have now observed the strategy development practices followed by the most successful organizations. While the actual selection of a strategy remains an art, it is an art that should nonetheless be governed by a systematic process—one that defines the organization's purpose and goals and carefully examines the external and internal environment to identify opportunities and constraints regarding that strategy.

A 2006 McKinsey survey reported that over 75% of the 796 companies polled had a formal strategic planning process. Among those claiming to have one, more than half said that the process played a significant role in helping develop corporate strategy. Of those who are satisfied with their strategic planning process, fully 79% believed planning significantly affects strategy development.[1]

Most successful companies, in our experience, follow the systematic strategy development process shown in *Figure 1.* They start by developing or reaffirming their mission, vision, and values. Next, they determine the concrete goals and outcomes that would represent the achievement of their vision. From this flows the identification and analysis of key issues, including the external and internal forces that affect the company's strategy. This is followed by the formulation of the new strategy and—especially for new, transformational strategies—creating the case for change throughout the organization. These four strategy development steps address the following four questions:

1. *What business are we in and why? (Mission, vision, and values)*
2. *Where are we going? (Strategic goals)*
3. *What are the key issues that our strategy must address? (Strategic analysis)*
4. *How can we best compete? (Strategy formulation)*

Step 1. Crafting Mission, Vision, and Value Statements

The *mission* is a brief, typically one-sentence, statement that defines the fundamental purpose of the organization. It should include what the organization

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INSIDE THIS ISSUE

Statoil: Scorecard Success— the Second Time Around

It took two attempts, the second from within a business unit, for the BSC to gain traction at Norwegian oil giant Statoil. A powerful management information system, the BSC, and a program that replaced the traditional budget revitalized the company, a 2007 BSC Hall of Fame winner, smoothing the way for its merger with Hydro this past fall.

Take an Initiative Management Health Check

Failed initiatives can cost dearly. So can misreading the symptoms of your initiative problems. An initiative management assessment is the most logical, cost-effective, and credible approach to diagnosing what's wrong with the complex process of initiative management— and will help put your organization back on track.

HR at the Heart of Strategic Transformation: The EMC Turnaround

It's talked about incessantly, but actual examples are rare: the organization whose HR group truly sits at the strategy table. In this exclusive interview, EMC's HR chief describes his group's role in transforming EMC's strategy and restoring the firm into a technology powerhouse.

Why the BSC Is Just as Effective for Small and Medium-Sized Firms

Some small and medium-sized businesses (SMBs) believe that the BSC (and most management tools) are just for big organizations. In reality, SMBs have as much to gain by using the BSC as any large company, as long as they recognize how to use it. Big resources are not necessary. Mario Bognanno, a veteran consultant to small and medium-sized businesses, debunks some common myths, offering examples from smaller firms that have turbocharged their performance with the BSC.

provides to its clients and inform executives and employees about the overall goal they have come together to pursue.

Examples of excellent mission statements include:

- "To provide society with superior products and services by developing innovations and solutions that improve the quality of life and satisfy customer needs, and to provide employees with meaningful work and advancement opportunities, and investors with a superior rate of return." (Merck)

- "To organize the world's information and make it universally accessible and useful." (Google) [2]

The *values* (often called "core values") of a company prescribe its desired behavior, character, and culture. Whole Foods, on its corporate Web site, not only states its core values—including "Selling the highest quality natural and organic products available," "Supporting team member excellence and happiness," and "Caring about our communities and our environment"—but also explains their importance:

Many people feel Whole Foods is an exciting company of which to be a part and a very special place to work. [Our] core values are the primary reasons for this feeling, and they transcend our size and our growth rate. By maintaining these core values, regardless of how large a company Whole Foods becomes, we can preserve what has always been special about our company. These core values are the soul of our company. [3]

The *vision* is a concise statement that defines the mid- to long-term (three- to ten-year) goals of an organization. The vision should be external and market-oriented and should express—preferably in aspirational terms—how the organization wants to be perceived by the world. "We will be among the top three transporters of goods and people in North America by 2012" provides a clear, specific aspiration; so does "We will become the respected leader in financial services with

Figure 1. The Strategy Development Process Model

Strategy Development Process	Objective	Platform Issues	Representative Activities
Mission, Vision, and Values (What business are we in, and why?)	To reaffirm the highest-level guidelines about organizational purpose and conduct	• Establish the vision in terms that are conducive to execution	• Mission analysis • Vision statement • Core values • Enhanced vision
Strategic Goals (Where are we going?)	To clearly define the highest-level financial or mission goals that will drive the strategy	• Establish the economic model that will be used throughout the strategy management process	• Macro mission–measure • Value gap decomposition • Strategic themes • 3- to 10-year goals • Financial model
Strategic Analysis (What are our key issues?)	To identify, through structured analysis, the events, forces, and experiences that impact and modify the strategy	• Define the linkage between the influencing forces and the process of value creation	• Environmental scan (PESTEL) • Internal scan (SWOT) • Strategy of record review • Key issue identification
Strategy Formulation (How can we best compete?)	To define where and how the organization will compete	• Ensure that changes in strategy are linked to changes in the planning and execution processes • Establish the boundaries of permissible change	• Where to compete (niches) • Differentiators (value proposition) • How to compete (strategy map) • Financial model/Stratex • Strategic change agenda

This four-step process is followed by most successful companies that have a strategic planning process. The first three steps—defining mission, vision, and values; setting strategic goals; and performing analysis—set the stage for the last step, formulating the strategy.

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a focus on seamless customer relationships and satisfaction, producing financial returns in the top quartile of the industry."

Quantifying the Vision

If vision statements are to guide strategy development, they must be not only aspirational and inspirational—they must also be measurable. Many organizations' visions are too vague, such as: "To be our customers' preferred provider." While describing a laudable objective, it provides no guidance for developing strategy. A quantified vision statement provides a clear focus for the strategy by including a measurable outcome and a targeted value.

The vision statement of CIGNA Property & Casualty (spun off in 1999) in just nine simple words— "To be a top-quartile specialist within five years"—contains the three essential components of a good vision statement:

1. *A quantified success indicator:* "top quartile" in profitability

2. *A definition of niche:* "a specialist," not a general-purpose underwriter

3. *A time line for execution:* "five years"

The vision statement thus provides a clear set of directions and expectations within which the entire strategy can be framed.

Vision statements for nonprofit and government organizations are more complex, in that the organization's mission replaces financial performance as the success measure. In 1961, U.S. President John F. Kennedy offered one of the most famous and effective public-sector vision statements: for the U.S. space program "To land a man on the moon and return him safely to earth before the end of the decade." In addition to the vision's inspirational power, it described a clear measure of success—

"land a man on the moon and return him safely to earth"—and a specific time frame—"by the end of the decade."

Another excellent example of a well-crafted vision statement is that of Leeds University (UK): "By 2015, our distinctive ability to integrate world-class research, scholarship, and education will have secured us a place among the top 50 universities in the world." It contains the three requisite quantifying components:

1. *Quantified success indicator:* "Be ranked among the top 50 universities in the world"

2. *Definition of niche*: "Integrate world class research, scholarship, and education"

3. *Time line:* "by 2015"

By incorporating these three components, a vision statement increases the clarity of the message, adds a discrete definition of success that can be cascaded to lower organizational levels, and establishes a time frame in which the success will occur. It also sets an ambitious target for the strategy at the highest organizational level—and early in the planning process.

The organization's mission and core values typically remain stable over time. Its vision paints a picture of the future that clarifies its direction over the next three to ten years, and helps individuals understand why and how they should support the organization. Even though mission, vision, and values statements remain more or less stable, most organizations still begin their annual strategy development process by reviewing and reaffirming them. As one chief executive has noted, "It is important that the executive team constantly remind itself of the foundations for what we are doing."

Enhancing the Vision

Organizations can now use the four perspectives of the strategy map to develop an enhanced vision that is more comprehensive than a traditional vision statement and easier to translate into an achievable strategy. The enhanced version moves the vision beyond a simple outcome statement of the vision ("to become the preferred provider") to a more comprehensive picture of the enabling factors with which to achieve the vision, including key processes and intangible assets such as people and technology. The enhanced vision bridges vision and strategy.

Nemours, a nonprofit foundation dedicated to the health and medical treatment of children, developed an enhanced vision as the basis of its strategy. Founded nearly 70 years ago as the Alfred I. duPont Institute, Nemours is considered the world's leading treatment center for children with complex orthopedic conditions. Over the past 25 years, it has expanded its scope of services and geographic reach to have an even greater impact on the health and well-being of children. Nemours developed a strategic plan to deliver on its vision: "Freedom from Disabling Conditions." In Nemours's 2008–2012 Annual Plan, CEO David Bailey, an MD and MBA, described the objective of the Nemours strategic planning process:

> [Our] approach...was not to identify opportunities for improvement. Rather, the effort was directed at what must be done in the future to have an even greater impact on children, to deliver measurable results, and to further enable Nemours's influence on issues affecting children by developing broad recognition [that] would also honor Mr. duPont's transformational act of philanthropy.

Nemours built its strategy map with its vision and mission at the top, defining the ultimate objective and accountability of the enterprise, and its core values at the bottom, recognizing that they were foundational for everything it did. Its vision simply and succinctly describes Nemours's desired destination. This simple vision statement, however, provided little guidance for shaping the strategy. Nemours thus created an enhanced vision (which it calls its "highest-order strategy map") to facilitate the transition from vision to strategy. The enhanced vision described four critical goals: (1) "To be a leader in improving children's health through our integrated health system—becoming a pre-eminent voice for children"; (2) "To care for each and every child as if he or she were our own"; (3) "To be effective stewards of all of our assets, continually improving them to advance our mission"; and (4) "To be a great place to work." These goals then became the foundation of the strategy map's four strategic themes—Impact & Community, Service & Quality, Efficiency & Environment, and People & Learning—and led naturally to the three remaining strategy development steps, culminating in strategy formulation with a complete strategy map representation of the Nemours strategy.

Step 2. Strategic Goals: Define and Decompose the Value Gap

Quantifying the vision makes it possible to integrate target setting with the exploration of feasible strategies. The vision's quantified success factor becomes the reference point for judging the feasibility of strategies. The success factor defines the desired outcome from successful strategy execution (e.g., "achieve top-quartile profitability," "rank among the top 50 universities in the world"). One of the key characteristics of a strong leader is the ability to rally an organization around achieving a stretch target objective—to challenge the organization to become much better. Without strong leadership, an organization becomes complacent and, at best, will only achieve incremental improvement. As Collins and Porras note, "Visionary companies may appear straitlaced and conservative to outsiders, but they're not afraid to make bold commitments to BHAGs, 'Big Hairy Audacious Goals.'"[4]

With a stretch target for success now embedded in the vision, the executive team defines a value gap—the difference between the desired outcome and what could be achieved by maintaining the status quo with the existing strategy. The value gap represents the difference between aspiration and reality; it becomes the goal for the new strategy to fulfill.
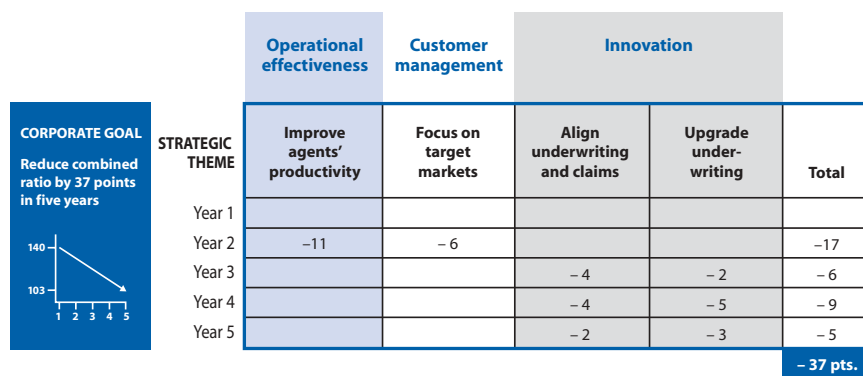
CIGNA P&C

A key financial measure for property and casualty insurers is the "combined ratio" (CR), which equals the ratio of cash outflows from expenses and claims payouts to cash inflows from premiums. At the start of CIGNA's journey, the CR for a top-quartile performer was 103; CIGNA's was 140. Thus, the new strategy had to close a CR value gap of 37 points within five years.

Figure 2 illustrates how CIGNA addressed two broad questions: *where* the CR improvements would come from, and *when*. The executive team decomposed the overall strategy into four strategic themes, each representing a relatively independent value-creation process. It then estimated how much each of the four themes could contribute to closing the value gap. The team also estimated how quickly each theme could achieve its value gap target during the designated five-year time frame. At this point, these were informed estimates; they were not yet based on a detailed strategy. This first pass at determining how a strategy would close the value gap, however, showed the feasibility of the overall strategy and laid the groundwork for more detailed thinking within each of the four strategic themes.

CIGNA's approach illustrates the power of linking vision to strategy early in the strategy development process. It ensures that the vision is taken seriously and can, in fact, be linked to actionable, accountable results—both important components for successful strategy execution. Establishing the vision and setting stretch targets at the front end of the strategy development process establishes the framework for subsequent steps of strategy development.

Figure 2. How CIGNA P&C Decomposed the Value Gap

CORPORATE GOAL: Reduce combined ratio by 37 points in five years	STRATEGIC THEME	Operational effectiveness — Improve agents' productivity	Customer management — Focus on target markets	Innovation — Align underwriting and claims	Innovation — Upgrade underwriting	Total
	Year 1					
	Year 2	−11	− 6			−17
	Year 3			− 4	− 2	− 6
	Year 4			− 4	− 5	− 9
	Year 5			− 2	− 3	− 5
						− 37 pts.

Executives decomposed the strategy into four strategic themes. They then estimated how much each theme could contribute to closing the 37-point value gap, and how quickly it could do so, within their five-year time frame.

Step 3. Strategic Analysis

With a clear picture of what it needs to achieve, the company must now perform an external and internal analysis that includes assessing the impact of industry trends and its own performance and positioning relative to competitors, as well as developing a detailed understanding of how it presently delivers value.

External Analysis

The executive team needs to understand the impact of macro- and industry-level trends on the company's strategy and operations. The external analysis assesses the macroeconomic environment of economic growth, interest rates, currency movements, input prices, regulations, and general expectations of the corporation's role in society. Often this is called a PESTEL analysis, reflecting its political, economic, social, technological, environmental, and legal components.

The external analysis should include an industry-level examination of industry economics using frameworks such as Michael Porter's Five Forces: the bargaining power of buyers, the bargaining power of suppliers, the availability of substitutes, the threat of new entrants, and the intensity of industry rivalry. The Five Forces model calibrates the attractiveness of an industry and aids in identifying specific forces that are shaping it, favorably or unfavorably.[5] The industry analysis should also include a summary of the company's performance on multiple financial ratios relative to its industry competitors.

Finally, the external analysis includes competitor assessments. One approach is to plot all the competitors in the industry on a two-by-two table, with the axes representing some combination of key competitive dimensions such as product scope, technological capabilities, and geographical reach. The dimensions can be changed to provide different screens of performance. Additional information can be depicted on the table by identifying each competitor with a circle whose size is proportional to its performance on a key indicator such as market share, profitability, or sales.

Internal Analysis

The internal analysis examines an organization's own performance and capabilities. Companies that have not yet developed a Balanced Scorecard will rely heavily on financial information to assess recent performance. A widely used analytic tool is value chain analysis, also introduced by Michael Porter,[6] which identifies the sequence of processes necessary to deliver a company's products and services to customers. In addition to the primary activities of creating a market, producing products and services, and selling to customers, the value chain can encompass secondary or support activities, such as research and development, human resource management, and technology development, which facilitate the primary value creating processes. The value chain model helps a firm identify those activities that it intends to perform differently or better than competitors to establish sustainable competitive advantage.

SWOT Analysis

After performing the external and internal analyses, the strategic planning participants conduct a SWOT analysis. Perhaps the earliest and most fundamental of all strategy analysis tools, SWOT analysis identifies the company's existing *s*trengths and *w*eaknesses (internal attributes) and emerging *o*pportunities and worrisome *t*hreats (external attributes).

A well-conducted external and internal analysis generates a host of information for a management team, much of which can be confusing when examined in totality. SWOT analyses help summarize this information into a succinct list that helps the executive team understand the key issues that the organization must contend with when formulating its strategy. For example, strengths can be leveraged to pursue opportunities and to avoid threats, and managers can be alerted to internal weaknesses and external threats that need to be overcome by the strategy. Within each SWOT dimension, the list can be prioritized to reflect each element's overall importance to the organization.

Traditional SWOT analysis can be combined with the BSC framework to set objectives critical to the organization's future success. The BSC SWOT matrix, created by performing a SWOT analysis for each of the BSC perspectives, provides a framework that integrates the SWOT strategy planning tool and the Balanced Scorecard strategy execution framework. The resulting single-page summary provides a valuable reference point for managers to assess the issues that must be addressed by their strategy, organized by results for shareholders or customers, processes, and people. ■

Part II: Formulating and Launching the Strategy

1. "Improving Strategic Planning: A McKinsey Survey," McKinsey & Co. (September 2006).

2. See: http://en.wikipedia.org/wiki/Mission_statement (accessed July 25, 2007).

3. See http://www.wholefoodsmarket.com/company/corevalues.html.

4. Jim Collins and Jerry I. Porras, *Built to Last: Successful Habits of Visionary Companies* (HarperCollins, 1994).

5. Michael E. Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* (Free Press, 1980).

6. Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (Free Press, 1985).

CASE FILE

Statoil: Scorecard Success— the Second Time Around

By Lauren Keller Johnson, Contributing Writer

Its first implementation of the BSC foundered. But then frontline managers in one of Statoil's business units drove a bottom-up revival of the methodology—which included abandoning the traditional budget process. The benefits to the entire organization—Scandinavia's largest company, and a 2007 BSC Hall of Fame winner—have been remarkable.

It's not as much of a household name as other leading oil companies, but Norway-based Statoil is the world's second-largest operator of offshore oil and gas fields, and the third-largest seller of crude oil. An integrated oil and gas company, Statoil was founded in 1972 and today is Scandinavia's biggest company. (Statoil became StatoilHydro in late 2007 after merging with Hydro, Norway's second-largest oil company; the events described in this article preceded the merger.) The organization has 24,000 employees operating in 34 countries around the globe, and it boasted revenues of almost €49 billion ($70 billion) in 2006 alone. Previously state-owned, the company went public in 2001, although the Norwegian government still holds substantial ownership in the firm.

Statoil has five business units:

- Exploration and Production Norway
- International Exploration and Production
- Natural Gas
- Manufacturing and Marketing
- Technology and Projects

The BSC Revisited

Change is a constant for all businesses, but more so for companies whose product is a non-renewable resource. Though the Norwegian continental shelf has long fueled much of Statoil's success, the area's reserves have already peaked, and in the 1990s, executives at Statoil realized that

they could no longer rely on the region's resources as the main engine of the company's growth. Statoil would have to draw more than ever on its international resources to spur sustainable increases in revenues.

In 1997, the finance group, intrigued by the Balanced Scorecard's mix of financial and nonfinancial perspectives and its emphasis on the link between performance indicators and strategic objectives, encouraged BSC adoption to support execution of the company's new growth strategies. However, the program generated limited success for several reasons: although Statoil had established a number of scorecards throughout the business, the company failed to link the BSC sufficiently to other business processes; traditional budgeting eclipsed the scorecard; and the program was not given information system support. With few mechanisms in place to encourage its use, the BSC languished for the next three years.

All that changed in 2000. Frontline managers within the Exploration and Production Norway unit saw untapped potential in the BSC and decided to revive Statoil's BSC program. They began by developing a management information system (MIS)—a Web interface built atop an SAP business data warehouse—that would enable them to track and report performance data. The MIS project, led by Arvid Hollevik, head of Performance Management Systems,

aimed to streamline the myriad key performance indicators that had crept into Statoil's earlier BSC program, standardize automatic data capture, and provide reliable performance data through a user-friendly system. Several representatives from other major companies who have visited Statoil have pronounced the MIS "world class."

Impressed by the results of this bottom-up effort, the entire business unit adopted the MIS in 2003. Statoil's remaining business units, the overall corporation, and finally the support units followed suit during 2004 and 2005. Thus, Statoil experienced a reversal of the usual top-down BSC cascade.

Statoil dubbed its revived scorecard program "Ambition to Action" (here abbreviated as A2A). It wasn't until 2005, when Statoil "kicked out the competition"—its catchphrase for abolishing the budget process—that A2A went from being a passive reporting document to the active tool it is today. It is now the cornerstone of Statoil's performance and strategy management process, which includes target setting, strategic planning, and evaluation and reward. Everyone who works at Statoil can see other units' A2As and all performance results, except for

sensitive stock-exchange information, on the MIS. The A2A scorecard is the default opening image whenever anyone logs on to the MIS. At quarterly meetings between unit leaders and Statoil president and CEO Helge Lund, discussion centers on the business results reflected in the A2A system.

Growth and Responsible Business: Two Imperatives

Statoil's corporate-level scorecard depicts five perspectives (the fifth being "Health, Safety, and Environment") instead of the traditional four, each with a single strategic objective and several performance measures. (See *Figure 1*.) (Statoil's strategy map is essentially no different than its corporate-level BSC, since it does not depict causality with arrows.) Today, there are more than 500 A2A scorecards throughout the company.

Statoil's BSC shows perspectives in the reverse order of most BSCs, because, as Bjarte Bogsnes, A2A program manager, observes, "We want people to focus on the drivers more than on the end results." Since people read from the top down, they will see the drivers first.

The corporate scorecard depicts two imperatives that are especially close to executives' hearts: growth and responsible business practices (as expressed by the objective "Zero harm to people and the environment"). To spur growth, the company has launched several important initiatives, including developing the large Snøhvit gas field in the Arctic to export liquefied natural gas to the United States. In the 1990s, it formed an alliance (now terminated) with BP to explore reserves in countries such as Angola and Azerbaijan. All told, the company expects its overseas production to reach 50% of its Norwegian production in the near future.

Figure 1. Statoil's Balanced Scorecard

Perspective	Strategic Objective	Performance Measures
People and Organization (Learning and growth)	A value-based and performance-driven, globally competitive organization	• Change capability • Performance culture • Progress PO plan
Health, Safety, and Environment (New)	Zero harm to people and the environment	• Serious incident frequency • Total recordable injury frequency
Operations (Internal)	First quartile operations	• Access cost (unit cost of exploration) • Production • Production cost (USD/barrel)
Market (Customer)	Deliver robust growth beyond 2010	• New reserves • Reserves to Decision Gate 3 (final decision to develop a field) • Short-term gas optimization and trading • Third-party oil trading volumes
Financial	First quartile shareholder returns	• Relative ROACE • Relative shareholder term

The perspectives are listed in reverse order so that employees focus more on the drivers of performance than on results.

As for responsible business, Statoil has made a similarly determined effort. Initiatives have included modernizing health, safety, and environmental (HSE) programs; improving HSE risk-evaluation processes and tools; and implementing action plans for chemical health risks. In 2006, the company built the world's first offshore CO_2 capture plant, in the North Sea; eight million tons have already been stored there. Such efforts have paid off: for the last four years, Statoil has been voted number one in its industry on the Dow Jones Sustainability Index, the leading corporate environmental indicator.

Blowing Up the Budget

Statoil has been exemplary in ensuring that budgeting is driven by strategy, a best practice in the SFO principle "Govern to make strategy a continual process." To ensure that A2A delivered as promised, Statoil took a bold step in 2005: abandoning traditional budgeting and replacing it with, among other things, what it calls "dynamic resource allocation." The conventional annual budget process has numerous flaws, explained Program Manager

Bogsnes in an article at www.the-financedirector.com. (Bogsnes oversaw the implementation of the BSC and the abolition of budgets at Borealis, the Denmark-based plastics manufacturer and a 2001 BSC Hall of Fame winner, before joining Statoil in 2002.) For one thing, budgeting forces companies to decide on funding once a year, "which is not always the right time." Moreover, budgets foster micromanagement, not employee engagement. "If you ask people what makes them perform," says Bogsnes, "I doubt you will get budgets as your answer."

Another drawback of budgets is that they mix target setting (ambitious goals), forecasting (realistic expectations of what will be achieved), and resource allocation. Bogsnes maintains that these processes should be uncoupled, with resources deployed more dynamically based on initiatives' strategic importance, not according to predetermined annual funding. Budgets also focus on explaining what has happened in the past rather than emphasizing what must happen in the future, he adds. Finally, budgets can actually be counterproductive. According to CFO Eldar Sætre,

many scorecard implementations fail because they compete with the budget as a management tool. "This confuses the organization," he explains. "When you have both, the budget normally wins because it has the longest tradition and managers are familiar with it."

Intrigued by this new approach, Statoil's board of directors approved the company's 2006 A2A in place of a budget. Today, all executive-level business meetings at Statoil are built on the A2A process. "Removing the budget really turbocharged our scorecard process," says Bogsnes. "It became very visible to the entire organization that we now were dead serious about Ambition to Action."

A2A starts with defining strategic objectives, expressing them as key performance indicators, and setting targets for KPIs based on benchmarking and other techniques. Strategic initiatives are then planned, results forecasted, and resources allocated. "This prompts managers to ask 'Is this project the right thing to do?' when evaluating a potential initiative, rather than asking 'Do I have the budget for it?'" notes Bogsnes. The process unfolds on an annual basis, although the company is considering moving to a more dynamic, event-driven process.

Aligning Personal Goals with Strategy

To help employees understand Statoil's performance management process, the company published "The Statoil Book," a booklet that explains the company's values and leadership principles and the A2A model. But its most powerful tool for gaining employee support has been its approach to aligning personal goals. The planning stage of A2A leads to the definition of managers' and employees' performance goals.

Performance is then evaluated and rewarded on two equally weighted criteria:

Delivery, as measured by KPI results and tested by questions such as: Were agreed upon or necessary actions taken? Did delivery on these KPIs contribute to our strategic objectives? How ambitious were the KPI targets? Should our assumptions be reexamined? Are these results sustainable?

Behavior, as evaluated by 360/180/90-degree feedback surveys, personal development plans, and daily observations from bosses and colleagues indicating how well people embody Statoil's five core values. These values are: "imaginative" (including being curious, stimulating new ideas, and pursuing new business opportunities); "hands-on" (for example, making constructive demands on each other, following through on decisions, and setting ambitious targets); "professional" (such as continuously developing expertise, demonstrating a customer orientation, and promoting diversity); "truthful" (communicating in an open, precise way and raising ethical issues immediately); and "caring" (contributing to sustainable development, accepting social responsibility, and continuously improving the working environment).

For each person, a delivery and behavior matrix is used to calculate a performance score that determines pay increases and bonuses. In addition, all employees earn a bonus based on how well the company has performed on two core KPIs: relative return on capital employed and relative shareholder return ("relative," since performance is measured against industry peers' performance).

Thanks to these and other practices, "Ambition to Action has become a household [term] in the company," says Sætre, "and we have had an enthusiastic response from the organization. The current number of Ambition to Actions [scorecards] in our MIS is mainly a result of pull…from the line, supported by a gentle corporate push." Sætre adds that A2A "has also built bridges and dialogue between strategy, finance, and HR functions in a way we did not see before."

The numbers bear these observations out: employee engagement and understanding of Statoil's performance management process have steadily increased over the last few years. Since going public in 2001, Statoil has enhanced growth and profitability simultaneously, a rare accomplishment in the industry. From 2001 to 2006, revenues soared from $38.7 billion to $68.5 billion; stock price, from $6.76 to $27.28. (Much of this is, of course, linked to higher oil prices, which is why Statoil uses peer comparisons for performance measurement.) And compared with nine competitors (BG, Hydro, Chevron, BP, ExxonMobil, ConocoPhillips, ENI, Shell, and Repsol), Statoil ranked third in compound annual growth rate of production from 2005 to 2007. In 2006, it ranked second in returns on average capital employed.

But Statoil's story won't end here. The company plans to continue using A2A in StatoilHydro; that was a condition of the merger agreement. And it is considering using the scorecard even more continually, by updating A2A forecasts when and where appropriate in the organization, based on relevant changes in the business landscape. Given the bold initiative demonstrated by its people in driving adoption of the BSC from the bottom up, more surprising achievements may be on hand as Statoil completes its transformation into StatoilHydro. ■

TOOLS & TECHNIQUES

Take an Initiative Management Health Check

By Peter LaCasse, Initiative Management Practice Leader, Palladium Group, Inc.

Realizing the value from initiative investments—the very activities designed to advance strategic change—is a major concern of senior managers. Failed initiatives not only waste resources, but they can also undermine performance—and the organization's competitiveness. But how can you tell whether your initiative problems lie with the initiatives themselves or with your initiative management process? Conduct an initiative management assessment.

Do any of these ailments sound familiar? Your initiatives aren't closing performance gaps. They wither away in midstream. They aren't doing the job—or, worse, are causing more harm than good. They never make it out of the development incubator. They become irrelevant after a market or organizational shift.

Any one of these problems usually signals bigger trouble—indicating either a problem with the initiative management process, or an organization's need of one. In "Initiative Management: Putting Strategy into Action" (*BSR* November–December 2007), Travis Manzione and I outlined a four-step process for managing initiatives that includes identifying and collecting ideas, evaluating and prioritizing them, planning and approving implementation, and instituting project management and portfolio management practices. Problems like the ones cited above can invariably be traced to problems in executing one or more of these steps. If your organization is struggling with identifying effective initiative ideas, for example, it may be owing to the lack of a mechanism for capturing such ideas.

The many moving parts of initiative management make it difficult for senior managers to know how to pinpoint a problem's source and discern the best way to remedy it. But before attempting remedial action, it's smart to step back and assess the entire initiative management process so you can diagnose the problem accurately. An assessment entails gathering information on the existing process (and related business processes) in order to map it, analyzing trends andcommon practices, and finally diagnosing the cause or causes of failure. An assessment can also be used to rally support among all those who have a stake in the process and help build the case for improving the process overall.

Mapping the Current State

To help senior managers understand the current initiative management process, first map it. Initiatives often touch multiple business processes, such as strategic and operational planning, resource prioritization, budgeting, strategy and operational reviews, project management, and process improvement programs such as TQM, Lean Manufacturing, and Six Sigma. It's therefore important to gather information on each to precisely document an initiative's life cycle. Understanding these linkages helps determine how the initiative management process should be designed to either connect with or best support one or more of these adjoining processes. For example, strategic planning processes often yield new initiative ideas that should be evaluated through a formal initiative management process.

Information on performance, flow, and responsibility for each of these corresponding processes may be obtained through process documentation, or, if documentation is not available, through interviews with the responsible managers. Interviews also offer the advantage of providing additional insight into how each process supports—or hinders—initiative management. Capturing both the current state and the desired end state for the process will help highlight gaps that may be contributing to the problems. Conferring with other people beyond those managing the initiatives—executives, business-line and functional managers, PMO managers, project managers, innovation team members, or even other initiative team members (those involved in Six Sigma programs, for example)—may offer further insights, such as how structuring the intitiative management process differently may provide greater value, or, conversely, may make their work more difficult.

Because leaders often want to preserve their pet projects—or their power base, which may be encroached on by any changes in initiative management—some may attempt to conceal or soft-pedal problems. That's why it's important to obtain a wide range of input from several management levels to obtain the clearest possible picture. A survey is a good way to reach a large number of stakeholders. It also allows for anonymity, which encourages candor. The survey should feature 10 to 20 multiple-choice questions covering the initiative management process, and allow for open-ended feedback. (See box on next page.)

Diagnosing the Problem

Once data on the current process is collected, it needs to be organized and analyzed. Data should be classified according to process step. This will help highlight the

flaws within each step and answer several important questions: Do the problems occur consistently in the same step everywhere in the organization? Which parts of the process are strong, and which ones need to be refined or redesigned? Where does the process break down or not connect well with other interdependent business processes?

Recently, a large life sciences company we work with experienced implementation problems with its initiatives. After performing an initiative management assessment, it discovered that initiative ideas were being driven exclusively from the top. In addition, business line and functional managers felt disconnected, not just from the idea development, prioritization, and planning processes, but also from the implementation stage. In response, the company created a mechanism for capturing these managers' input on the operational aspects of implementation in the program management step.

Your diagnosis may reveal:

- *Too much process:* the effort to support the process is outweighing its benefits

- *Too little process:* insufficient collection and/or organization of information

- *A lack of participation:* key participants are circumventing the process

- *Inadequate support tools:* either you lack the tools to properly support tasks (portfolio analysis, idea collection, prioritization), or they are difficult to manage

- *The wrong people:* you're not involving decision makers

Planning the New Process

Once the diagnosis is completed, you can focus on planning the future state of your initiative management. First, enumerate all the areas needing improvement or redesign. Then, assemble a core team of stakeholders (people who rely on the process) to plan its redesign. Their input is critical in eliciting organizational support for a revised process. Without it, business leaders will inevitably bypass the process and continue doing things the same old way.

For example, a multinational bank we know built a core team that included managers from the business lines as well as such functional areas as finance, IT, and HR. Despite some members' initial skepticism, the very act of being appointed to the core team forced them to have an investment in its success. That the organization saw fit to appoint a core team demonstrated its desire to solve the problems. By the end of the redesign, the core team was excited about the new initiative management process. Members transitioned into their new role as members of the initiative management advisory team, which reviewed initiatives on an ongoing basis to make recommendations to senior management.

Changes in the initiative management process must be closely monitored to ensure that any enhancements are in fact adding value. The core team should therefore create a set of initiative management process metrics. These measures should mirror the four initiative management process steps, and might include:

- Number of new ideas identified; percentage of ideas collected that get sponsored *(Idea identification/collection)*

- Number of proposals developed; estimated impact of prioritized initiatives on strategy *(Evaluation/prioritization)*

- Percentage of initiative plans reviewed; percentage of current initiatives with an approved plan *(Planning/approval)*

- Percentage of on-track initiatives; aggregate value attained from initiatives within a portfolio *(Project management/portfolio management)*

Such measures will provide reliable feedback on the value of the new initiative management process. If trouble arises within the process, the problem can be quickly pinpointed and addressed.

Back It with Facts

As with any process redesign, it is essential to first build a strong case for change and to enlist the support of key stakeholders. An assessment is the most objective, evidence-based means of building the case for change because it identifies specific problem areas and gives senior managers concrete information with which to tackle the problem. An initiative management assessment will lead to a more focused improvement effort, and one conducted by the right people: those with the most expertise, knowledge, and influence. ∎

HR at the Heart of Strategic Transformation: The EMC Turnaround

By Anne Field, Contributing Writer

Jack Mollen

The dot-com crash hit computer storage device-maker EMC Corporation hard. But a radical new strategy—enabled by a revamped human capital strategy that included strategic job readiness—turned the company around. Jack Mollen, head of HR, spoke to *BSR* about the remarkable role his team played in EMC's dramatic turnaround.

A decade ago, EMC, the Hopkinton, Mass.–based supplier of data storage systems, had become one of the biggest success stories in high tech. In 1990, the 11-year-old company introduced its ground-breaking high-end information storage device, EMC Symmetrix, which helped fuel a meteoric rise in revenues and stock price. With a more than 80,000% increase in stock price from 1989 to 1999, EMC earned the distinction of having the highest single-decade performance of any stock in NYSE history.

Then came the dot-com crash. Customers cancelled orders, and revenues plummeted from $7.1 billion in 2001 to $5.4 billion in 2002. Determined to stage a comeback, EMC responded by overhauling its company strategy to adjust to the changing business environment. Senior managers devised a radical new strategy: transform the company from being a hardware-only to a hardware, software, and computer-services provider. In just four years, they succeeded in turning EMC into a nearly $13 billion, 36,000-employee giant. It was one of the most dramatic reversals in recent corporate history.

The three-stage strategy involved a methodical approach to stabilization, renewal, and growth. About 50% of revenues (instead of 90%) would come from hardware. The rest would be generated from software and services—30% and 20%, respectively. By the early 2000s, EMC made software, which had been chiefly a proprietary component of its hardware business, into a separate division, and started selling new open software products, enabled by a series of software acquisitions. EMC also expanded its customer service operation into a full-blown global professional services unit. In the process, the company reorganized itself along product, rather than functional, lines. Because products had to be designed with a common architecture, EMC took steps to ensure that the company and its people were aligned and segmented to work collaboratively, not in the traditional siloed way. By 2003, with the strategy firmly in place, EMC stepped up its series of strategic acquisitions—more than 30 over a three-year period.

Since then, results have only improved. For 17 consecutive quarters, EMC has enjoyed double-digit revenue growth. Most recently, net income for Q3 2007 reached nearly $493 million, compared with almost $284 million for the prior year. Revenues for 2007 are on track to reach $13 billion.

Critical to making the transformation work was EMC's human capital strategy, spearheaded by Jack Mollen, who joined the company in September 1999 as senior vice president of human resources. Under Mollen's leadership, the company took a number of ambitious steps, among them hiring a core of new upper-level managers who helped bring in people with the skills needed to make the company's strategy work, revamping the training process, and establishing reward systems that aligned the new collaborative culture with compensation.

BSR recently talked to Mollen, who is today executive vice president, about how he helped create and implement an HR strategy that enabled EMC to successfully execute its strategic transformation—and already achieve a number of new goals.

BSR: *Because EMC's new strategy was so different from the old one, you must have needed people with dramatically different skill sets. How did you go about getting them?*

Mollen: Maintaining, finding, and putting the right talent in place are critical for driving strategy. And when your strategy requires that you go into new and adjacent markets, you have to acquire talent in those new areas to accelerate change. With that in mind, there were two approaches we could have taken. We could have come up with our entire strategy and then hired the people to execute it. Or, we could have tried to develop a broad strategy, hire subject matter experts to help refine it, and then execute against it. We did the latter. We figured we'd never evolve into the company we aimed to be unless we had real domain experts to fine-tune the plan. So, we brought in additional talent in the areas of software and services leadership, talent we didn't have in the company—senior-level individuals who could quickly help us further

formulate and implement our strategy.

Those leaders were also instrumental in building talent across our organization. They helped us determine the skills we needed in a workforce and helped us recruit the best people. For example, we started with two or three software leaders, and in a matter of months had more than quadrupled that number. Acquiring this talent required an investment, of course. It always costs money to attract senior talent. But you have to be very strong in your belief that if you need to bring in a new skill set, you do what

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it takes to find it—especially given the speed of change in high technology.

BSR: *Can you tell us more about the methodology you followed in your efforts to pinpoint the skills EMC needed?*

Mollen: At the time we were organized around functions. The heads of those areas, along with my head of executive staffing and myself, were tasked with determining how we'd go about the process and make it happen. Our President, Chairman and CEO, Joe Tucci, was also very involved. We first discussed the organizational setup we needed to make our strategy work, then what individuals we had in place, whether they had the skills we required, and what skills we would have to get from the outside. After that, we prioritized our needs, knowing that it takes about 90 to 120 days in our business to acquire senior people.

It's a process we still use today.

We also had to eliminate some positions to make room for others. That was even true in HR. For example, we did not have many recruiters with a background in software, so we had to let some people go to enable us to hire others who were experts in that area.

BSR: *What did you do about training?*

Mollen: We came to see that we needed to put more emphasis on training. It especially hit us as we started to introduce more and more new products and technologies into EMC's product portfolio and expand the business.

For starters, we focused on creating a culture of learning, where employees understand the importance of continual development and growth—something that's important in a fast-moving marketplace. Early on, we communicated the company strategy to employees across the organization and discussed with them the need for new skills to help the company adapt to this strategy. They had to think about where they fit in and how they could continue to add value.

Managers especially had to develop new skills. Remember, we'd had people reporting to the CEO according to functional lines. Now, we were divided along product lines, but we had many people who didn't understand a P&L and who lacked the financial, marketing, or management skills needed to run a product-line organization. We put our top 300 managers through an executive development program that we designed with outside management consult-

ants. This program continues today and takes place twice a year for two to three days.

In addition, we introduced a core education and development curriculum that is mandatory for all employees. The curriculum, which consists of a series of half- to one-day courses and programs, is structured along five levels, each of which aligns with an employee's role within the company—for example, individual contributor, manager, and so on. Some of the classes are mandatory, others are not. Required courses revolve around the skills needed to be effective in the organization—such topics as time management and how to communicate effectively and be effective within a global environment, with an emphasis on internal change management.

We also had training needs related to organizational, not just individual, learning. For example in the 1990s, we primarily sold our products to customers at the enterprise level with a very strong direct salesforce. When we decided to move down-market, we knew we needed to broaden our go-to-market strategy. To that end, we built our partner program, teaming up with systems integrators and value-added resellers to sell to and service customers. To make these relationships work, however, we needed a partner training program, as well as internal systems (such as how to order parts or send out invoices) that would make it easy for our partners to do business with EMC. So we implemented both.

BSR: *How did you help line managers with their new roles?*

Mollen: We played a key part, helping them to understand what their evolving roles should be and facilitating discussions. If you're going to create and head a product-line organization,

then you really need to think about what your true value to the customer is, what your full potential in the marketplace is, how you should expand, what capabilities you have in the organization that will help you accomplish that, and which ones will come from outside. We would sit with line managers and senior leaders of a product line to ensure that we were all clear about our strategy. We also introduced a talent review process. Managers would come in and talk about their organization to their supervisors. They would discuss EMC's growth strategy, their own organizational strategy, and what they thought the company wanted them to focus on in the coming year. Based on those elements, they would reach conclusions on how they should organize for success—what changes they needed to make, what skills were essential, and what skills individuals within the team had. We achieved great alignment this way across the organization.

BSR: *The move from silos to collaboration is a tough change. How did HR help advance it?*

Mollen: First, there's the question of how we set employees' goals. We have a quarterly goal-setting process, with certain goals that have to be met for employees to be compensated. The reward for achieving these goals is based not only on what an employee does, but on how they go about doing it, and we encouraged employees to focus on collaborating with coworkers in certain areas.

We also went from a traditional chain-of-command management approach to a cross-functional, matrix management structure. We realized that for this matrix structure to be successful, supervisors needed to collaborate on quarterly goals, performance appraisals, compensation, and equity for any shared direct reports. This would ensure that managers reach mutual agreement on what is best for the employees they have in common.

In addition, we rotated top managers' responsibilities to broaden their operational command of the business, sometimes moving some executive vice presidents into different functions. For example, the head of mergers and acquisitions could be appointed head of marketing. The finance chief could move to head up sales. In other instances, someone in, say, finance might stay in that organization, but move to different business units. They take over the job completely, with full accountability, typically for two to three years. This helps give them the broadest possible view and understanding of EMC's business and the different markets we serve.

BSR: *How did you handle layoffs?*

Mollen: Following the dot-com bust, we had to release approximately a quarter of our global workforce to rebalance business priorities and align the organization and its talent. We approached the dismissals in such a way that people would want to come back to EMC as the economy rebounded. We made sure to provide an adequate severance and benefits package and career transition support. When new opportunities at the company started to emerge, some of the employees who were dismissed rejoined the company.

When you look back on what EMC has accomplished in its transformation—going from a functional organization to a product organization, from requiring functional capabilities to broader management capabilities, from a command-and-control environment to a matrix environment, from a single product line to multiple product lines—not many companies have pulled off one of those changes, let alone all of them at once. But we succeeded, and I am proud that HR played a key role in that success. ∎

Why the BSC Is Just as Effective for Small and Medium-Sized Firms

By Mario A. Bognanno, Vice President, Palladium Group, Inc., with reporting by Anne Field, Contributing Writer

Is the Balanced Scorecard just for large organizations? Surely not. Besides the countless documented BSC successes among small and medium-sized businesses (SMBs), some 20% of BSC Hall of Fame members are SMBs. Still, some SMBs have the impression that the BSC is not for them. The author, who has guided dozens of SMBs in successful scorecard implementations, debunks the most common myths underlying this perception.

The real question isn't whether the BSC is manageable or even suitable for SMBs. A tool that supports sound management is valuable for any and all organizations, regardless of size. But some SMBs believe a system like the BSC is too complex for them and requires resources beyond their

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> ***Director of Strategic Planning, ANTHC***

reach. Putting aside the complexity some organizations needlessly introduce by either overengineering the BSC or by viewing it as an end rather than a means to strategy management, we see that SMBs have as much to gain with the BSC as large organizations. And often their size gives them an implementation advantage.

Myth #1: SMBs do not need strategy; they are transactional. The argument goes: "Who needs a multiyear plan? We know our business, customers, and capabilities. We can react to market changes and needs as they arise."

Every organization has—and needs—a strategy. Strategy defines the value the organization will provide shareholders, the customers it wants to serve, the markets it will operate in, the products/services it will offer, and how it will differentiate itself from competitors. Frequently, an SMB's strategy is implicit. Building a BSC makes strategy explicit. By depicting themes and objectives within the four-perspective architecture of the BSC, any company, large or small, can test its basic cause-and-effect assumptions about the strategy's ability to create future value. The BSC can reveal flaws in the strategic hypothesis—what's working, what's not—enabling leaders to address them squarely, and earlier in the game.

In addition, the BSC can help articulate and communicate strategy throughout the organization, keeping employees focused on what's strategically relevant. "I have limited resources, so it's very important that everybody in the company is on the same page and focused on the right direction," says CEO Linda Brantner of Delta Dental of Kansas (DDK), a 2006 BSC Hall of Fame winner.

DDK, part of the nationwide Delta Dental Plans Association, is a 90-employee, $172 million revenue nonprofit serving 800,000 enrollees.

In early 2004, the Anchorage-based Alaska Native Tribal Health Consortium (ANTHC), a $350 million medical center network, was struggling with implementing its first five-year strategic plan, which it instituted in 2000. ANTHC's legacy of having been part of a federal agency contributed to the problem. "The strategy map was pivotal in helping us shift from a federal mentality to a private-sector perspective with a much longer-term focus," says Tom Lefebvre, director of strategic planning. Over the last three years, he adds, the BSC "has provided a framework that has created absolute clarity of our strategy and ultimate vision." Besides aligning employees to strategy, the BSC has helped ANTHC's board of directors work with leaders and has helped the organization "engage our key partners"—including 38 tribal healthcare providers—"and align their strategies and needs with ours." That clarity has paid off handsomely. Besides a healthier cash flow and an 80% drop in nursing turnover, ANTHC has deployed the world's largest telemedicine system, serving more than 260 sites, and achieved hospital "magnet" status—a quality of care ranking achieved by only 6% of hospitals in the U.S.[1]

About eight years ago, MECO, a 200-employee manufacturer of water purification equipment, adopted the BSC to help it run a better business. "As a small company, we were spread too thin, trying to service too many people with limited resources," says CEO George Gsell. "We were drowning in a sea of opportunities, and not doing a great job at any of them. We needed some focus." The BSC allowed MECO

to craft a new strategy focusing on growth industries. Doing so helped the company multiply its product line and boost the average order size substantially. Since 2001, revenues have jumped from $25 million to $60 million.

The strategy-mindedness and agility gained through years of successful BSC use also proved to be a matter of organizational life or death for MECO. Originally based in New Orleans, the company saw its only manufacturing plant destroyed in Hurricane Katrina, and about 80% of its employees' homes were flooded. Gsell and four senior executives met at his mother-in-law's house to craft a near-term crisis management strategy map whose key themes included taking care of employees, keeping operations going, finding a new plant, and replacing lost workers. In less than a year, MECO was operating at its new Houston location. Only 3 of 50 projects were cancelled, and several customers placed additional orders.

Myth #2: The BSC is too academic and complex an approach for the SMB. "We are pragmatic. We need something simple and straightforward."

The BSC may be based on management models, but all of them are based on successful managerial practice: systems theory, which underlies the cause-and-effect model of the strategy map; the scientific method of hypothesis testing, by which BSC assumptions are monitored; learning theory and behavior modification, which play a role in the strategy review process where expectations are set, feedback is provided, and consequences are linked to performance; and strategic double-loop learning, the basis for revising all the elements of the overall strategy management process.

For those who interpret the prolific writings of BSC creators Drs. Kaplan and Norton as evidence that the BSC is "academic," we reiterate: far from being theoretical, their work is based on empirical evidence. They have studied and identified the practices of successful organizations, and organized and codified them into principles that can benefit all managers. And while the underlying principles are not novel, the BSC represents an innovative integration of these principles that can help companies meet the demands of an ever-changing business environment.

Rather than inject complexity into performance management, the BSC actually simplifies it. In snapshot fashion, the strategy map communicates strategy in a way that all employees can understand, thus facilitating buy-in and fostering common purpose. By clarifying strategy and its underpinnings, the BSC forces companies to stick to what's strategically vital; eliminating, for example, initiatives that do not advance strategy. Complexity is actually more of an issue for large organizations, which have more organizational units, more business activities, and more people, all of which interact and must be coordinated.

Myth #3: The BSC costs too much to design and administer. "We must wear many hats. We do not have the luxury of time, people, or resources to devote to a long, iterative design process—or a costly reporting process."

SMBs can expedite BSC design and adjust the reporting and review process to match their limited resources. Generally,

key leaders handle design and implementation. And design team members at SMBs typically wear many hats. Besides making strategic decisions, top leaders may also be the subject matter experts in their organization. At smaller,

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single-site organizations, meeting logistics are simpler. It's easier to coordinate fewer people. Design time frames are thus usually shorter—an average of six weeks for SMBs versus 10 weeks for large organizations.

A multimillion-dollar IT system is not essential for administering a BSC program. While specialized performance measurement software is a plus, a spreadsheet or PowerPoint can do the job. Only when reporting begins to interfere with analysis is a system solution necessary. Generally, as much as 60% of measures are already being tracked in existing systems (e.g., financial, sales, customer service), and measure owners are likely already collecting and analyzing the data as part of their current duties. The task of gathering and disseminating BSC data can fall upon an existing employee or employees, obviating the need for additional staff.

The strategy review meeting, integral to a BSC-based strategy management program, is essential for organizations of any size. But it doesn't represent a new time commitment for leaders. It's simply a new approach to existing meetings, in which strategy is the focus, problem-solving the approach, and action-planning the outcome.

MECO's Gsell claims design and implementation "weren't as complicated as people would make it out to be be. We saw it as something that would pay for itself."

At DDK, the feeling was much the same. In fact, CEO Brantner believes organizational foot-dragging following the decision to introduce the BSC was more costly than design or administrative expenses. MECO's Gsell avoided these procrastination costs by keeping resisters off the BSC implementation teams. One type of cost that may hit SMBs harder is cultural. As Brantner observes, SMBs are less accustomed to major organizational changes and restructurings. DDK, she says, "incurred costs associated with personnel turnover, productivity, and management issues." Such costs can accompany any major change initiative; ultimately, the benefits should outweigh them, as they did for DDK.

Brantner notes that DDK has incurred consulting costs (among them, for gap analysis and strategy map refinement), costs that have become part of the company's budget. At the same time, DDK has cut costs elsewhere, thanks to streamlining its initiatives from some 30 "pet projects" to a handful—only those deemed truly strategic.

ANTHC's Tom Lefebvre acknowledges that BSC design and implementation required a lot of work, but didn't represent substantial additional costs. "The first year was an investment of a lot of time and energy," he says. The second year involved less effort, although important refinement work was needed. The payoff, he says, came in year three. Though ANTHC has added a limited number of staff, it mostly reorganized job descriptions to integrate BSC duties into existing staff jobs. The BSC has helped everyone, "from people in support positions to the senior leadership team, prioritize their work because it has made priorities clear," Lefebvre says. With activities and initiatives aligned, the BSC "has made us work more efficiently because our framework is more efficient."

Myth #4: The BSC involves too much bureaucracy. "We need an approach that is flexible, that lets us stay nimble and competitive."

As CEOs Gsell and Brantner observe, fewer layers of management give small companies a distinct advantage in designing and introducing the BSC and making it part of the culture. Often, decisions can be made in a day or two.

In addition, the faster that change occurs in a company's environment, the more robust the performance feedback process must be. According to the report of a Balanced Scorecard Collaborative working group of companies active in e-commerce, the continual feedback the BSC provides is "an excellent way to keep their compan[ies] on track."[2] The report noted that as a real-time management system, the BSC supports the shorter decision-to-implementation cycle typical of SMBs—and enables them to react faster, even anticipate the need to adjust to changing conditions. ◼

1. "Magnet" status is conferred by the American Nurses Credentialing Center and recognizes health-care organizations for nursing excellence.

2. See Ted Jackson and John Baskey, "How to Use Balanced Scorecards to Implement E-Strategy," *BSR* November–December 2000 (Reprint #B0011F).

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