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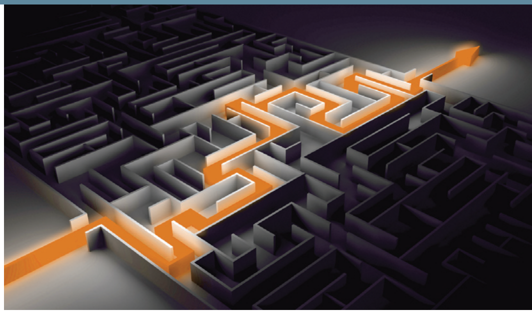

Successful Strategy Execution—Part I: What Does it Look Like?

By David Norton

Robert Kaplan and David Norton have written extensively about how organizations can use the Balanced Scorecard (BSC) as the central organizing concept for an integrated strategy management system. In this two-part article (Part II will appear in the March–April issue), Norton shares his latest thoughts and observations about how the most successful adopters of this management tool—members of the Balanced Scorecard Hall of Fame—use this approach to achieve improvements in financial performance. Norton explores the role of execution measures—and achievement measures—within each of the four BSC perspectives. He also provides a detailed discussion of the role of these measures in both the financial and customer perspectives. In Part II, Norton will complete this analysis for the process, and learning and growth perspectives. A case example based on Minor Food Group accompanies this discussion.

On May 6, 1954, one of the great athletic achievements of all time took place. Roger Bannister, a British medical student, ran a mile in less than four minutes (3:59.4). This event, long considered impossible by informed observers, was the culmination of years of improved performance by athletes around the world. For Bannister, it was a response to a disappointing performance at the 1952 Olympics. Contemplating whether it was time to retire and pursue his medical studies, Bannister set himself a new goal: to run a mile in less than four minutes. The four-minute target emerged because “it was a nice round number” and the previous world record had stood for nine years. Bannister developed an innovative, low-mileage training strategy to pursue the goal and . . . the rest is history.

Leaders of business organizations, attempting to excel and exceed, face similar challenges. Successful strategy execution has been unachievable for most—nine out of 10 organizations fail to execute their strategies. Like Bannister, a leader needs to create a target that will inspire and stretch the organization. Although inspiration to achieve a highly ambitious stretch target is important, targets must also be used for mundane tasks like allocating investments, setting personal goals, and communicating with stakeholders. Thus, the targets should be demanding but achievable.

Limited work has been done on the subject of target setting for strategies, most of it dealing with the development of visions.[1] The leader’s role is to (1) show the need for change, (2) develop a vision and strategy, and (3) establish a sense of urgency.[2]

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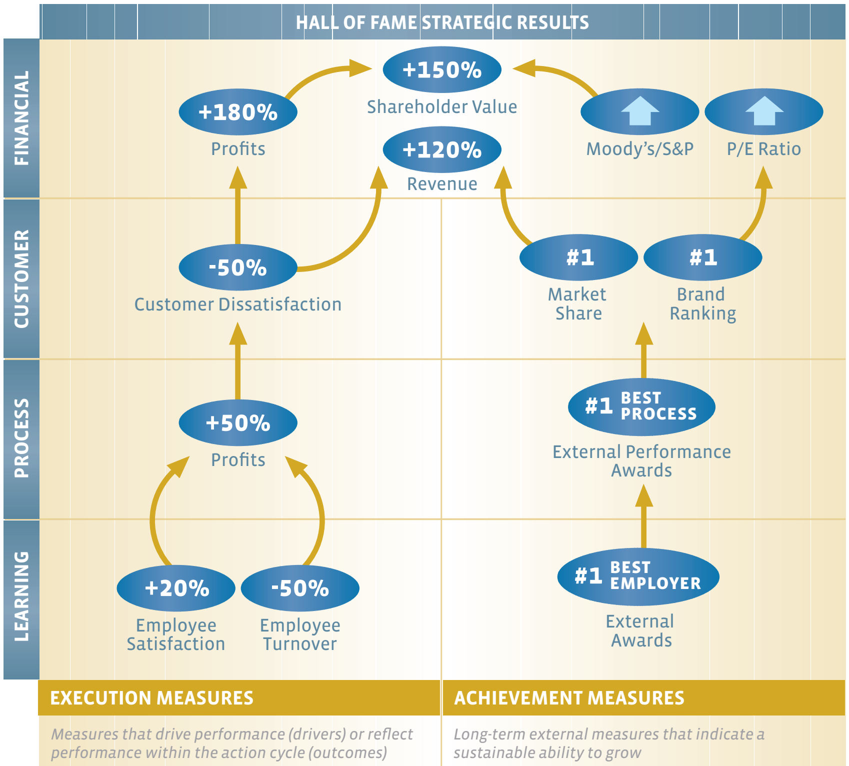

FIGURE 1: *HALL OF FAME STRATEGIC PERFORMANCE COMPOSITE*

This figure shows the composite results that include both execution measures and achievement measures. Execution measures reflect the internally derived accomplishments that result from pursuing the strategic objectives within the strategy map and Balanced Scorecard. The achievement measures reflect the improvements that were acknowledged by external agencies.

Without credible targets, executives cannot deal with questions that enable transformational change to take place within their organizations:

- How can I set the expectation that we can be the leaders in our markets?
- How can I convince my organization that a new way of managing will produce a significant payoff?
- How much should I be willing to invest in this new approach?
- How do I set targets for my Balanced Scorecard?

Operational management systems like budgets, cost management, and quality management have long used *benchmarking* as a target-setting methodology. We need an analogous framework for the setting of targets in strategy management systems.

We recently embarked on a research project to develop a set of such *strategic benchmarks.* Using our Balanced Scorecard Hall of Fame (HoF) database,[3] we selected a sample of 30 private sector organizations that had recently been evaluated and selected for the HoF award. Each presented a detailed statistical profile of the results that it had achieved. Each used the Balanced Scorecard/Strategy Map measurement framework, which assured us that a consistent methodology was applied. Our hope was that by analyzing the measures and results achieved by these organizations, we could create a generic profile of what successful strategy execution would look like, what it would be worth, and how it would be managed. The research showed us that the typical Balanced Scorecard (BSC) Hall of Fame organization achieved the following results over a three-year period:

- A growth in shareholder value of 150%, driven by a 180% growth in profits and a 120% growth in revenue. Financial performance was frequently complemented with an improvement in the Moody's or Standard and Poor's rating.
- A 50% improvement in customer satisfaction frequently complemented by a #1 ranking by an external agency in brand value and market share.
- A 50% improvement in key process effectiveness, complemented by external performance awards for quality, safety, or environmental performance.
- A 25% improvement in employee satisfaction, leading to a 50% reduction in employee turnover, complemented by external awards for workplace effectiveness.

The results are summarized in *Figure 1.* Although financial performance loomed large as an absolute indicator of success and its value, the impact of the performance drivers was critical. The leverage of 50% improvements in employee retention, key process effectiveness, and customer satisfaction into 150% improvements in shareholder value provides a guideline to executives as to where strategic investments should be made (the drivers) and the order of magnitude of the payoff. It also provides a framework to set targets, to manage expectations, and to monitor returns.

1 *R.S. Kaplan and D.P. Norton, "Develop the Strategy," chapter 2 in* The Execution Premium *(HBS Press, 2008).*

2 *John Kotter,* Leading Change *(HBS Press, 1996).*

3 *The Balanced Scorecard Hall of Fame for Strategy Execution comprises more than 160 organizations that have used the Kaplan/Norton BSC approach to successfully execute their strategies, thereby achieving breakthrough results.*

Strategic Goals and BHAGs (Big, Hairy, Audacious Goals)

Setting strategic goals is as much about motivation and inspiration as it is about economics. In their book *Built to Last*,[4] James Collins and Jerry Porras describe how "highly visionary companies often use bold missions as a particularly powerful mechanism to stimulate progress." They introduce the term "BHAG" (Big, Hairy, Audacious Goals) as a mechanism to describe such a vision. A BHAG is more than a goal. It is a compelling and inspirational description of the desired future state. Examples of effective BHAGs are General Electric's commitment to "be #1 or #2 in every market we serve" or John F. Kennedy's challenge "to put a man on the moon and return him successfully to earth by the end of the decade." Hall of Fame organization TNT Express (European package delivery services company) framed its BHAG as follows:

- "Grow the profits of the business by 50% in the next three years."

Nemours, a U.S. nonprofit healthcare system for children had a more comprehensive BHAG:

> "By 2015, Nemours will be a leading health system for children, being in the top 5% of institutions for patient satisfaction as well as in health and quality outcomes."

In each of these cases, a BHAG describes the *outcome* that an organization desires and a date by when to achieve it. A strategy describes *how* the organization will achieve that outcome. Although a BHAG is a useful (and, we believe, an essential) part of the goal-setting process, it must be complemented with the subsidiary goals (the drivers) that will achieve the audacious objective.

Figure 1 illustrates our structure for setting strategic goals. The BSC framework, proven in practice for nearly two decades, asserts a cause-effect logic between desired outcomes and performance drivers. Financial performance, the ultimate measure of success (in the private sector), is derived from the creation of satisfied customers who are, in turn, satisfied through focused and excellent processes delivered by exceptional people. Our Hall of Fame research shows the kind of value that is created by successful companies in each perspective of the framework.

	Company	Three-Year Profit Growth	Three-Year Sales Growth	Three-Year Shareholder Value Growth*	Profit to Sales Growth Ratio
A / Manufacturing	Lakshmi	500%	250%	375%	2.0
B / Financial Services	Mapfre Brazil	445%	158%	300%	2.8
C / Process	Mineras	270%	200%	235%	1.35
D / IT Service	Infosys	216%	232%	230%	0.93
E / Consumer	Rainbow Stores	170%	140%	155%	1.2
F / Consumer	Minor Food Group	114%	150%	132% Median	0.76
G / Pharma	Millipore	84%	60%	72%	1.4
H / IT Service	DataCraft	100%	25%	62%	4.0
I / Consumer	Grupo Modelo	38%	46%	50%	0.8
J / Process	AKSA	34%	29%	31%	1.2
K / Pharma	Merck	19%	21%	22%	0.9
AVERAGE		**182%**	**120%**	**150%**	**1.5**

* Growth in shareholder value is estimated to be average of three-year growth in revenues and growth in profits.

FIGURE 2: *HALL OF FAME FINANCIAL PERFORMANCE*

This figure shows profit-to-sales growth ratios, over a three-year period, for eleven Hall of Fame organizations.

Strategic Financial Goals

The financial framework, as shown in Figure 1, is dominated by shareholder value. The creation of value for the owners of the organization is the ultimate measure of success in the private sector. There was no single common measure used by the HoF companies. For organizations that were building a management system for their entire enterprise, measures like "market value," "stock price," and "earnings per share" were used. For organizations building a system for a subset of the enterprise (e.g., a division or a group), measures like "return on invested capital" were used. Shareholder value is generally a derivative of two drivers—growth in profits and growth in revenue. For example, the classical DuPont ROI model divides performance into these two components:

$$\left(\begin{array}{c}\text{RETURN}\\ \text{ON}\\ \text{ASSETS}\end{array}\right) = \frac{\text{PROFITS}}{\text{SALES}} \times \frac{\text{SALES}}{\text{ASSETS}}$$

Reviewing the performance of our Hall of Fame companies, we noted that Infosys Technologies, the Indian IT services firm (outsourcing, consulting, systems integration, etc.) embarked upon a growth strategy intended to make it the top provider in its niche. During its four-year performance period, revenue jumped 310% while profits grew by 289%. Earnings per share (the surrogate for shareholder value) grew by 305%, approximately the average of the revenue growth and profit growth. Grupo Modelo, the Mexico-based brewer and distributor of beer and bottled water, saw sales increase by 46% and profits (EBITDA) grow by 38% over the three-year performance period. The stock price (shareholder value) grew by 50% over the period, approximately the average of the sales growth and profit growth.

4 *James Collins and Jerry Porras, p. 93 in* Built to Last: Successful Habits of Visionary Companies *(Harper, 1994).*

Figure 2[5] summarizes the financial performance of 11 Hall of Fame organizations. There are three takeaways in this data set:

(1) *Level of Improvement*. The absolute level of improvement in both sales and profits was impressive. The average sales growth was 120% (over three years) while the average growth in profits was 180% (four years).

(2) *Balance*. The growth rate in profits exceeded the growth rate in sales for two thirds of the companies. This ratio, shown in the right-hand column of Figure 2, seems to reflect the nature of the company's assets and the way they are competitively deployed. The average company in our Hall of Fame sample showed a profit-to-sales growth (PSG) ratio of 1.5.

Companies with PSG ratios greater than 1 tend to have either excess capacity or intangible assets that can be converted to profits relatively quickly. Consider Lakshmi (PSG = 2.0), an Indian manufacturer of textile machinery. With 3,500 employees, it serves 60% of India's $35 billion textile market. The primary barrier to success was the cyclicality of the market. Lakshmi developed a strategy to sustain domestic market leadership by providing competitive products with cost-effective solutions. Key to creating this "recession-proof" strategy was getting everyone in the company's divisions, businesses, and support units to work toward the same corporate-level objective—a job for the Balanced Scorecard.

DataCraft (PSG = 4.0) is another example. This Singapore-based provider of IT solutions and services employs 2,500 people at 55 locations in 13 Asia-Pacific countries. Its strategy was to reposition itself from a product reseller to a solutions provider. Key to the strategy was to standardize the company's business model and management metrics across multiple countries—a job for strategy maps and Balanced Scorecards. These tools and frameworks allow DataCraft to rapidly reposition intangible assets and create impressive financial results.

Company	CUSTOMER SATISFACTION Before » After (3 years)	% Improvement	CUSTOMER DISSATISFACTION* Before » After (3 years)	% Improvement
SOHO	40 » 80%	100%	60 » 20%	67%
Deposit Trust	73 » 91%	25%	27 » 9%	67%
Minor Food Group	92 » 97%	5%	8 » 3%	60%
Borusan	57 » 81%	42%	43 » 19%	56%
DataCraft	82 » 92%	12%	18 » 8%	55%
AKSA	81 » 91%	12%	19 » 9%	52%
AAFES	62 » 72%	16%	38 » 28%	25%
Dongwha	58 » 67%	16%	42 » 33%	21%
Rainbow Stores	78 » 80%	3%	22 » 20%	10%
AVERAGE		**24%**		**46%**

* Customer Dissatisfaction (CDS): The percentage of customers who do not identify themselves as "satisfied" (CS); (CDS = 1 – CS)

FIGURE 3: *HALL OF FAME CUSTOMER PERFORMANCE*

This figure shows improvements in customer satisfaction and reductions in customer dissatisfaction for nine Hall of Fame organizations.

On the other hand, companies with PSG ratios less than 1 tend to have strategies that are capital intensive or that have significant dependence on channel partners. These, in turn, tend to see slower growth in profits than the aforementioned companies. For example, Grupo Modelo (PSG = 0.8) has a strategy that involves the construction of a new brewery and restructuring a convenience-store chain in addition to the comprehensive development of new management processes. The capital intensity of its breweries and real estate holdings gave it a competitive advantage but at a slower pace than was observed in Lakshmi and DataCraft.

(3) *Growth in Value*. The HoF companies were not required to provide balance sheet data relative to shareholder investment. Thus, it was not possible to create an absolute picture of shareholder value. Instead of the absolute level, we focused on the rate of change in value. We further assumed that the change in value of an organization is, in part, a function of the change in the level of sales and a change in the level of profits. Our approximation of growth in value is the average of three-year growth in sales and in profits. Using this convention, Figure 2 shows the average three-year growth of shareholder value to be 150%. As a point of reference, one of the definitive research studies on the value of strategy execution showed that typical Balanced Scorecard users achieved three-year growth in shareholder value of 43% (compared with shareholder value growth of 15% in non-BSC users).[6] The 150% achieved by the Hall of Fame companies, a subset of the general population of BSC users, is 3.5 times greater.

The financial performance of the companies in the Hall of Fame sample provides a useful point of reference for organizations to set strategic targets and expectations. We offer the following guidelines for setting financial targets for BSC-based strategies:

5 The Balanced Scorecard Hall of Fame Report*, 2007–2010 published by Palladium Group, Inc., and Harvard Business School Press.*

6 *DeBusk and Crabtree, "The Effects of Adopting the Balanced Scorecard on shareholder Returns,"* Advances in Accounting, incorporating Advances in International Accounting*, 24 (2008) 8-15.*

The logic of the Balanced Scorecard approach is that successful financial performance results from the creation of satisfied customers. All the Hall of Fame organizations in our study had some way of measuring customer satisfaction.

- Set a financial BHAG that will double or triple shareholder value over a three-year period (Norm: 150%)
- Develop financial drivers for revenue growth (120%) and profit growth (180%) that support the BHAG

Customer Performance

The logic of the Balanced Scorecard approach is that successful financial performance results from the creation of satisfied customers (Figure 1). All of the Hall of Fame organizations in our study had some way of measuring customer satisfaction. For example, AKSA (the Turkish manufacturer of acrylic fiber) measures customer loyalty and market share. Cisco (the U.S. developer of software platforms) measures "Products that do not meet customer expectations." Culligan (the Argentine retailer of bottled water) measures the attrition of small and large customers. The measures selected tend to reflect the nature of the industry. For example, consumer retail businesses (like Rainbow Stores of China and Minor Food Group of Thailand) find mystery shopping to be a useful measure for evaluating franchises or stores. Merck, the global pharmaceutical company, measures the number and quality of its partnerships that create greater market access.

Although significant diversity exists for monitoring the customer, virtually every organization used some indicator of customer satisfaction. This measure is defined as "the percentage of customers who voice satisfaction with the product and/or the experience." This measure is generally developed through customer surveys, administered by external agencies (e.g., J.D. Power, mystery shopping). The ultimate objective for customer satisfaction is 100%, a number that can be approached but is seldom achieved. *Figure 3* shows the customer satisfaction scores of nine BSC Hall of Fame companies. The post-BSC scores show a high of 97% for Minor Food Group and a low of 67% for Dongwha (a South Korean manufacturer of particle board.) SOHO (Indonesian pharmaceuticals) showed the greatest percentage increase (from 40% to 80%), while Rainbow Stores (the Chinese retailer) showed only a 3% improvement (from 78% to 80%). The average rate of improvement for the nine companies was 24% (three-year interval).

The ability to interpret these performance data is clearly biased by the base-level performance. SOHO's base of 40% will permit higher rates of improvement than Minor Food (a base of 92%). To provide a framework more conducive to performance comparisons and target setting, we shifted the focus of the measure from "customer satisfaction" (CS) to its converse, "customer dissatisfaction" (CDS). Customer dissatisfaction is the percentage of customers who do not identify themselves as satisfied:

(CDS = 1 – CS)

Figure 3 shows the performance numbers in this new framework. Performance-level improvements range from 67% for SOHO and Deposit Trust Clearing (the U.S.-based post-trade clearinghouse) to 10% for Rainbow Stores. The average rate of improvement (a reduction in the level of dissatisfaction) was 46%.

Our conclusion, based on analysis of the customer satisfaction metrics, is that organizations using the BSC to drive financial performance (increased value of 150%) begin by reducing the level of customer dissatisfaction by approximately 50%. We offer the following guidelines for setting customer targets for BSC-based strategies: reduce the percentage of dissatisfied customers by 50% every three years.

Guidelines for Target Setting: Financial

- *Set a financial BHAG that will double or triple shareholder value over a three-year period (Norm: 150%)*
- *Develop financial drivers for revenue growth (120%) and profit growth (180%) that support the BHAG*

Guidelines for Target Setting: Customer

- *Reduce the pecentage of dissatisfied customers by 50% every three years*

This concludes Part I of this article. Part II (appearing in the March–April 2012 issue) will discuss the internal process perspective, and the learning and growth perspective. The case profile of Minor Food Group, immediately following this article, provides an integrated example of how execution and achievement measures combine in one Hall of Fame organization to yield phenomenal success.

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."*

To learn more

"BSC Adoption Boosts Shareholder Returns: Findings from a Recent Study by DeBusk and Crabtree." BSR *May–June 2010 (Reprint B1005C)*

"The Challenges of Target Setting," BSR *July–August 2007 (Reprint B0707D)*

"Choose the Right Measures, Drive the Right Strategy," BSR *May–June 2006 (Reprint B0605D)*

"Demonstrating the Value of Your BSC Program," BSR *January–February 2006 (Reprint B0601E)*

Reprint #B1201A

Minor Food Group

If you live in or travel throughout Asia, you might frequent one or more of the thousand quick-service or fast casual-dining restaurants owned by Thailand-based Minor Food Group (MFG). The company owns, operates, and franchises 10 brands: Burger King, Dairy Queen, NewYorkNewYork, Shokudo, Sizzler, Swensen's, Thai Express Concept, The Coffee Club, The Pizza Company, and Xinwang. Employing more than 11,000 people in Thailand, MFG is owned by Minor International and has restaurants in 13 countries, mostly in Asia. In 2010, its restaurants served 86.5 million customers, generated sales of $302.9 million, and posted a net profit of $18.6 million.

Launched in 1980 by Chairman Bill Heinecke, MFG originally consisted of one pizza restaurant. With an influx of Western tourists into Asia, Heinecke foresaw growing demand and began acquiring popular franchised brands—Pizza Hut, Dairy Queen, and Burger King, among others.

Reshaping Strategy to Minimize Key Risks

MFG's business boomed, along with Thailand's economy overall, until 1997, when a series of misfortunes made it clear that the company needed to strengthen its risk management efforts. That year, the Thai baht collapsed following the government's decision to float the baht, cutting its peg to the U.S. dollar.

Another major setback came in 2000, when MFG lost the Pizza Hut franchise after a drawn-out court battle over a franchising-rights contract. The company's market capitalization was decimated, and MFG was taken off the Thailand Stock Exchange. Six years later, the Thai government fell in a military coup, which spawned political instability and loss of consumer and tourist confidence in Thailand, resulting in significant sales losses.

Shaken by these blows, as well as by intensifying competition in Thailand's quick-service restaurant industry, MFG's executive team realized that the company needed a strategic makeover to mitigate risk. MFG wanted to maintain its long-time emphasis on operational excellence—which, in the quick-service restaurant business, hinges on three key metrics: quality, service, and cleanliness (QSC). But executives believed that the best way to inoculate the company against risk was to aggressively expand its geographical footprint to fuel growth in Asia—especially in China and India—as well as in other markets, such as Eastern Europe and Africa. This expansion would come through strategic acquisition of restaurant brands and proliferation of company-owned and franchise outlets.

Driving Strategy Management from the Top

In 2007, MFG's executive team implemented the Balanced Scorecard to support the company's strategic makeover. The corporate strategy map and scorecard were developed in August that year and were cascaded to the brands and support units in September.

Forty-five percent of the corporate map's strategic objectives (10 of a total of 22) resided in the internal process perspective, organized by strategic themes that included Operational Excellence, Human Capital Development, Organizational Capital Development, and Partnership Management. Strategic initiatives vary across the brands and strategic themes. For example, initiatives launched by The Pizza Company to support the theme of Operational Excellence have included creating a chef academy and dough master program, as well as establishing a preventive equipment maintenance program.

MFG's executive team actively leads strategy formulation and execution. For example, the head of the Office of Strategy Management (OSM) reports directly to the CEO. And a strategy committee led by the CEO and COO facilitates workshops to communicate strategies to vice presidents, general managers, and directors so that these leaders can formulate unit strategies and execution plans. Twice a year, the COO presents MFG's strategy on talent management and succession planning to the board, a reflection of the company's emphasis on human capital development as a pillar of its organizational strategy.

Linking Performance Management to Strategy

MFG excels at linking its performance management practices to its strategy management framework. For instance, department heads' performance is reviewed monthly, not just at the end of every year. Those who achieve monthly performance targets receive an incentive, a practice that fosters year-round consistency in performance.

MFG also aligns personal development plans with strategy. For example, to improve performance in key areas of

MFG's disciplined approach to strategy management has netted it impressive results, including improvements in financial performance, brand strength, process efficiencies, and workforce morale.

MINOR FOOD GROUP: STRATEGIC RESULTS (THREE YEARS)		
FINANCIAL	+114% Profits +132% Shareholder Value +150% Growth	Thailand Mid-Cap Corporate of the Year
CUSTOMER	• Mystery Customer Survey Up (96% » 97%) • Brand Perception Index Up (95% » 100%)	• Best Franchiser of the Year (Ministry of Commerce Award) • Asia's Best Brand (CMO Asia)
PROCESS	• Franchise Satisfaction Up (76% » 89%) • Quality/Service/Friendliness Up (88% » 89%) • Supply Chain Delivery Up (93% » 97%)	• Operations Excellence/Critical Food Safety Award (Burger King)
LEARNING	• Employee Satisfaction Up (85% » 90%) • Key Talent Retention Up (74% » 100%)	• Top Ten Best Managed Company (*FinanceAsia*) • Asia's Best Brand (CMO Asia)
	EXECUTION MEASURES *Measures that drive performance*	**ACHIEVEMENT MEASURES** *Long-term external measures that indicate a sustainable ability to grow*

FIGURE 1: *EXECUTION AND ACHIEVEMENT MEASURES FOR MINOR FOOD GROUP*

This example shows how the profit measure and growth measure combine for an overall increase in shareholder value of 132%. Minor Food Group achievement measures include several best-of-class awards (Best Franchiser, Best Brand, Best Managed, and Best Employer).

responsibility such as revenue, QSC, and change leadership, a manager's supervisor might help him or her craft a plan that includes coaching or enrollment in leadership training sessions. Employees set their own personal scorecard targets, which are reviewed and approved by their supervisors. The scorecards are sent to human resources and the OSM. Managers and directors present their individual milestones in brand meetings and quarterly reviews so that progress can be monitored.

Executives and managers are also evaluated as possible successors for key roles at the manager, director, VP, and C-suite levels. Candidates can be designated as "move" (potential to advance in the next year), "grow" (potential to advance in more than one year), "build" (continue developing skills in current role), "must improve" (limited potential), or "to be replaced" (unacceptable performance).

Connecting Strategy to Operations

MFG maintains a steady flow of information between strategy and operations review meetings. At monthly executive committee meetings, executives review progress on MFG's strategy execution. At three-day quarterly strategy and operational reviews, each brand's general manager reports performance on the brand's strategic initiatives. General managers then communicate information from the quarterly strategy reviews to the operational staff at their brand's weekly and monthly meetings.

To ensure that strategic initiatives receive adequate funding, MFG established a separate strategic expenditures (StratEx) category in its budget. It uses driver-based budgeting with rolling forecasting—identifying root causes underlying performance shortfalls and using those findings to define needed strategic initiatives.

MFG's disciplined approach to strategy management has netted it impressive results, including improvements in financial performance, brand strength, process efficiencies, and workforce morale. Employees at all levels now know what the company's strategic priorities are and how they can help fulfill them. Because top performers are rewarded, the work environment is perceived as fair. And people throughout the organization now have a deeper understanding of how MFG operates.

MFG has also been able to weather instability and risk. In 2008, for example, political upheaval in Thailand led to closure of the nation's airports—threatening to shut down the tourism industry and significantly affecting Thai consumer confidence. MFG not only survived the crisis by adjusting and realigning its strategies but also scored a profit increase of 72% in 2009. That year, it also made gains in sales growth and market share, while its biggest competitor saw sales and market share decrease.

As OSM director Charles Clinton puts it, "The BSC has contributed to our phenomenal success and has truly made a difference to Minor Food Group from the strategy execution perspective." ■

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Reprinted from Palladium Balanced Scorecard Hall of Fame Report 2011.

Social Media for Strategy-Focused Organizations

By Vanessa DiMauro and Adam Zawel

Social media are useful for more than just social connectivity and entertainment. Political revolutionaries are using social networks to topple regimes (e.g., Egypt, Tunisia), and angry customers can launch social-media campaigns against organizations (e.g., the Dell Hell blog). Organizations can do more than simply react to society's embrace of these new capabilities. In the hands of a Strategy-Focused Organization, Web 2.0 technologies become "social business" tools and processes, and enable collaboration among employees, partners, and customers. In this article, we focus on the significant benefits that leading organizations are realizing from the integration of social business processes with strategy management frameworks. In particular, we learn how social businesses have tackled some of the perennial challenges of implementing the Kaplan-Norton Management System, including building effective strategy maps, achieving alignment, and gaining the Execution Premium. We use the term "Social" to denote the class of new and emerging tools that enable new forms of communication and collaboration.

Designing the right internal objectives within the process perspective of the Balanced Scorecard, leading to market success in the customer perspective, is a key challenge. In this article, we learn from SAP how the use of an online community with customers and partners can improve the feedback loop on product innovation and help close the gap between internal processes and external customer objectives.

In large organizations, even when a Balanced Scorecard has been rolled out properly, silo mentalities and communication breakdowns can also represent significant obstacles. Alignment is a significant challenge facing many organizations. We learn from New Zealand Post how to structure conversations in online employee communities to communicate strategic objectives and overcome impediments to alignment.

Technology, when used properly, can support the strategic objectives of an organization. Infosys, as part of its Strategy Surround initiative, integrated Social tools with its all-encompassing change process. Social has become an integral part of its efforts to achieve superior economic returns from better strategy execution (the Execution Premium).

Social for Better Strategy Maps

Until recently, most organizations believed that Social was primarily a marketing tool to be used by "millennial" staff to drive traffic to webinars and serve other marketing purposes. However, a number of organizations have begun integrating social business processes into the value chain in a more strategic way.

Social can enable strategy execution by facilitating communications and information exchange with customers and partners. From accelerating research and development efforts to deepening product adoption and customer retention efforts in a more dynamic 24/7 environment, leading organizations are now using Social business processes to support and accelerate their strategy execution programs.

Social business processes sit at the collaborative intersection of business needs and customer desires. This intersection goes well beyond social-media marketing and gets at the heart of the core processes that are integral to an organization's strategic success. For Social business to be successful, it must solve a real business problem or make a business process easier using the online channel.

Case Study: SAP

SAP is a software system used to enable financial, manufacturing, distribution, and other critical operations. Based in Walldorf, Germany, SAP is a $17 billion company. The company's technology has long been complex. Therefore, the goal of helping prospective and current customers understand what it is, how to realize its potential, and how to adapt it internally has fueled considerable marketing, R&D, and service investment over the last 20 years.

One SAP executive board member, Shai Agassi, believed that SAP could sell its products more efficiently if customers, business partners, and SAP itself could teach one another about their experiences with the system. That kind of education typically would happen (and did) at company customer events such as Sapphire. But Agassi wanted such experience sharing to happen all the time.

In 2003, the company began building its online customer community (the SAP Community Network or SCN). Today, the firm has five separate online communities under the SCN umbrella: for software developers, business process experts, universities, customers of its Business Objects products, and partners. SAP's online customer communities have more than 2 million members from over 150 countries. New community members sign up at a rate of more than 30,000 per month. All told, community members see 6,000+ messages posted in the various communities every day, and their questions get answered quickly: 17 minutes is the average time before a first reply comes in.

Many SAP customers love having so much expertise about the company's complex products so readily at hand. "It has allowed us to save a lot of time and resources and . . . to get a deliverable solution much faster than we would have otherwise without the community," says an IT manager at the Walt Disney Company, in a video on the SAP website.

The value to SAP (and its network of business partners) is the opportunity to generate more business. For example, current customers, who more readily understand the value of SAP's products, are likely to buy more once they have heard new products touted directly by other customers in the online community. Says Mark Yolton, SAP's senior vice president of the SCN, "Being engaged in community and social media has brought SAP tremendous benefits, including product adoption, market penetration, and so on . . . I know that these communities have brought SAP tremendous financial and non-financial benefits."

Social for Better Strategic Alignment

One of the more challenging aspects of strategy execution is aligning the strategic vision with staff execution. In more socially active organizational cultures, the internal community has a better chance of embracing the strategy of the organization in actionable ways on a daily basis. The question becomes how to go about creating a socially engaging environment. Often, the message becomes diluted. Staff members don't always understand the nuances of the vision and often do not have forums for exploring what the strategy means to

"It (the Social network) has allowed us to save a lot of time and resources and . . . to get a deliverable solution much faster than we would have otherwise without the community."
—IT manager at the Walt Disney Company

them. The workforce is often at a loss for finding the best ways to perform work that aligns with the strategic direction. This is where Social can play a starring role as a platform for strategy communication. It offers an opportunity for executives to clearly articulate the vision, not just at staff meetings, but publicly and in an ongoing way using internally facing social-media tools. It also can enable staff to have a voice, share concerns, and raise issues related to strategy execution. By creating a platform for internal knowledge exchange, internal teams can support one another, share ideas and resources, and express misunderstandings and questions in a way that can be addressed in real time.

Case Study: New Zealand Post Group

New Zealand Post Group is a group of businesses that provide communication and business solutions in New Zealand and Australia, including the core mail business in addition to banking and digital communication services. New Zealand Post Group is also a leader in strategy execution. In 2009, Kiwibank, the consumer banking subsidiary of New Zealand Post Group, won the Palladium Balanced Scorecard Hall of Fame for Executing Strategy®.

According to the Strategy Execution Hall of Fame Report 2010:

"After it became clear that assigning individual executives to be 'objective champions' only perpetuated the silo mentality, Knowles [Kiwibank CEO] created cross-functional theme teams structured around the bank's four strategic themes: Excellence in Business Processes, Sales and Service Leadership, Sustainable Growth, and Learning and Growth . . . Thanks to these changes, the BSC ultimately became an organization-wide framework for action—a reporting, management, and communication tool embedded throughout every level."

With 17% of the workforce assigned to these strategic teams, the question emerged, "How can you coordinate the communication and work flows across such a large and newly formed group?"

Not surprisingly, Kiwibank, and the parent organization, NZ Post Group, were quick to recognize the opportunity to leverage Social to aid this silo-busting exercise. NZ Post decided to leverage third-party technologies to build communities.

In 2010 and 2011, NZ Post invited employees to join two community platforms:

1. Using intranet collaboration technology, the company launched a private community open to all employees to discuss issues from social to business. All employees have been encouraged to join.
2. Using private group functionality within their Social platform, the company launched a collaboration space for members of the extended strategy execution team. The purpose is specifically to overcome strategic alignment roadblocks and mobilize senior and middle management.

According to Craig Holloway, head of Strategy Execution at Kiwibank:

"We are finding the NZ Post Group [Social platform] to be a powerful channel for strategy communication and an effective platform for discussing and overcoming obstacles in strategy execution. This is the first time we have really been able to make strategic connections across our businesses."

Use Social to Achieve the Execution Premium

Organizations that succeed in this new environment are able to leverage information and relationships gathered through the Social channel and apply them throughout the organization's value chain. Social can be used to solve specific problems in the strategy execution process, such as tightening the customer feedback loop or facilitating internal alignment. Social, however, can be applied even more broadly to help organizations execute strategy.

"We are finding the New Zealand Post Group [Social platform] to be a powerful channel for strategy communication . . . This is the first time we have really been able to make strategic connections across our businesses."
—Craig Holloway, head of Strategy Execution, Kiwibank

Case Study: Infosys

Infosys is a very successful software and services company with more than 100,000 employees. It holistically incorporates Social into its strategy execution process. By using Social as part of its strategy development and communications approach, the company has changed its culture by including more people, especially younger employees, in the strategy development and execution process. Younger employees are typically more comfortable with Social business processes, as they have been educated in a more collaborative learning environment. This broader inclusiveness—engaging younger employees in strategic discussions—was itself a strategic goal at Infosys.

Infosys wanted to "change the rhythm" of work. It didn't want to "prepare the same code and catch the same bus," says Sanjay Purohit, vice president and head of Corporate Planning and Business Assurance. To accelerate the company's strategy execution program (called "Strategy in Action Planning " or STRAP), Infosys developed "STRAP Surround." STRAP Surround, which began in 2010 includes a Social platform with blogs and discussion forums, and a range of physical activities (games, cafeteria information, and various forms of interaction) that engage employees. Both the Social and physical components of STRAP Surround are intended to increase awareness of the strategy and improve the company's performance. Infosys learned that engagement in any messaging or social platform must be associated with offline physical activity. "Life has to change," says Purohit. The expectation that "people will come and talk about strategy, and things will change is a dream. People have to interact in the physical world for real meaningful change to happen."

For Infosys, Social is no longer an experiment. Infosys learned from two previous initiatives that Social should not be treated as a stand-alone experiment, but rather must become an integral part of the strategy execution program. Within the STRAP Surround program, the Social channel was especially effective in bringing the discussion to the enormous workforce, including thousands of employees who were joining the company each year. Infosys developed an in-house version of YouTube. (This is a technology company after all, so it enjoys building its own tools.) The video channel enabled chief executives to share their views and get everyone on the same page.

But the true power of Social is in the opportunity for interactivity. Infosys wanted executives to preach, and employees, especially young employees, to respond and participate. The executives, in turn, had to react to this input from the workforce. In a culture that typically respected older employees, Social became a channel in which the young felt empowered and welcomed to participate. The Social medium became the democratizing force that Infosys wanted it to be.

In one particularly successful example of the use of Social with other communication channels, tens of thousands of ideas were shared online after 46,000 employees participated in a variety of live events related to a strategy execution topic. Infosys found that employees related better and participated with more specific answers once the dialogue was structured and moderated. Social facilitators found it useful to encourage employees to respond online to specific questions related to strategic themes such as technologies for future growth, asset efficiency, digital consumer, pervasive computing, and healthcare.

To keep the momentum flowing after the initial input from employees, discussion moderators individually thanked contributors for their suggestions. Each comment was forwarded to a theme owner for further development. As an enticement and reward for particularly passionate and useful suggestions, theme owners chose some employees to become members of their theme teams. Keeping the spirit of the online collaboration, these theme teams continue to collaborate in subcommunities online.

Infosys says it is "just getting started" and is now sharing its experiences with Social with its strategic partners. This is not surprising, since Infosys is a leader in sharing and integrating many of its own processes with partners.

Lessons Learned

Effective Social business approaches can connect people, processes, and technologies in ways that strengthen an organization's competitive position and increase its brand value with customers, employees, shareholders, partners, and other stakeholders. Here are four wins that Social can deliver:

1. Accelerate innovation of products and services. Opportunities exist for companies to engage with customers via social media to test concepts, elicit feedback, and validate ideas through "collaborative influence." This is a powerful way to capture insights that can improve existing products or services and identify needs that can expand business opportunities. This move to Social, or "collaborative influence," requires a shift in sales, marketing, and development philosophy for most companies.

2. Strengthen customer loyalty. Social business provides the opportunity to strengthen customer loyalty. For example, organizations that use online communities now have an opportunity to open a dialogue at any time in the customer lifecycle—not just at the point of sale—to find out what customers like and don't like about a product or service. Nothing is more dangerous to an organization's brand or product than dissatisfied customers who, today, can activate a global voice. Yet many organizations may not be aware of customer issues until they have incurred significant reputational damage or a decline in revenue.

3. Improve strategic alignment and increase employee productivity. Research conducted by The Society for New Communications Research (www.sncr.org/research) has found that many professionals are collaborating more outside their organizations than within, a result of social media. This is a significant issue for many companies and executives, who may not fully understand or appreciate the value derived through adoption of social-media tools and approaches for internal use.

4. Attract and retain star staff. The future of business lies in the hands of today's millennial generation. The expectation of pervasive digital connections means they have a distinct outlook on collaboration, and enterprises must accommodate this desire to attract and retain them.

As the political revolutions that leverage Social show us, Social is powerful. Social gains power when online discussions lead to "engagement" in the street. Infosys and other leading organizations are discovering the same dynamic in the business environment. Social leads to and accelerates activities that are taking place offline in the real world. It can be the glue between your company and its customers, a way of breaking through barriers to allow alignment to happen, and an accelerator for transformation throughout the organization. ■

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Adam Zawel is the director of Palladium's online Execution Premium Community (XPC). Zawel moderates discussions and connects community members from more than 1,500 organizations to facilitate sharing of strategy execution best practices. Zawel works with client organizations to help them use social media and their corporate intranets to effectively communicate and execute strategy.

To learn more

"Customer Intimacy on Steroids: Why B2B Companies Need to Build Online Communities for Their Customers" is an article/slideshow by Vanessa DiMauro and Robert Buday and is available at ***http://slidesha.re/rVxqIc.***

Also, you can download a Social strategy map at ***http://blog.leadernetworks.com/2011/02/how-to-map-out-your-social-business.html.***

"Infosys' Relationship Scorecard: Measuring Transformational Partnerships," by Katherine Miller, Robert S. Kaplan, and F. Asis Martinez-Jerez (Harvard Business School, 2008).

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Managing Projects in Turbulent Times

By Ed Barrows and Andy Neely

Strategic initiatives are major drivers of organizational progress and are designed to transform enterprise processes or knowledge assets. Unfortunately, many initiatives suffer from poor project management—they are launched without clear business cases, paid too little attention from senior leaders, and managed without strong project governance. The costs of these and other mistakes are significant. In this article—an excerpt from their new book Managing Performance in Turbulent Times: Insight and Analytics*—performance management experts Ed Barrows and Andy Neely describe four practices organizations can implement right away to improve their project management and, in so doing, improve their overall strategy execution.*

Utter the words "project management" to senior managers and thoughts of detailed project plans, excruciating milestone reviews, and painful budget overruns are brought to mind. Although project management is essential to organizational effectiveness, many executives shudder at the thought of digging into the particulars of how they manage vital projects. Top managers feel that project management—and certainly the details thereof—are better left to the rank and file far from the influences of the boardroom. But it is this attitude that prevents many organizations from becoming the effective project executors they need to be. In today's environment, where conditions are changing rapidly and in some cases unpredictably, managers need to be attuned to their organizations' major projects so projects can not only be completed but also dynamically managed to deliver the results needed across the entire business. In this article, we discuss how organizations can improve project management activities and in so doing yield improved business results.

State of the Practice—In Need of an Overhaul

Every year, organizations spend tens of billions of dollars on initiatives—high-level projects intended to transform their enterprises. Some are classic operational improvement initiatives, such as Lean Six Sigma applied in manufacturing. Others are truly transformational, like redesigning the new-product development process. Regardless of the particular type, many of these initiatives are victims of poor project management. These projects are poorly designed, misaligned from important organizational objectives, and badly managed by senior executives—to name just a few of the challenges that major initiatives suffer from in organizations. In fact, in a study of more than 10,000 projects within 200 companies and across 30 industries, consultants for PricewaterhouseCoopers (PwC) found that only 2.5% were completed on time, within scope, and with the intended business benefit. Further, PwC found that 60% of organizations said they wanted to improve their project management maturity.[1] Clearly, this isn't great news. But with as few as four basic changes to project management practices, we've found that organizations can significantly tip the odds in their favor. We'll talk about each of these after we review the factors for project success.

Seven Factors for Project Success

To set the foundation for improved project management, it's important to understand what contributes to a project's success. According to researchers Richard Discenza of the University of Colorado and James Forman of Microsoft in a paper presented at the proceedings of the Project Management Institute, seven factors need to be present for project success.[2] They are as follows:

1. Focus on business value, not technical detail.
2. Establish clear accountability for measured results.
3. Have a consistent process for managing unambiguous checkpoints.
4. Have a consistent methodology for planning and executing projects.
5. Include customers at the beginning of the project and involve them as things change.
6. Manage and motivate people so that project efforts will experience a zone of optimal performance.
7. Provide the project team members the tools and techniques they need to produce constantly successful projects.

Source: Richard Discenza and James Forman, "Seven Causes of Project Failure: How to Recognize Them and How to Initiate Project Recovery."

Discenza and Forman note that the seven factors can be grouped into three broad categories: people, process, and communication. We will keep these categories in mind as we present the best practices we see in project management used today.

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1 *A. Nieto-Rodriguez, D. Evrard, "Boosting Business Performance Through Programme and Project Management," PricewaterhouseCoopers. Belgium, 2004.*

2 *R. Discenza, J. Forman, "Seven Causes of Project Failure: How to Recognize Them and How to Initiate Project Recovery," PMI Global Conference Proceedings, Project Management Institute, New York.*

1. Show Me the Business Case

It is not uncommon for organizations to launch projects without a clear business case. When we say business case, we mean more than just the rationale that explains why the project is being started. Almost every project launched in an organization has some rationale—to improve the order fulfillment process, to build employee business acumen, or to improve internal communications are examples. But what projects often lack are particulars like a clear purpose, the direct linkage to critical objectives, the explicit documentation of intended benefits, and a host of other information types essential to the project's ultimate success.

Business cases are not developed because, in a word, they are difficult. For many managers, it seems easier to launch a project and worry about the benefits later than take the time up front to construct the business case. And, although projects consume large amounts of time and energy, developing a business case to justify the project does not. We have never run across an organization that has complained it is spending too much time on business cases. Recall the survey cited earlier that found only 2.5% of the projects sampled delivered the full benefits intended. Business cases are the best tools available to tip the scale in favor of project success.

A good business case contains a set of critical information. An example of a one-page business case format is shown in *Figure 1*.

As shown in the graphic, a business case contains a section that provides the project's basic information. It also contains strategic information about the project as well as basic financial information such as cost, revenue increase, and NPV. The business impact should be identified as well in both qualitative and quantitative terms. If several different options are under consideration, each should be summarized and evaluated at a high level. Actual costs in terms of time and money should be described

Basic Information	
Project Name:	Date Submitted:
Project Description:	Project Owner:
	Project Sponsor:

Strategic Information	
Linked Objective(s):	Impact on Objective(s):

Financial Information				
NPV: Time to Payback:	Year 1	Year 2	Year 3	Year 4
Revenue Increase ($)				
Cost Reduction ($)				
Cost To Implement ($)				

Summary Project Information																								
Milestones	Year 1												Year 2											
	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12
TBD																								
TBD																								
TBD																								
TBD																								
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FIGURE 1: *SAMPLE BUSINESS CASE FORMAT*

It is always helpful to create a business case for every strategic initiative or project. Identify the relevant strategic objective and financial benefits that the effort will produce. Milestones help determine whether the project is on track or whether it needs to be modified to achieve its intended impact.

over the project period along with a high-level project plan. Risks can be discussed along with assumptions and key constraints in the project description. Depending on the needs of the organization, other fields can be added as well.

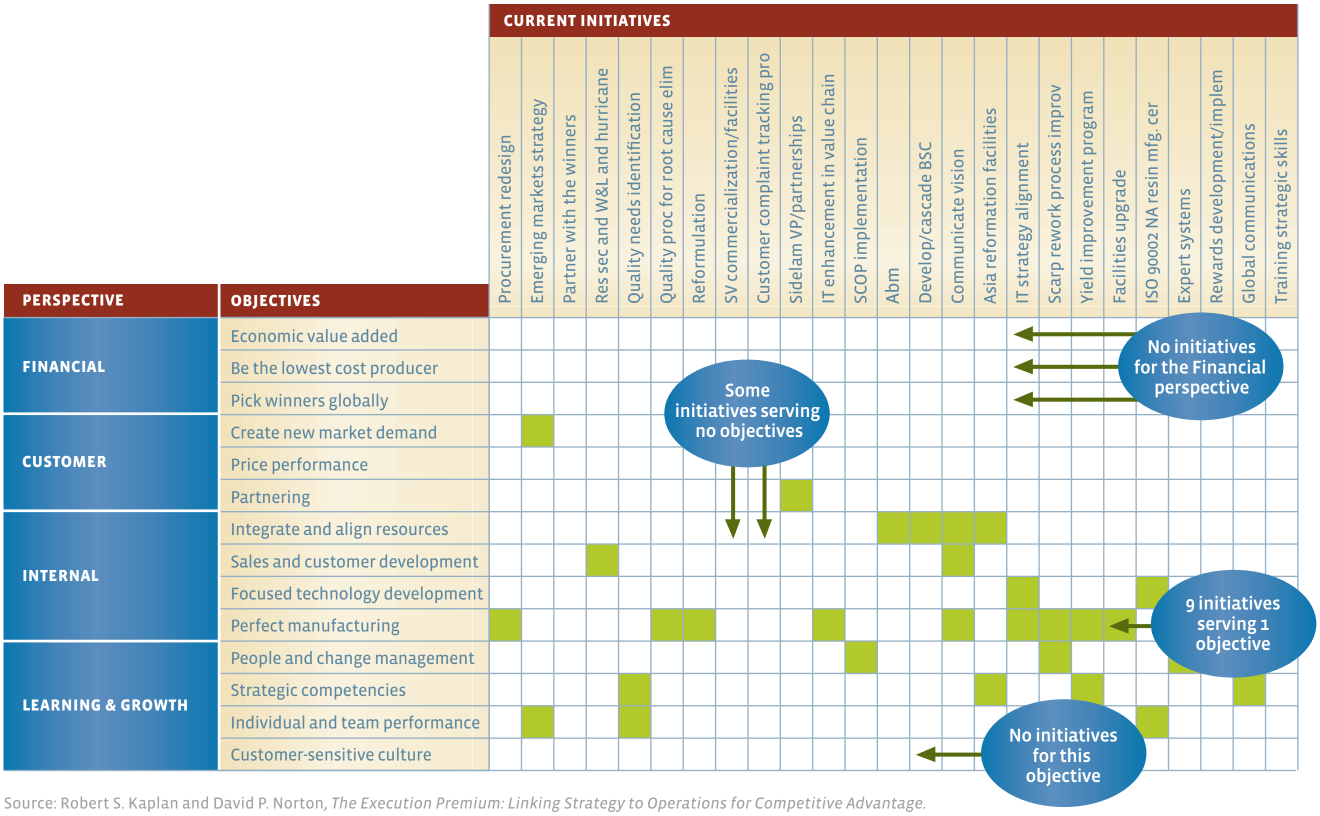
Business cases are not new. But many organizations lack the discipline to use them effectively. We find they are essential to structuring for success in the world of fast-paced performance management.

2. Use Project Alignment Tools

Because it is commonplace for managers to launch projects without the use of business cases or other project structuring tools, the result is a proliferation of projects throughout organizations. From the PwC study cited earlier, 42% of the 200 respondents ran more than 50 projects per year and 26% ran a whopping 100 per year or more. Only 10% of organizations in the sample managed fewer than five. This "peanut buttering," or the spreading of finite resources across a large number of projects, is a possible explanation for why project failure rates in organizations are so high.

One way organizations improve project effectiveness, especially in the case of strategic projects, is by aligning projects to strategic performance objectives. This involves collecting projects and matching or mapping them to high-level objectives. In their book, *The Execution Premium*, Balanced Scorecard creators Robert Kaplan and David Norton present what they call an initiative alignment matrix. An example is shown in *Figure 2*.

What this simple matrix enables organizations to do is see where alignment exists between major projects and critical objectives. Where there is overage, an opportunity exists to rationalize projects. When gaps are present, this may indicate a need to add projects. Although the tool won't make the decision, what it does do is force managers to consider where projects align to their key objectives. Other tools similar to this matrix exist, but this is one of the more useful ones available.



Source: Robert S. Kaplan and David P. Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage.*

FIGURE 2: *INITIATIVE ALIGNMENT MATRIX*

Strategic initiatives should be rationalized by examining how they align with the full set of strategic objectives. In this example there are initiatives that don't align with any strategic objectives and there are objectives that are not supported by any strategic initiatives. Financial objectives typically do not have initiatives assigned to them.

3. Form Executive Project Teams

In a 2006 survey of almost 800 executives, consultants McKinsey and Company found that only 56% of respondents track execution of their strategic initiatives. This is unfortunate, given that the primary drivers of progress in an organization are the vital projects we're discussing here. One of the best ways to improve project execution is through the development of project teams staffed with key executives. Executives at the top especially need to maintain responsibility for the critical work of the organization, and that critical work is many times in the form of projects.

The vital projects we're referring to are most often projects tied to the organization's strategy. Projects like entering a new market, accelerating development of a second-generation product, or deepening the bench behind the top team can represent the most important projects in the enterprise. Projects of this magnitude and importance must be managed by top leaders; otherwise, it sends the message to employees that they aren't very important. Where senior leaders are not involved, midlevel managers and rank-and-file employees will quickly lose interest, dooming the most important projects of the organization to substandard execution—if they end up being executed at all.

We have found that creating high-level project teams for each major project is a key driver of success. Usually the team is championed by an executive who maintains cognizance and overall accountability for the project. But other senior leaders can be accountable on the project as well—for specific action items, typically. Senior executive monitoring and management of these vital projects are important components of overall project management success.

4. Create Project Portfolios

The final observation we have found effective in practice is the organization of projects into discrete portfolios of projects with specific purposes. Although this technique itself is not new, its effective use is.

In June 2002, Lowell Bryan, director of McKinsey and Company, wrote an article titled "Just-in-time Strategy for a Turbulent World." In the article, Bryan points out that in the past, managers could analytically determine a company's strategy and then chart a course of action to get there. But in the turbulent world of today, he asserts that this approach is untenable. There are too many variables, and the world is far too complex to accommodate a static strategy.

> "Strategy today has to align itself to the fluid nature of this external environment. It must be flexible enough to change constantly and to adapt to outside and internal conditions even as the aspiration to deliver favorable outcomes for shareholders remains constant."[3]

Bryan highlights what he calls a portfolio of initiatives approach—putting projects into groups where they can be managed dynamically depending on the time frame the organization is operating in as well as the level of risk it is facing.

At the simplest level, projects can be separated into two categories—those that are strategic and those that are operational. Further, they can be subdivided into categories such as high and low risk or rapid or long-term payback. In reality, portfolios of projects can be created using a host of different criteria. The most important consideration isn't the specific factors used, but that projects are grouped using logical criteria that facilitate better management. In cases where projects don't align with the results desired by leaders, priorities should be changed, and the portfolio of projects should be managed accordingly.

A Final Note on Project Management: The Odds Are Against You

Despair.com is the purveyor of demotivating posters (offering an antidote to platitudinous success posters found in many organizations). One of its posters is titled "Overconfidence." The poster shows two skiers ahead of what appears to be an avalanche rushing toward them from behind. The caption reads:

> Before you attempt to beat the odds, be sure you can survive the odds beating you.

This quote provides a valuable summary point in the area of project management: The odds are against most organizations when it comes to effective project execution; the data we've presented bears this out. That said, managers need to take deliberate action to tip the scales in their favor. The four practices presented in this article provide a major step toward gaining the improved project focus that many organizations desperately need. ■

Ed Barrows is an authority and consultant on business performance. He holds adjunct teaching posts at Boston College, teaching Strategic Management and International Consulting, and at Babson College, where he teaches Operations and Strategic Management as well as executive education. Previously he held advisory positions at Deloitte, GE Capital, and The Palladium Group.

Andy Neely is an authority on organizational performance measurement and management. He is Deputy Director of the Advanced Instituted of Management Research, the UK's management research initiative. He also holds teaching posts at the University of Cambridge and Cranfield School of Management, where he teaches both full-time and executive-education courses.

To learn more

Ed Barrows and Andy Neely have just published a new book, Managing Performance in Turbulent Times: Insight and Analytics *(published by Wiley), from which this article was excerpted.*

Also, see:

"Rebalance Your Initiative Portfolio to Manage Risk and Maximize Performance," BSR *September–October 2008 (Reprint B0809D).*

"Leading in an Uncertain World: Make Better Decisions (and Make Decisions Better)," BSR *May–June 2009 (Reprint B0905C).*

"Maximize Your 'Return on Initiatives' with the Initiative Portfolio Review Process," BSR *May–June 2008 (Reprint B0805C).*

Reprint #B1201D

3 *L. Bryan, "Just-in-Time Strategy for a Turbulent World,"* McKinsey Quarterly *(2002).*

Solving the Cost Crisis in Healthcare

The biggest problem with healthcare isn't with insurance or politics. It's that we're measuring the wrong things the wrong way.

Robert Kaplan is famous for saying that there are two ways for businesses to make money: "sell more, or spend less." While strategy is often about growth (productivity), keeping costs under control (efficiency) is important for any organization. In "How to Solve the Cost Crisis in Health Care" in the September 2011 *Harvard Business Review,* Robert Kaplan and Michael Porter argue that improved measurement of outcomes and costs can lead to transformational improvements that will dramatically lower the cost of delivering high-quality healthcare. In the U.S., those costs are now nearly 17.5% of GDP.

Much of the rapid escalation in healthcare costs can be attributed to the fact that providers have an almost complete lack of understanding of how much it costs to deliver patient care. Thus they lack the knowledge necessary to improve resource utilization, reduce delays, and eliminate activities that don't improve outcomes. Pilot projects under way at hospital systems in the U.S. and Europe demonstrate the transformative effect of a new approach that accurately measures costs—at the level of the individual patient with a given medical condition over a full cycle of care—and compares those costs with outcomes. As providers and payers better understand costs, they will be positioned to achieve a true "bending of the cost curve" from within the system, not based on top-down mandates. The sheer size of the opportunity to reduce healthcare costs—with no sacrifice in outcomes—is astounding.

In the article, Kaplan and Porter debunk three myths: 1) Charges are a good surrogate for provider costs, 2) hospital overhead costs are too complex to allocate accurately, and 3) most healthcare costs are fixed. Instead, the authors propose that the way to create a cost measurement system is to:

1. Select the medical condition and/or patient population to be examined
2. Define the care delivery value chain
3. Develop process maps of each activity and the required resources in patient care delivery
4. Obtain time estimates for each process step
5. Estimate the cost of supplying each patient care resource
6. Compute the total costs over each patient's cycle of care

The Palladium Balanced Scorecard Hall of Fame for Executing Strategy® includes a number of leading hospitals and healthcare providers that have successfully executed their strategies in part by following the dictum, "no margin, no mission." To learn more about these organizations, visit the Palladium website: ***www.thepalladiumgroup.com***.

To learn more

To order Strategy Execution Champions: The Palladium BSC Hall of Fame Report 2011, *or* Healthcare: Prescription for Performance, a Balanced Scorecard Report Reader, *visit the Harvard Business Publishing website:* **www.hbr.org**.

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