

TOPIC #1: How To Describe Your Business Strategy

Financial Strategy



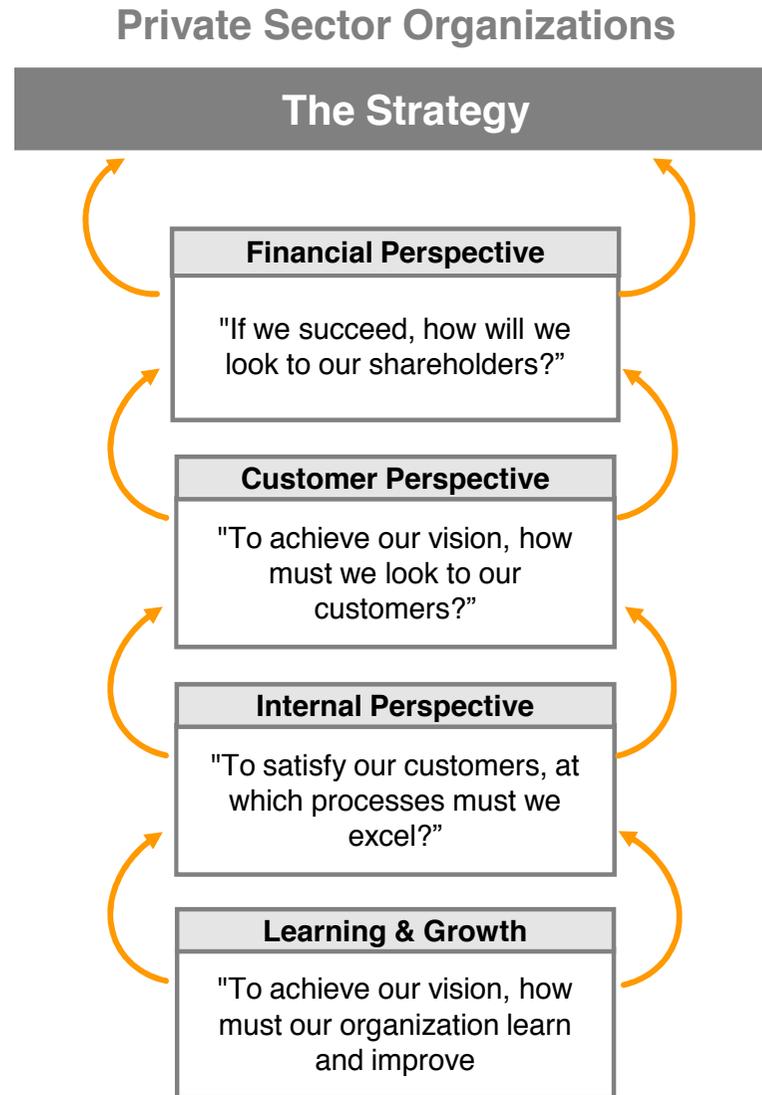
Business Strategy



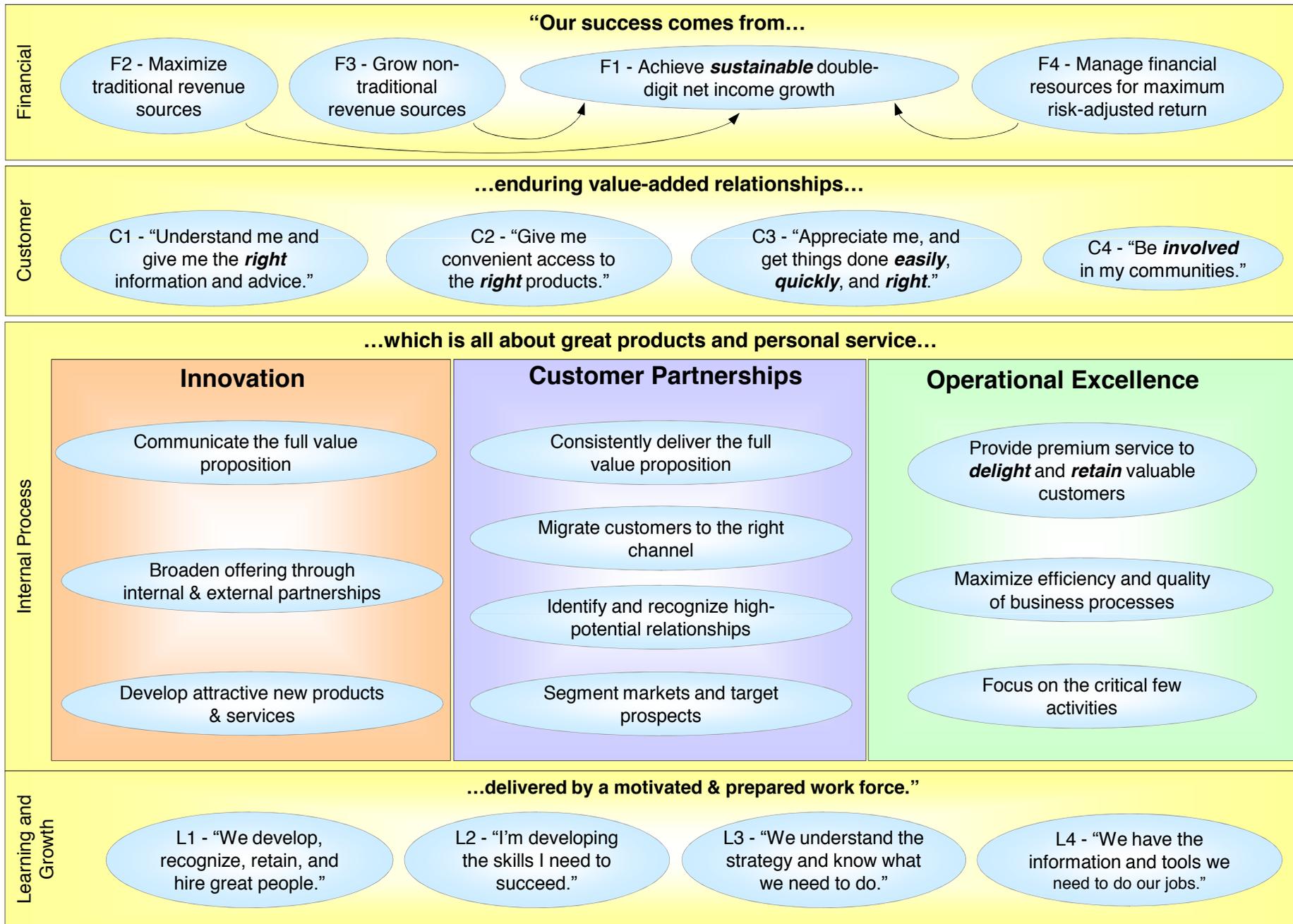
Strategy is how an organization intends to create value for its stakeholders.

Introducing Strategy Maps

*A simple model of the
value creation process*



Sample Strategy Map: Consumer Bank

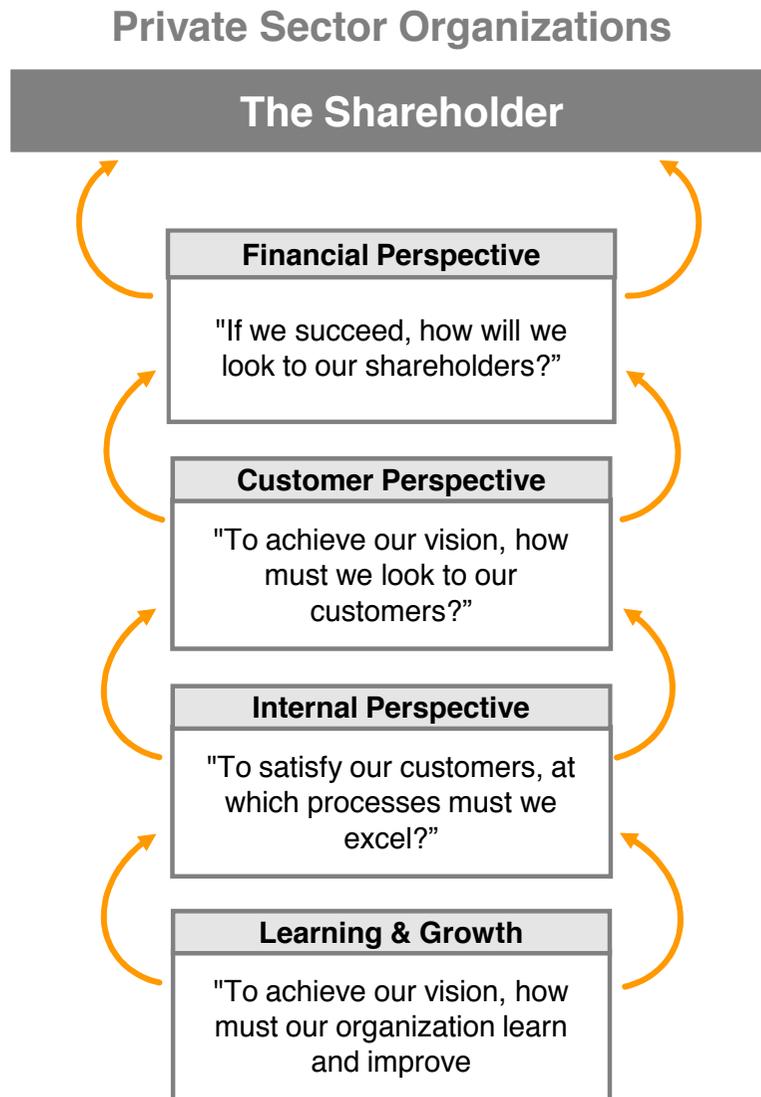


The Balanced Scorecard for Consumer Bank



Perspective		Strategic Objectives	Strategic Measures	Targets
Internal Perspective	Financial Perspective	F1 Increase earnings per share F2 Add and retain high value customers F3 Increase revenue per customer F4 Reduce cost per customer	<ul style="list-style-type: none"> Net income (vs. plan) Revenue mix (by target segment) Revenue per customer Cost per customer 	+\$100M 30%(A) 70%(B) \$300 \$75
	Customer Perspective	C1 Become a trusted financial advisor C2 Provide superior service	<ul style="list-style-type: none"> Customer satisfaction (survey) Share of wallet Target customer retention 	90% 50% 90%
	Customer Management	I1 Understand customer segments I2 Shift to appropriate channel I3 Cross-sell the product line	<ul style="list-style-type: none"> Share of segment Channel mix change Cross-sell ratio 	30% 40% 2.5
	Product Innovation	I4 Develop new products	<ul style="list-style-type: none"> Revenue from new products (%) 	50%
Learning & Growth Perspective	Operations Management	I5 Minimize problems I6 Provide rapid response	<ul style="list-style-type: none"> Service error rate Request fulfillment time 	0.% < 24hrs
	Responsible Citizen	I7 Build diversity reflecting community	<ul style="list-style-type: none"> Diversity mix versus community 	1.0
	Human Capital	L1 Insure readiness of strategic jobs	<ul style="list-style-type: none"> Strategic job readiness 	100%
Learning & Growth Perspective	Information Capital	L2 Insure availability of strategic info	<ul style="list-style-type: none"> Information portfolio readiness 	100%
	Organization Capital	L3 Create a customer-focused culture	<ul style="list-style-type: none"> Customer survey 360° Survey (leadership model) Strategic awareness survey Personal goals aligned to BSC (%) KMS utilization/currency 	100%
		L4 Build cadre of leaders		70%
L5 Align the organization		90%		
L6 Best practice sharing		100%		

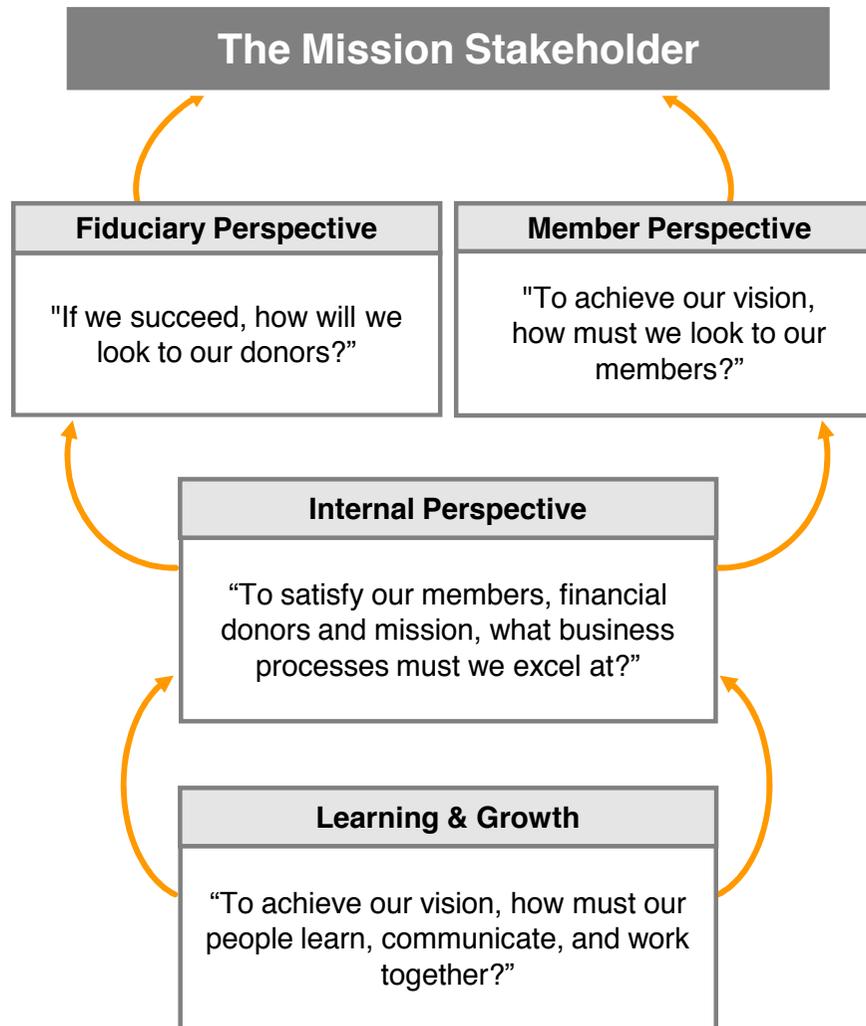
Strategy describes how an organization intends to create value for its shareholders.



Strategy maps are simple models of the value creation process.

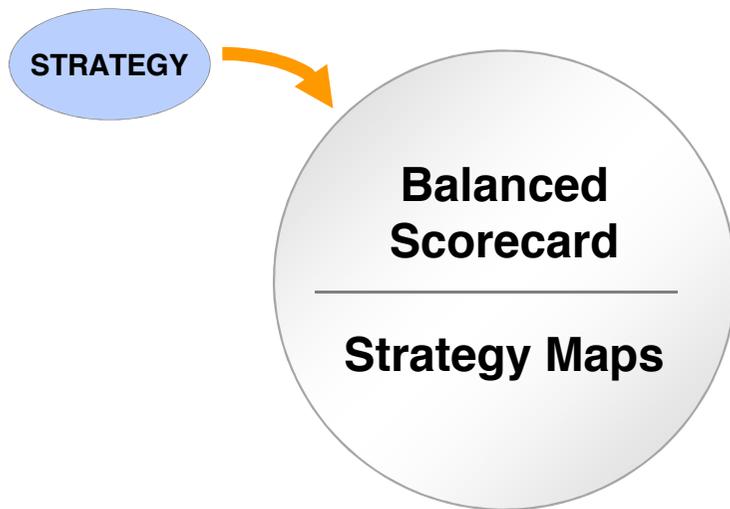
Architecture for an Association Strategy Map

Associations: Member-Based Organizations



Topic #2 – How did they create Strategy Focused Organizations

#1. They translated their strategies to operational terms



#2. They put strategy at the center of their management process



**They created
strategy-focused
organizations**

There is a consistent set of “best practices” applied by successful BSC users.



1 Principles of the Strategy-Focused Organization

Mobilize Change through Executive Leadership

Principle 1: Mobilize Change through Executive Leadership

Best Practices

- 1.1 Top leadership committed
- 1.2 Case for change clearly articulated
- 1.3 Leadership team engaged
- 1.4 Vision and strategy clarified
- 1.5 New way of managing understood
- 1.6 Program manager identified

The executive team is responsible for overseeing the formation and execution of strategy.

A successful Balanced Scorecard program starts with a recognition that it is not a metrics project...

IT'S A CHANGE PROCESS



2 Principles of the Strategy-Focused Organization

Translate the Strategy to Operational Terms

Principle 2: Translate the Strategy to Operational Terms

Best Practices

- 2.1 Strategy map developed
- 2.2 Balanced Scorecard created
- 2.3 Targets established
- 2.4 Initiatives rationalized
- 2.5 Accountability assigned

The Objective:

Link management process to strategy

The Problem:

How do you describe a strategy?.

**You can't manage
something that you
can't describe!**

The Balanced Scorecard provides a framework to link long term strategic objectives to short term targets, initiatives and accountability.

Longer Term (3-5 year) View

Shorter Term (Annual) View

Longer Term (3-5 year) View					Shorter Term (Annual) View					
Mission	Vision	Strategy and Map	Objectives	Measures	Targets	Initiatives	Milestones	Accountable	Resource Alloc.	
To provide top-notch healthcare to our community	Be the community hospital of choice		Financial	<ul style="list-style-type: none"> Grow high-margin service 	<ul style="list-style-type: none"> % revenue from high-margin services 	<ul style="list-style-type: none"> '04 xx% '05 xx% '06 xx% 				
			Customer	<ul style="list-style-type: none"> Provide personalized care 	<ul style="list-style-type: none"> Customer satisfaction survey rating 	<ul style="list-style-type: none"> '04 xx% '05 xx% '06 xx% 	<ul style="list-style-type: none"> Develop organization-wide survey 	<ul style="list-style-type: none"> Survey drafted by 6/04 	<ul style="list-style-type: none"> Mkg. Team 	<ul style="list-style-type: none"> \$ xxxx
			Internal	<ul style="list-style-type: none"> Keep patients informed 	<ul style="list-style-type: none"> Service level spot check rating 	<ul style="list-style-type: none"> '04 xx% '05 xx% '06 xx% 	<ul style="list-style-type: none"> Electronic notes project 	<ul style="list-style-type: none"> Complete by 2004 All patients logged in 	<ul style="list-style-type: none"> Dept. Chairs 	<ul style="list-style-type: none"> \$ xxxx
			Learning	<ul style="list-style-type: none"> Provide technology & resources 	<ul style="list-style-type: none"> % new technology used by staff 	<ul style="list-style-type: none"> '04 xx% '05 xx% '06 xx% 	<ul style="list-style-type: none"> Learning assessment project 	<ul style="list-style-type: none"> Deadline met 	<ul style="list-style-type: none"> HR Committee 	<ul style="list-style-type: none"> \$ xxxx



Strategy

Tactics

“Leadership”

“Management”

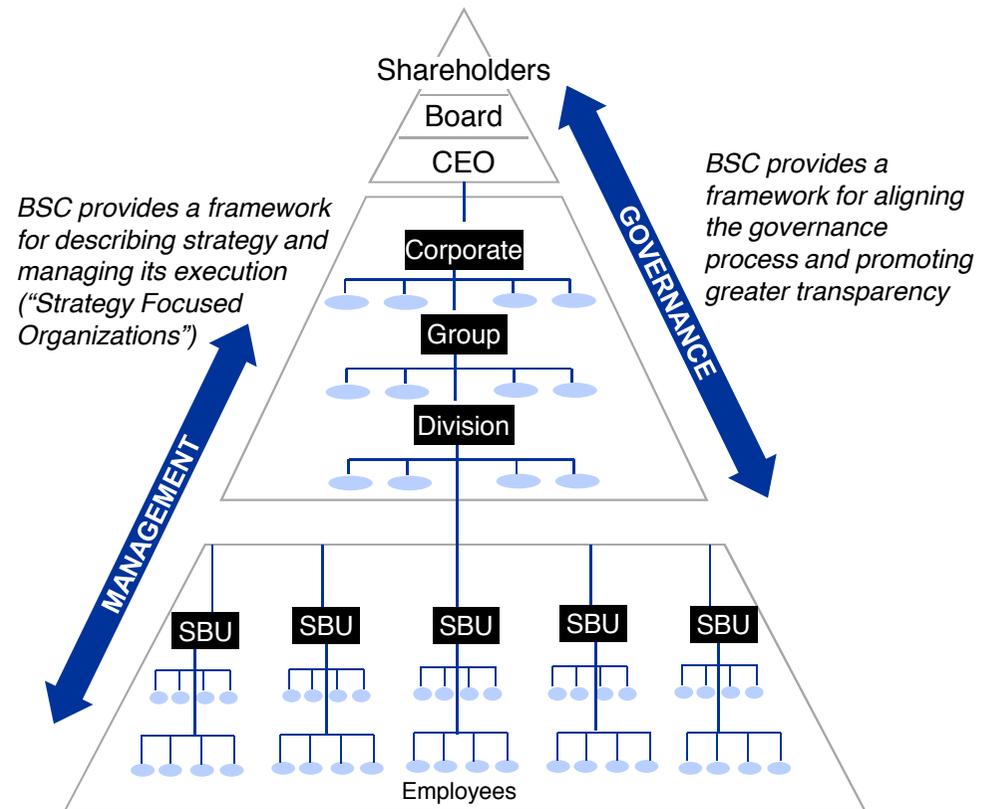
3 Principles of the Strategy-Focused Organization

Align the Organization to the Strategy

Principle 3: Align the Organization to the Strategy

Best Practices

- 3.1 Corporate role defined
- 3.2 Corporate & SBUs aligned
- 3.3 SBU & Support units aligned
- 3.4 SBU & External partners aligned
- 3.5 Board of Directors aligned

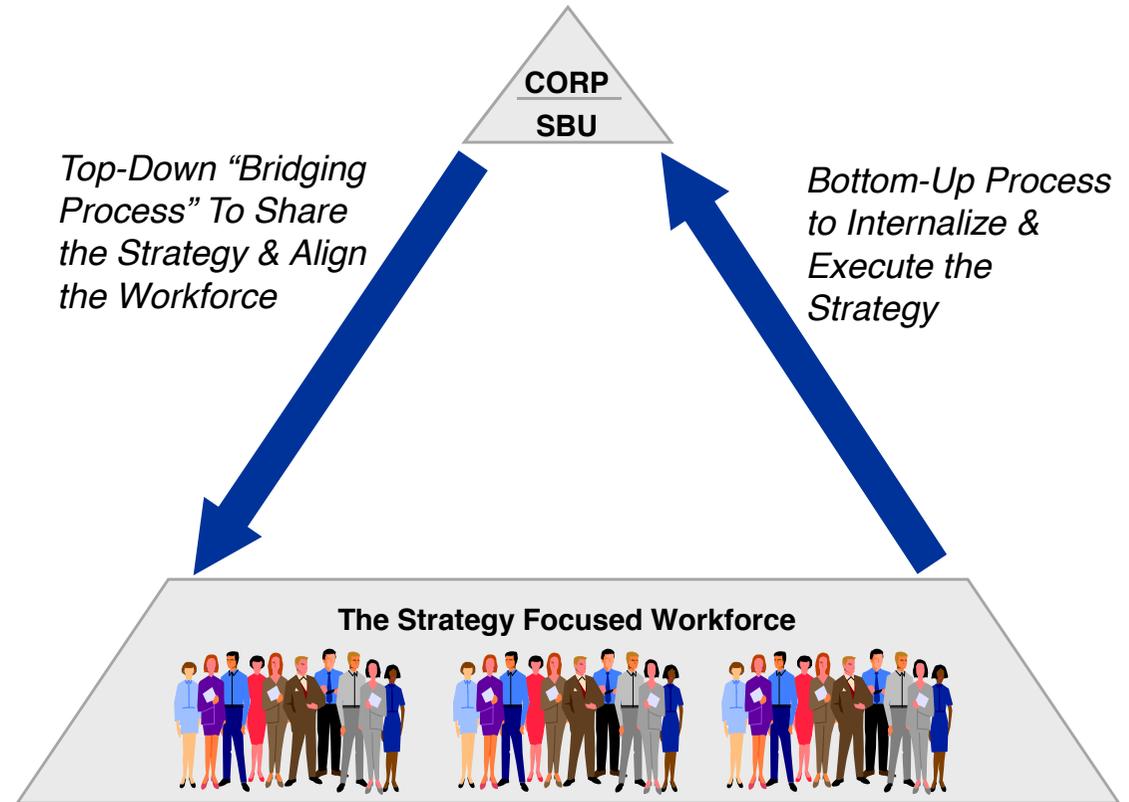


4 Principles of the Strategy-Focused Organization: Make Strategy Everyone's Job

Principle 4: Making Strategy Everyone's Job

Best Practices

- 4.1 Create strategic awareness
- 4.2 Align personal goals
- 4.3 Align personal incentives
- 4.4 Align competency development



HR processes are essential for moving strategy from the top to the bottom

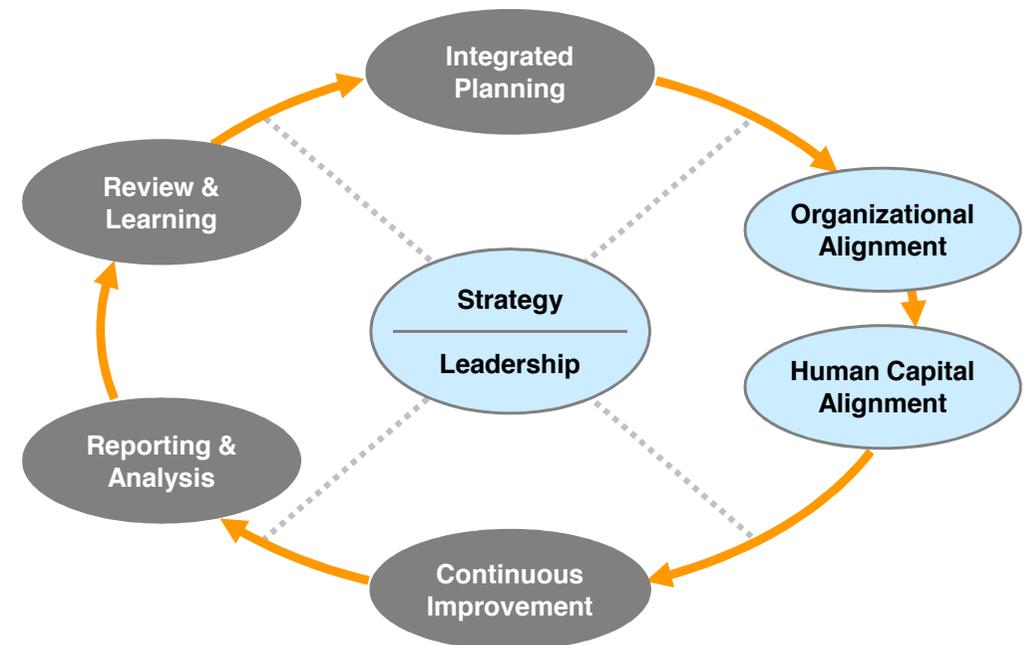
5 Principles of the Strategy-Focused Organization

Govern to Make Strategy a Continual Process

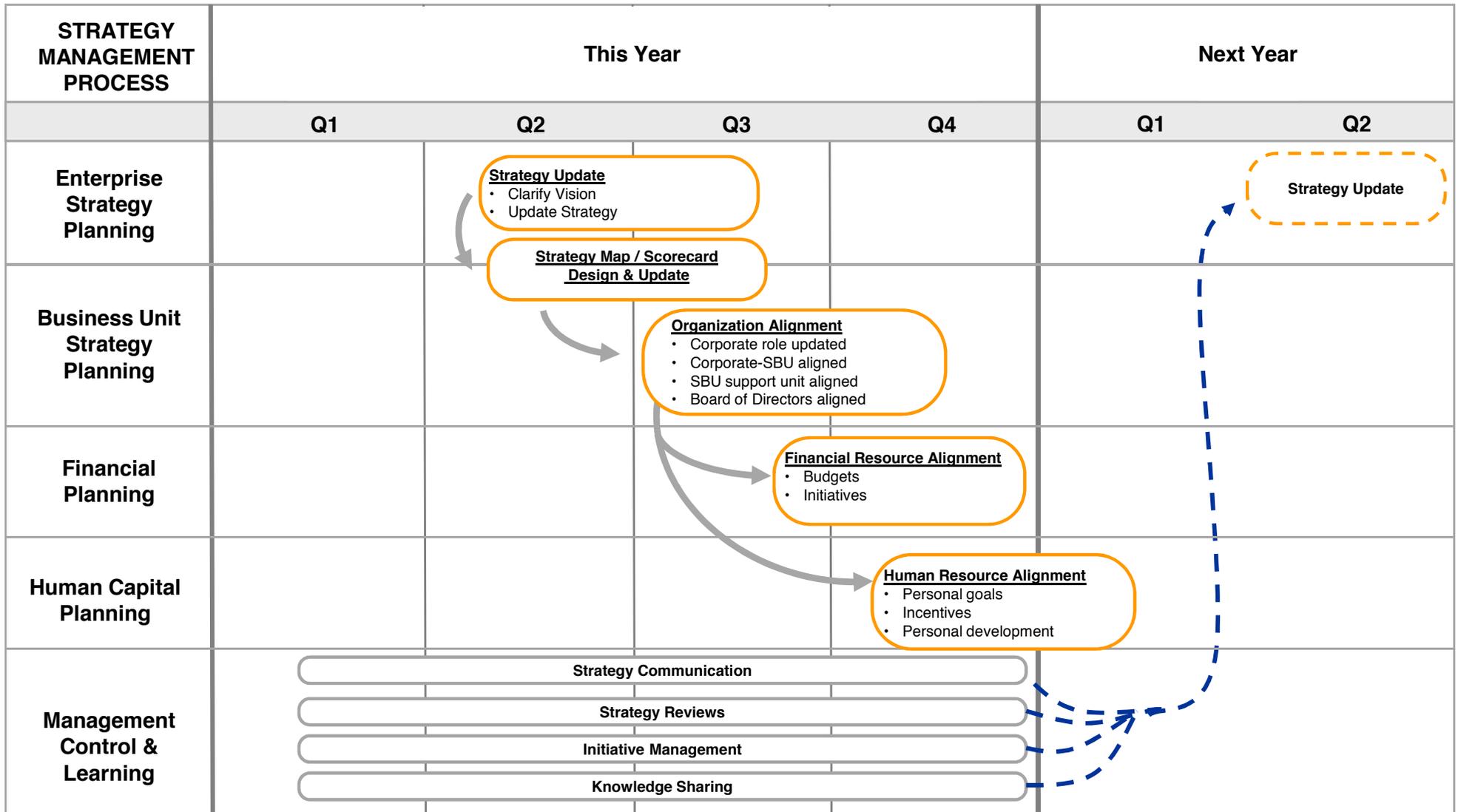
Principle 5: Govern to Make Strategy a Continual Process

Best Practices

- 5.1 BSC reporting system established
- 5.2 Strategy review meetings conducted
- 5.3 Planning, budgeting and strategy integrated
- 5.4 HR and IT planning linked to strategy
- 5.5 Process management linked to strategy
- 5.6 Knowledge sharing linked to strategy
- 5.7 Strategy Management Office established



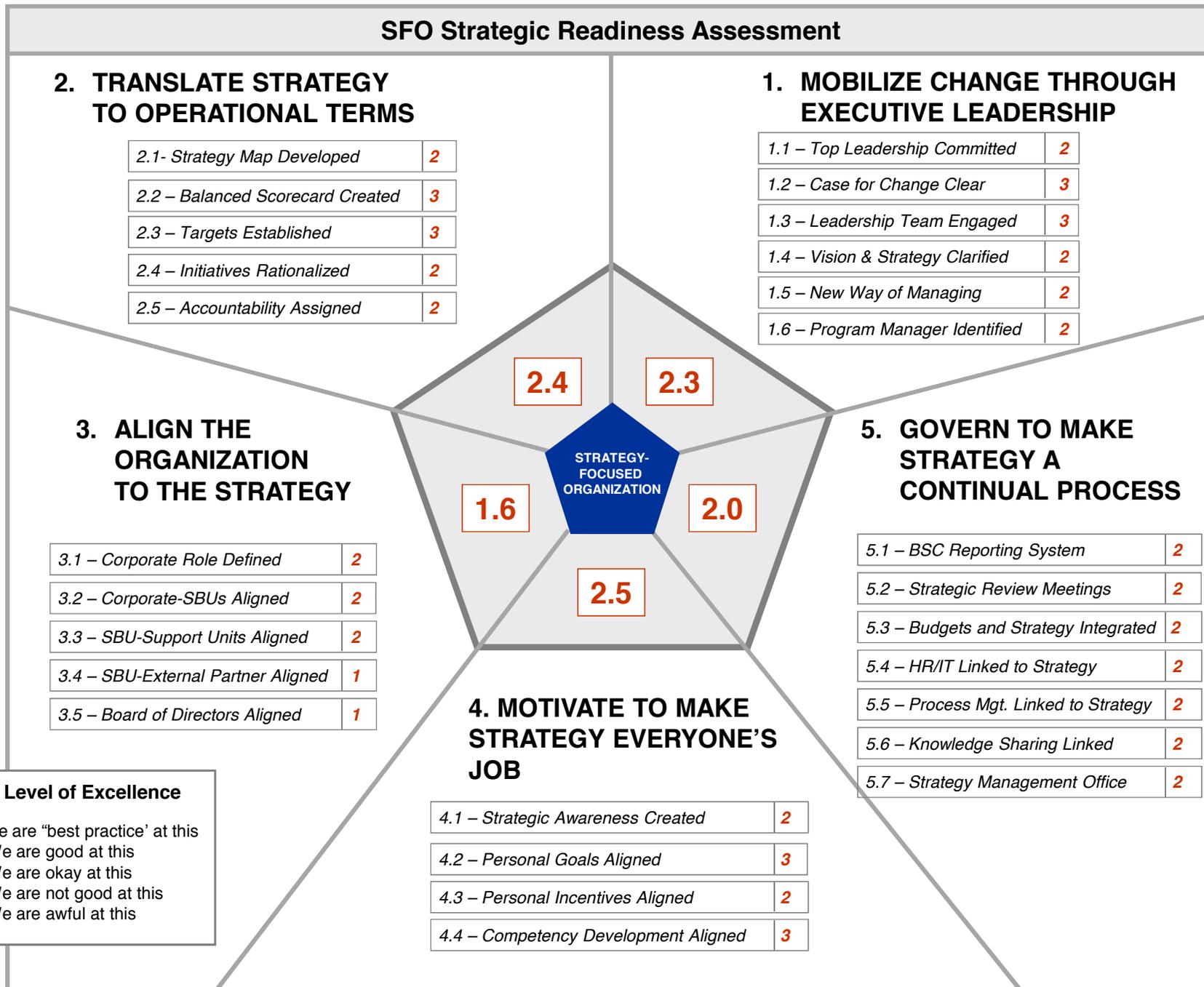
Strategy Management—An Integrated Closed Loop Process



There is a consistent set of “best practices” applied by successful BSC users.



What is your organization's strategic readiness?



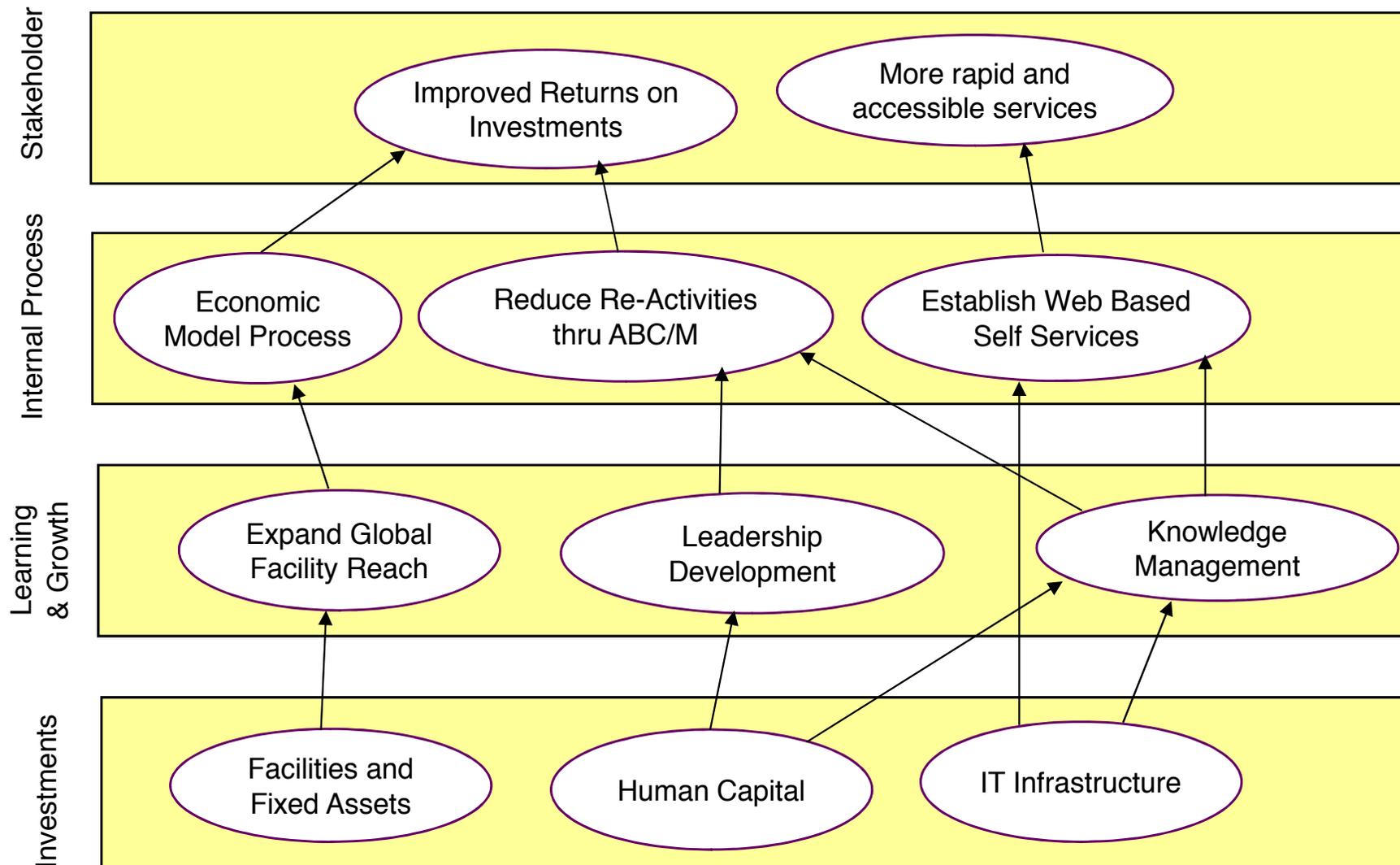
Just as with other management disciplines, you must build the capability to execute strategy as a permanent, enduring competency of your organization.

“A New Way of Managing”



CREATING THE STRATEGY MAP

Strategy Map: Capture a Cause Effect Relationship from the Bottom Up



Key Benefits of Strategy Maps

- Articulates how the organization **creates value** for its constituents and legitimizing authority
- Displays key priorities and **relationships** between outcomes (the "what") and performance enablers or drivers (the "how")
- Provides a clear view of "how I fit in" for sub-organizations, teams, and individuals
- "Cascading the scorecard throughout the organization, and clearly mapping the various units and functions back to the organization or agency-wide map is critical to leveraging and ensuring alignment"

Strategy Maps – A Better Way to Communicate Strategy

Executive consensus and
accountability:

Building the map eliminates
ambiguity and clarifies
responsibility.

Educate and Communicate:

Build awareness and
understanding of organization
strategy across the
workforce.

Ensure Alignment:

Each sub-unit and individual
link their objectives
to the map.

Promote Transparency:

Communicate with and
educate constituents, partners,
oversight bodies, and the
general public.

Multiple Choice Question – Cause Effect on Strategy Map

The top perspective of the Balanced Scorecard is the final end results or outcomes we want to achieve. This perspective is called:

- a. Internal Processes
- b. Stakeholder / Customer
- c. Learning & Growth
- d. Agency Investments

Multiple Choice Question – *and the answer is . . .*

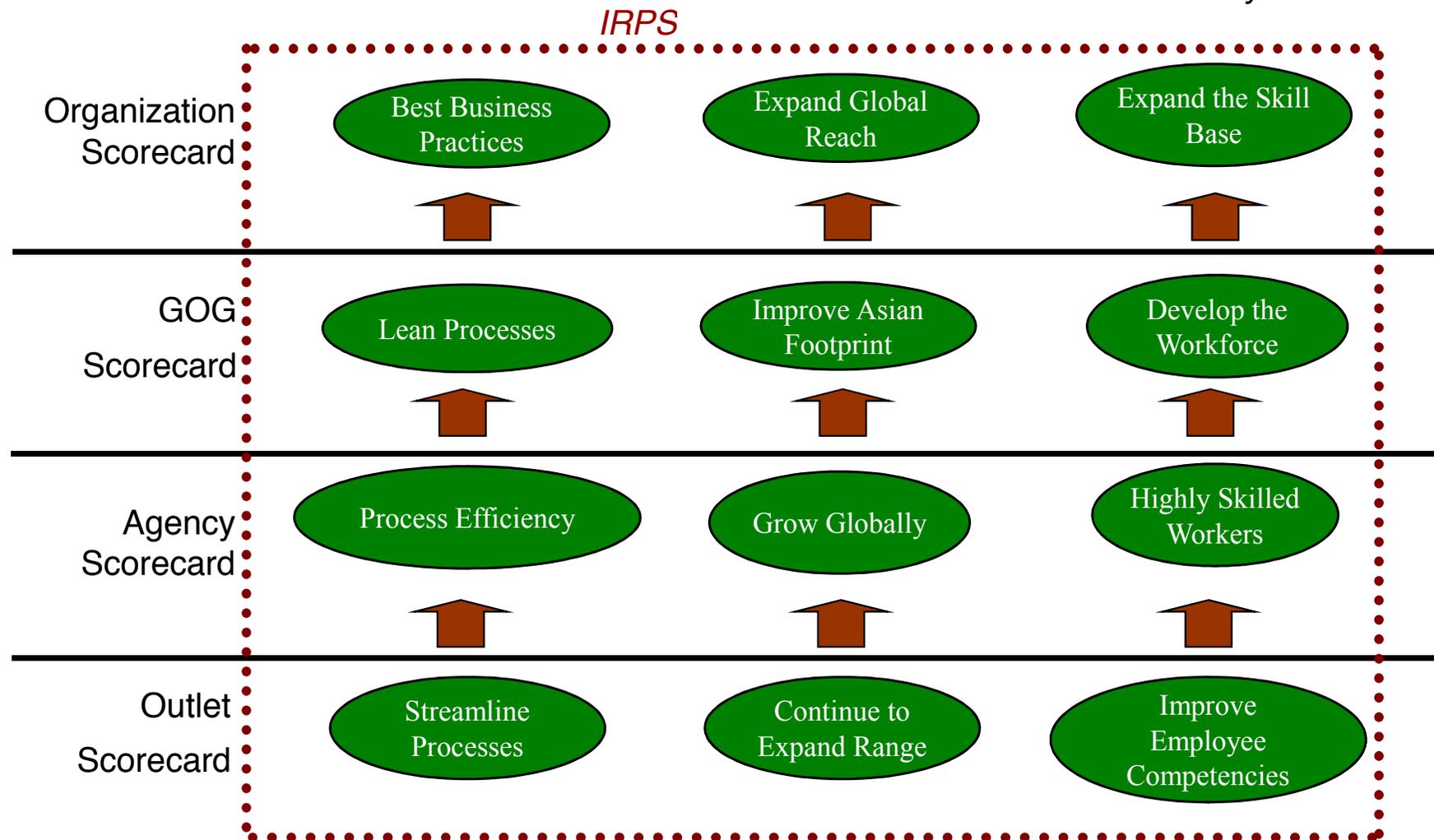
b – “Stakeholder / Customer” are those who we ultimately serve and we must meet their needs and requirements. This is our final end result within the scorecard model.

Balanced Scorecards tell you the knowledge, skills and systems that your employees will need (learning and growth) to innovate and build the right strategic capabilities and efficiencies (internal processes) that deliver specific value to the market (customer) which will eventually lead to higher shareholder value (financial).

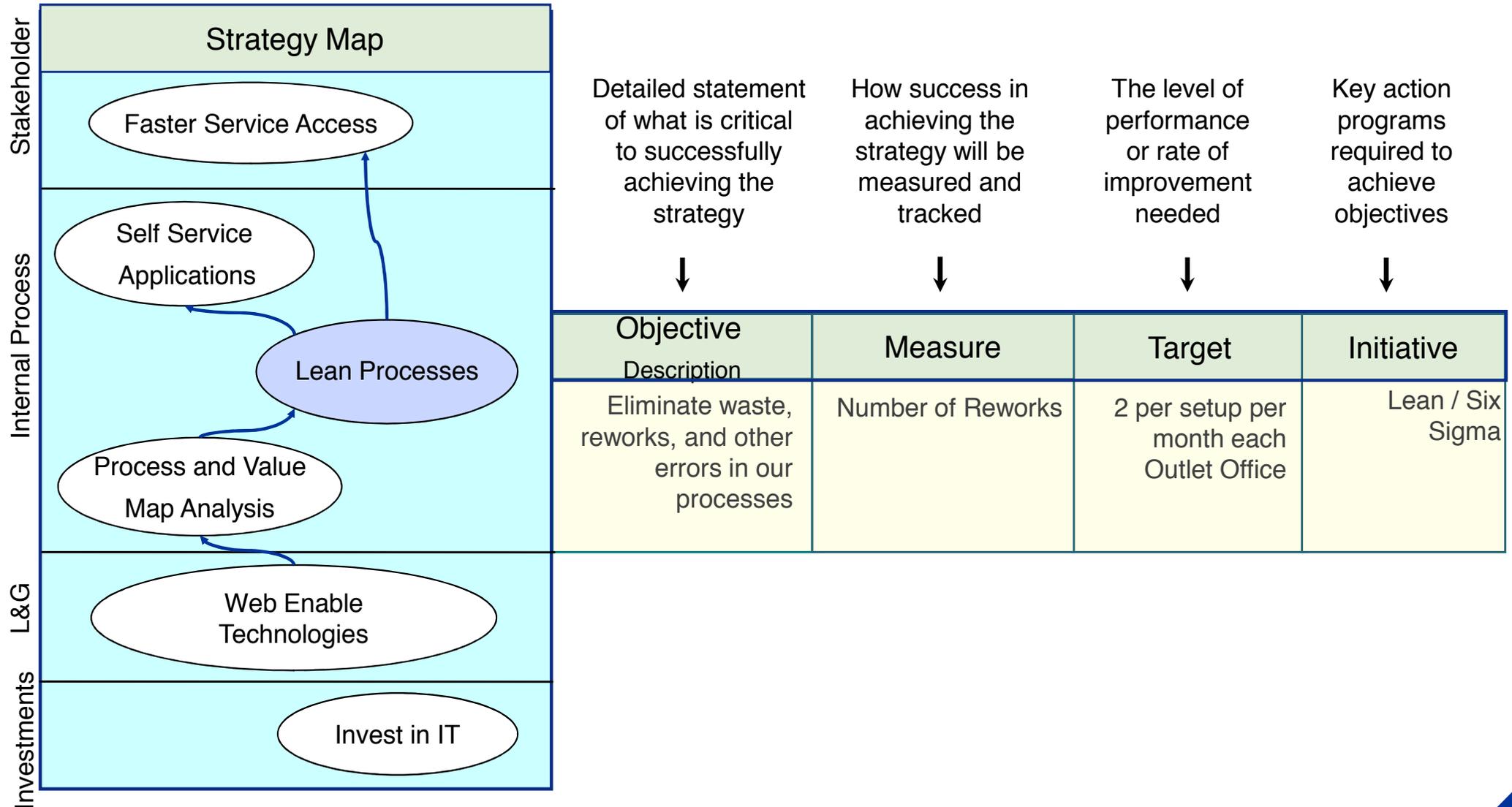
– *“Having Trouble with Your Strategy? Then Map It” by Robert S. Kaplan and David P. Norton - Harvard Business Review*

Aligning the Scorecards

Once you have completed your strategy map, make sure it aligns with agencies or divisions you report up to. This overall alignment of scorecards throughout the entire Organization forms the Strategic Management System within IRPS.



Extend the Map into Measurements, Targets and Initiatives



Alignment of Scorecard Components

Make sure the components of your scorecard fit together. We want to create a tight model for driving execution of your strategy.

Goal	Objective	Measurement	Target	Initiative
Achieve Agency operational efficiencies with best practices in the private sector	Reduce Operational Service Costs by 50% over the next 5 years	Cost per Outlet Office, Cost per Region, Cost per FTE	5% - Year 1 10% - Year 2 15% - Year 3	Activity Based Costing / Management
	Reduce identified re-activities within primary processes by 80% over the next 3 years	Waste Volume Charts, Rework Tracking, Cycle Time End to End in S-LX (5 of 7 Regions)	Waste stream reductions of 5% each year, Reworks cut in half for next 3 years, cycle time cut by 75%	Lean / Six Sigma

Multiple Choice Question – Create a Tight Model

The Balanced Scorecard process captures a cause and effect relationship based on having all parts linked together. Strategic goals link down to objectives, objectives link down to measurements, and measurements link to:

- a. Mission
- b. Goals
- c. Budgets
- d. Targets

Multiple Choice Question –
and the answer is . . .

d – Measurements should be linked to targets. We want a one-to-one relationship so that measurements are actionable to the Agency.

GOOD PERFORMANCE MEASUREMENTS

The Context of Measurement

Performance Measurement is a process by which an agency / program / function / outlet office objectively assesses and evaluates the extent to which it is accomplishing a specific objective, goal, or mission. Performance measurement alone is incomplete.

Performance Management is a systemic link between company strategy, Investments, and processes. Performance Management is a comprehensive management process.

Why Measure Performance?

- Enables decision making
- Manage by results
- Promote accountability
- Distinguish between program success and failure
- Allow for organizational learning and improvement
- Justify budget requests
- Optimize Investments
- Provide means of performance comparison
- Fulfill mandates
- Establish catalysts for change
- And so on...

Without Measuring, Decision Makers Have No Basis For:

- ✓ Knowing what is going on in their enterprise
- ✓ Effectively making and supporting decisions regarding Investments, plans, policies, schedules, and structure
- ✓ Specifically communicating performance expectations to subordinates
- ✓ Identifying performance gaps that should be analyzed and eliminated
- ✓ Providing feedback that compares performance to a standard
- ✓ Identifying performance that should be rewarded

Types of Measurements

<i>Measure Type</i>	<i>Definition</i>	<i>Example</i>
Leading	Intermediate outcomes that predicts or drive bottom-line performance results	Employee turnover rate
Lagging	Bottom-line performance results resulting from actions taken	Employee satisfaction rating
Input	Amount of Investments, assets, equipment, labor hours, or budget dollars used	Number of cashiers
Output	Units of a product or service rendered - a measure of yield	Number of Value Meal orders fulfilled
Outcome	Resulting effect (benefit) of the use or application of an output	Customer satisfaction rating
Objective / Quantitative	Empirical indicators of performance	Wait time
Subjective / Qualitative	Perceptions and evaluations of major customers and stakeholders	Customer complaints received as a % of total customers served

Examples of Measurements by Perspective

Stakeholder / Customer

- Current customer satisfaction level
- Improvement in customer satisfaction
 - Customer retention rate
- Frequency of customer contact by customer service
- Average time to resolve a customer inquiry
 - Number of customer complaints

Internal Processes

- Number of unscheduled maintenance calls
- Production time lost because of maintenance problems
 - Percentage of equipment maintained on schedule
- Average number of monthly unscheduled outages
 - Mean time between failures

Learning and Growth

- Percentage employee absenteeism
 - Hours of absenteeism
 - Job posting response rate
 - Personnel turnover rate
- Ratio of acceptances to offers
 - Time to fill vacancy

Investments

- % of facility assets fully funded for upgrading
- % of IT infrastructure investments approved
- # of new hire positions authorized for filling
 - % of required contracts awarded and in place

Multiple Choice Question – Appropriate Measurement

The measurement, % of employees following a supervisor approved competency model, would most likely be placed in which perspective of the Balanced Scorecard?

- a. Stakeholder / Customer
- b. Learning and Growth
- c. Agency Investments
- d. Internal Processes

Multiple Choice Question –
and the answer is . . .

b – this measurement relates to helping grow the workforce and this would most likely fit with the Learning and Growth perspective of the Balanced Scorecard.

Some Basic Guidelines for Good Performance Measures

- You should have at least one measurement for each objective.
- Measurements define or explain objectives in quantifiable terms:
 - Vague => We will improve customer service
 - Precise => We will improve customer service by reducing response times by 30% by year end.
- Measurements should drive change and encourage the right behavior.
- Should be able to influence the outcome.

Selection Criteria for Performance Measurements

- ❑ MEANINGFUL - related significantly and directly to organizations mission and goal
 - ❑ VALUABLE – measure the most important activities of the organization
- ❑ BALANCED – inclusive of several types of measures (i.e. quality, efficiency)
 - ❑ LINKED - matched to a unit responsible for achieving the measure
 - ❑ PRACTICAL – affordable price to retrieve and/or capture data
- ❑ COMPARABLE – used to make comparisons with other data over time
 - ❑ CREDIBLE - based on accurate and reliable data
 - ❑ TIMELY - use and report data in a usable timeframe
 - ❑ SIMPLE -- easy to calculate and understand

Three Criteria Used for Agency Scorecard

1. Relevant

- > Addresses an operational or strategic performance issue
- > Is results- or outcome-focused
- > Provides useful information to enable decision making

2. Measurable

- > Quantifiable and Objective
- > Facilitates Analysis
- > Can be done in a timely manner with high accuracy
- > Data are available and collectable

3. Actionable

- > Can be tracked to an appropriate person or team responsible for the activity measured
- > Measure relates to process inputs that can be controlled/adjusted to address concerns

Scoring Measurements Against the Three Selection Criteria

A “0” or “1” in any column indicates that you need to revisit this measurement before implementation.

Measurement	Relevant	Measurable	Actionable
% of Global Outlets that follow the end to end process defined in IRPS	3	1	2
Number of score studies completed	3	2	3
% of Region Centers using ABC Models to manage 65% of their allocation costs	3	2	3
% of eligible employees who are participating in the Competency Model Development Program	3	2	2
% of map points loaded and operational in GPS Tracking	3	2	2

0 = Does not apply 1 = Poor 2 = Acceptable 3 = Good

Multiple Choice Question – Match the Objective to the Metric

Assume the Agency Plan has an objective: Improve the productivity of docking services at all stations. Which of the following measurements would be most appropriate for this objective?

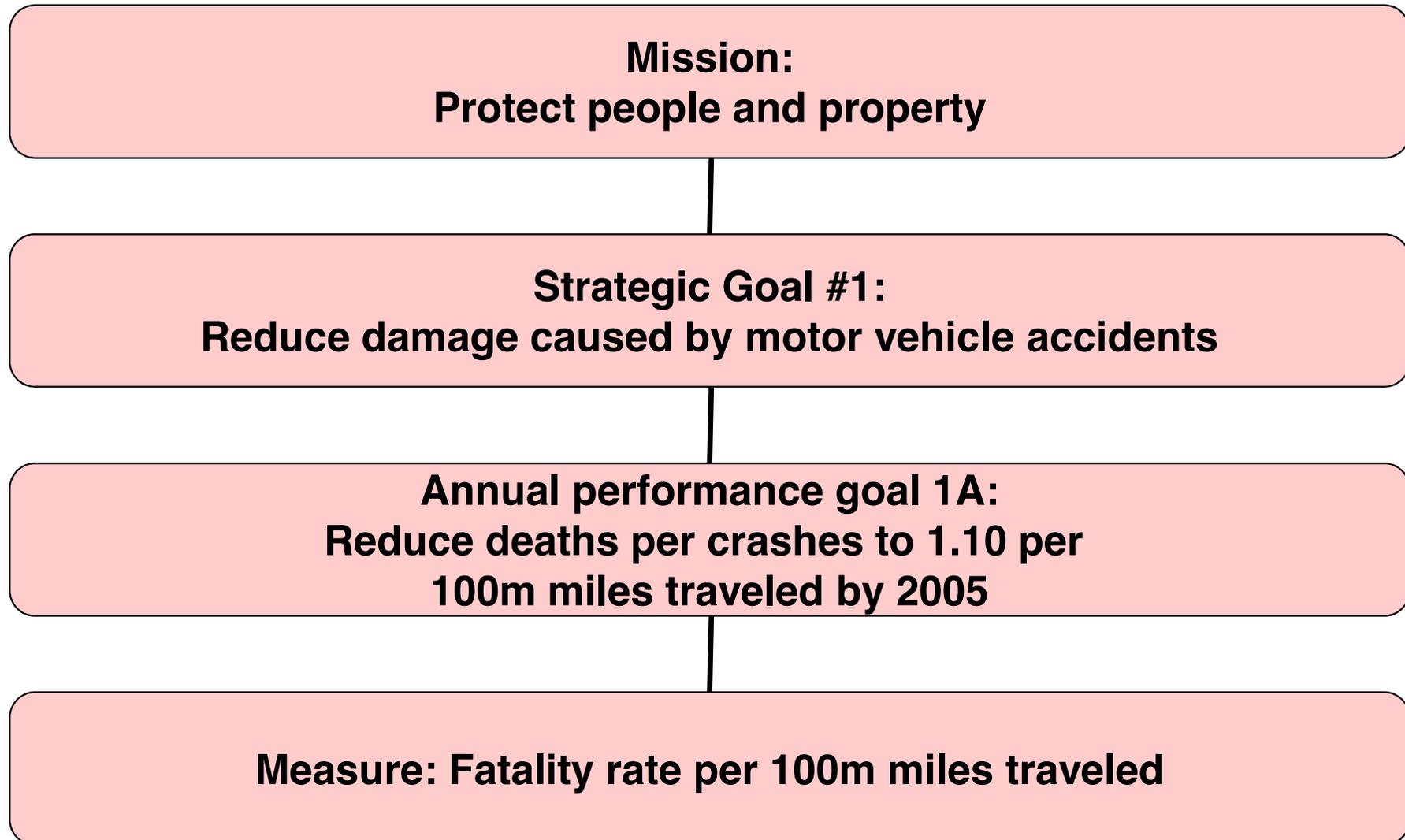
- a. Number of reruns required to complete the docking service
- b. % of vendor contracts executed in 90 days
- c. Number of people completing the off-shore warranty training program
- d. % of supervisors who submitted budget action plans within 60 days of close-outs

Multiple Choice Question –
and the answer is . . .

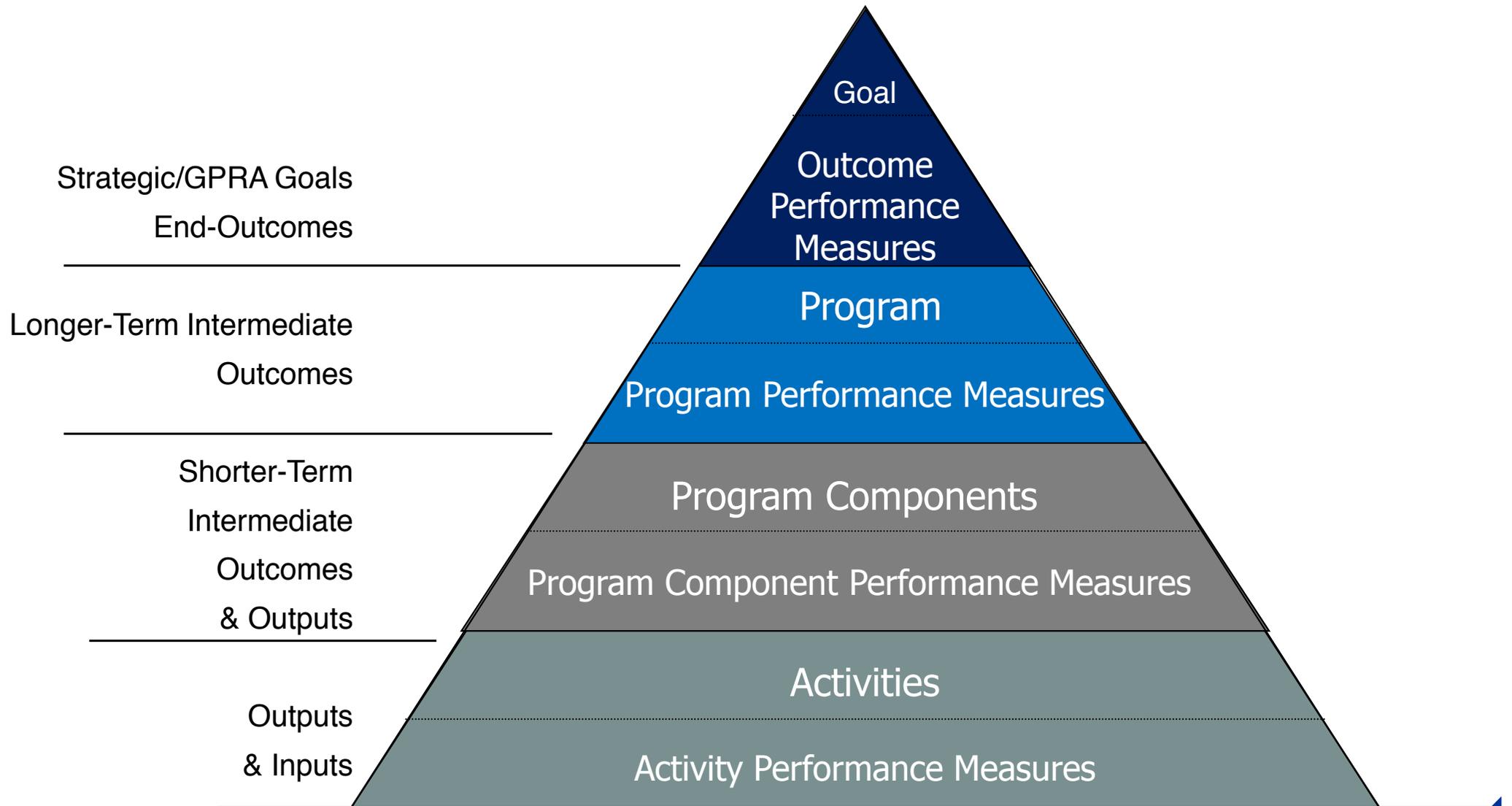
a – If we measure re-runs, this probably will give us some benchmark by which we can measure docking station efficiency and productivity.

A Closer Look at How Things Link

Transportation Safety Example



The Measurement Pyramid



Some Tools for Determining What to Measure

