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Understanding how the future might evolve and monitoring the external environment for change.

This paper provides two contrasting case studies. Both use a detailed picture of the future (Tangible Future) to build a common understanding amongst the management team before setting the rate of ambition for the strategy, strategy map and balanced scorecard.
In the second, the Tangible Future is also used to identify the assumptions and uncertainties in the environment and market. This expanded their balanced scorecard, so they could monitor the external environment, to ensure their strategy was still appropriate, as their strategy was implemented. This is a part of Excitant's Fourth Generation Balanced Scorecard approach.

Phil Jones
Managing Director
Excitant Ltd
08456 809 209
Phil.jones@excitant.co.uk

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by
Excitant Ltd.

08456 809 209 or +44 1780 784 887
For more information contact us at
info@excitant.co.uk

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1   INTRODUCTION

These two case studies demonstrate the benefits of using a Tangible Future when designing and using a balanced scorecard. They provide a contrast between two ways you can use future thinking in Balanced Scorecard design and how that affects how you subsequently review the strategy using Fourth Generation Balanced Scorecards.

The first example, which comes from a City Council, provides a 15 year view of the development of the city and how its population will evolve. The second comes from a manufacturing company and reflects the various ways they thought that the market for their innovative products was likely to develop over the next five years.

The city council used a detailed picture of the future (called Tangible Future) to achieve a common understanding amongst the management team and amongst the senior politicians before the strategy was detailed. This Tangible Future was used to set the rate of ambition for the strategy and influenced the design of the subsequent Strategy Map and Balanced Scorecard.

The manufacturing company was entering a new market. Their view of the future also set the pace of development and the strategy. However, it was also used to identify the assumptions and uncertainties in the environment and market. This wider view expanded their balanced scorecard so they could monitor the external environment and ensure their strategy was still appropriate as their strategy was implemented. This expansion to monitor changes in the external environment is a part of Excitant's Fourth Generation Balanced Scorecard approach.
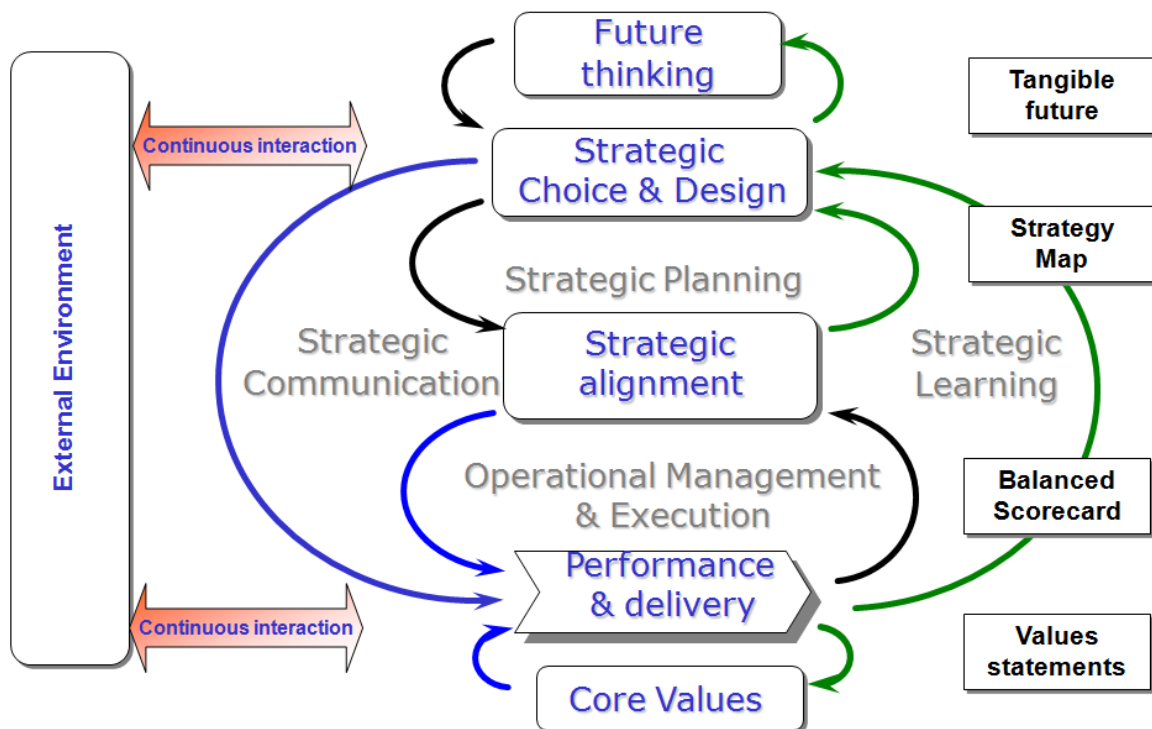
1.1   THE TANGIBLE FUTURE'S ROLE IN STRATEGIC LEARNING AND MANAGEMENT

At Excitant, we call this part of the development of a Strategic Balanced Scorecard, the Tangible Future. We use the Tangible Future to develop an external perspective that monitors changes in the external environment that might influence the strategy. We call the resulting indicators that are used to monitor the external environment, External Predictive Indicators (EPIs).

The Tangible Future is one of three components that support the use of the Strategic Learning process within the modern balanced scorecard approach, (see figure 1). The Tangible Future is used to capture the management team's thoughts about the future in a detailed way. The Strategy Map captures and articulates the strategy and allows you to review progress of the strategy. The Balanced Scorecard (or scorecard) contains the operational detail, such as measures, targets, initiatives, responsibility. Having a Tangible Future allows you to track how the environment will is evolving and respond appropriately with changes or refinements to the organisation's strategy.

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Figure 1: The Strategic learning process

Strategic Management as a learning process

The Tangible Future provides a base for Strategy Map and Balanced Scorecard design. It also is central to the strategic management implementation and review process. It allows managers to check that the implementation of their strategy is delivering the rate of change they anticipated and also ensures they stay aware of any variations in the external environment that might necessitate changes to their strategy and its implementation.

You can find more about our strategic learning model on our website and in the various papers. In this document we concentrate on the role of the Tangible Future and how two examples were used by two different management teams in two different ways.
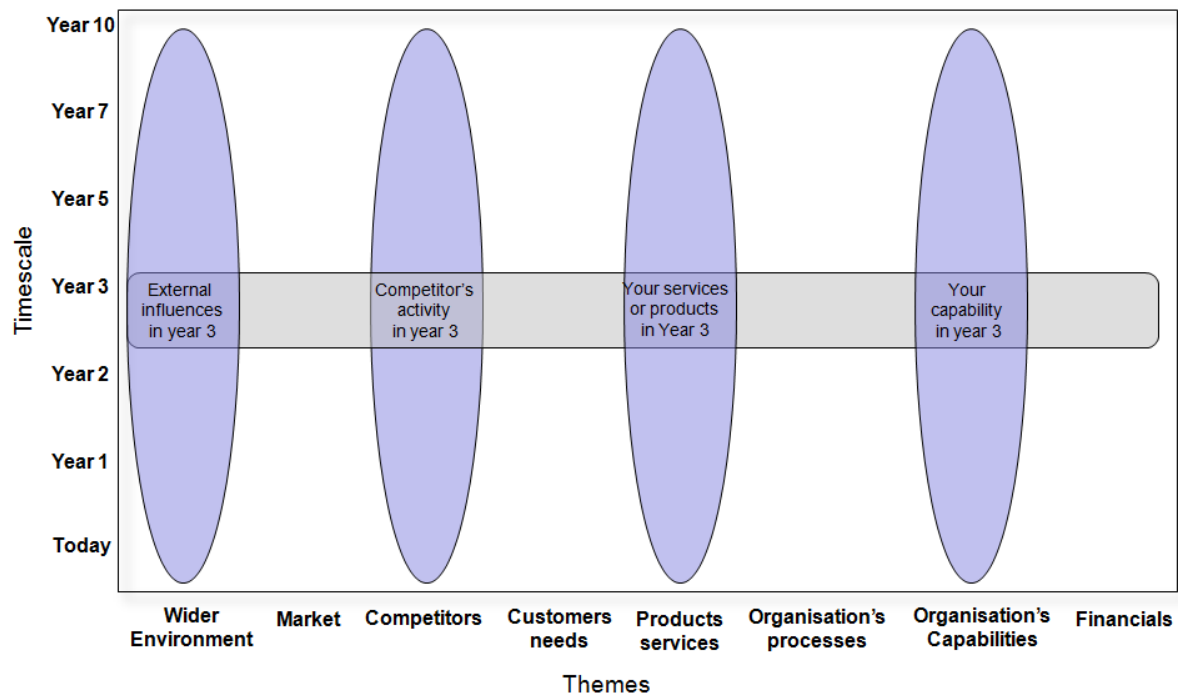
1.2   WHAT IS A TANGIBLE FUTURE

A tangible Future is a rich picture of the future that describes, explicitly, how the future is expected to evolve at specific points in time. Most vision statements are usually short, often intangible, lack detail and omit timescales. In contrast, a Tangible Future describes the organisation, and its environment, in an explicit, detailed and tangible way.

The basic structure of a Tangible Future is a picture with two axes. The vertical axis is a timescale with specific dates. This is the planning horizon of the strategy. The horizontal axis is used for the various themes and influences of the organisation's strategy. Figure 2 shows the framework and provides examples of potential themes. These range from the impact of the external environment

(legislation, economics, technology) , through the market and competitors, to the internal processes and capability of the organisation and, finally, its expected financial results.

Figure 2: Example framework for a Tangible Vision

We call this a Tangible Future, because it provides a rich, tangible, description of the various aspects of the environment and organisation at each point in time. As the diagram shows, for the four themes highlighted, and for year three of the strategy, you would expect a description of the themes. In this case we have highlighted the wider environment, the competitors, the organisation's products and services and the organisation's capabilities. We ask for what you will you see, hear and feel. We ask for quantified information; volume of activity; size of markets; size of sales; numbers of employees; turnover; profits; costs, etc. We ask for tangible information.

This example shows the Tangible Future as a single diagram. However we often create two parallel Tangible Futures: one for the external environment and how that will develop; the second for the organisation and how that is expected to develop in response to its environment and as a result of its strategy. This facilitates development and allows us to develop agreement on the outside world before looking at how the organisation will respond.

Even though it is tangible, we expect uncertainties and ambiguities which we also capture in the picture. Even in a single executive's mind, the future will contain some assumptions about when things might occur. It will include some degree of uncertainties over speed, changes, impact, and many other factors. They will have in mind risks that they have identified. We capture all of these in the Tangible Future, and show where they occur. We also expect that different members of the team will have different view on the rate of change, when external factors will take effect, competitor's moves, when legislation might change and how quickly the organisation needs to respond. The differing opinions or expectations provide useful information about the thinking amongst the management team.

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We use our interviewing skills to gather this information and our facilitation skills to help the team understand any differences, discuss the underlying reasons and come to an understanding of where, and why, they agree and disagree. We expect constructive disagreement.

1.3   THE AMBITION FOR THE STRATEGY MAP AND SCORECARD

The Tangible Future has three benefits: setting ambition, creating conversation to develop a common understanding, and exposing assumptions, uncertainties and risks, so they can be managed as the strategy is implemented.

First, the Tangible Future provides the basis for the objectives across the perspectives in the Strategy Map by providing specific statements about the development of the strategy at specific points in the future. The Tangible Future provides a picture of how the organisation, the finances, the customers and market will develop over time. It's a picture that can be checked for coherence and consistency of the story of the strategy. For instance, is revenue growth is consistent with the market's needs and the competitive activity.

Figure 3: Setting the rate of change for the balanced scorecard

The Tangible future describes specifically what will be different
At fixed points in time, for each perspective

As figure 3 shows, the degree of ambition and the speed of development of your strategy in your "Tangible Future" set the rate of change for the objectives in your Strategy Map and subsequent scorecard. This should not limit the scope of the Tangible Future to the perspectives of the strategy map. In contrast, the Tangible Future intentionally looks at the wider environment, market, influences on the market and competition.
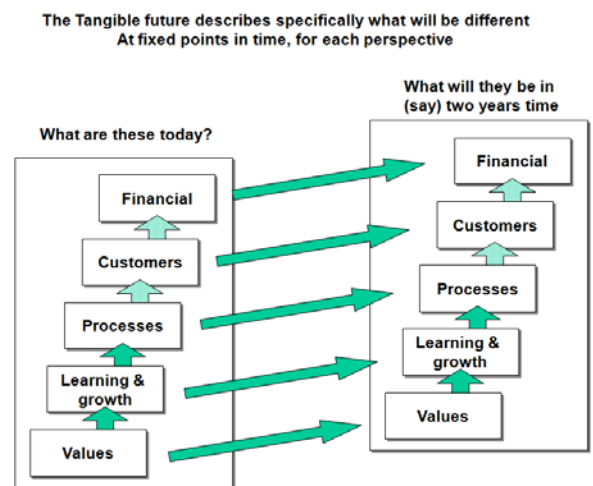
1.4   QUALITY OF CONVERSATION AMONGST THE MANAGEMENT TEAM

Secondly, the tangible future exposes the thinking about the future amongst the management team and encourages discussion within the team of different views so that, as a team, you have a common understanding of how you expect the future to develop. To develop a Tangible Future requires you to really think through, discuss, and describe, at specific points in the future, where you will be, what that will be like at that time. This discussion helps bring out any differences in perception, risks or direction. It ensures the members of the team have a consistent view and are clear where they disagree.

1.5   CAPTURING ASSUMPTIONS, UNCERTAINTIES AND RISKS

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The third benefit of a Tangible Future is that it captures uncertainties, risks and assumptions about the future. We are of course dealing with the future and the future is not certain. Also, some disagreements about how the future will develop, or evolve, are inevitable. The strategy may be assuming that oil or steel prices stay within particular boundaries, or that bank credit will continue to be available. Recognising that there are uncertainties, risks and assumptions means you can put in place monitoring mechanisms to identify if the assumptions are still valid, or the uncertainties and risks are manifesting themselves. Sensible monitoring of the strategy requires this connection to the outside world, but they are not captured within a strategy map. So, based upon the Tangible Future, we create an external perspective, part of the Excitant Fourth Generation Balanced Scorecard approach, to capture and monitor these uncertainties and assumptions.

1.6   THE RISKS OF NOT DOING A TANGIBLE FUTURE

Napoleon is reputed to have said, "I care not a jot for plans; it is the planning that is important" [1] Similarly, the primary aim of the Tangible Future is to improve the quality of thinking, the richness of conversation and to develop a shared understanding of the future. The value for management lies in the process: the process of thinking through these questions and having discussions (and arguments) with colleagues about what they believe and why. The physical product of this thinking can be used to communicate the story of the future. However, it is the richness of the insights and understanding that are gained from the process that are important. They become more important as the strategy is rolled-out and implemented.

If you choose not to develop a Tangible Future, you will not have agreed fixed points for setting targets. Nor will you have anything to check that progress towards those targets is feasible. Your management team may harbour uncertainties that remain un-discussed points of contention. As the strategy is implemented, the assumptions that underpinned the strategy may no longer be valid. If you miss these changes, you may miss the emergence of signals that suggest your strategy needs refinement.

2   CITY COUNCIL 15 YEAR PICTURE

Peterborough City Council wanted to introduce a Modern Balanced Scorecard to improve a number of the ways the city was managed. They wanted to improve how performance was managed, but also wanted to break down the silos that existed between departments. They wanted to get a clearer focus across the council on the strategy and the changes that were needed to improve performance and drive efficiency changes. They wanted to be better at delivering services.

In this case study we are concentrating on their Tangible Future. This was the first piece of work to be conducted with the management team prior to starting to develop their Strategy Maps and subsequent balanced scorecards.

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[1] Obviously if he did say this, he said it in French, and in French vernacular rather than English vernacular. In various forms this is also attributed to other Military leaders such as Patton and Eisenhower
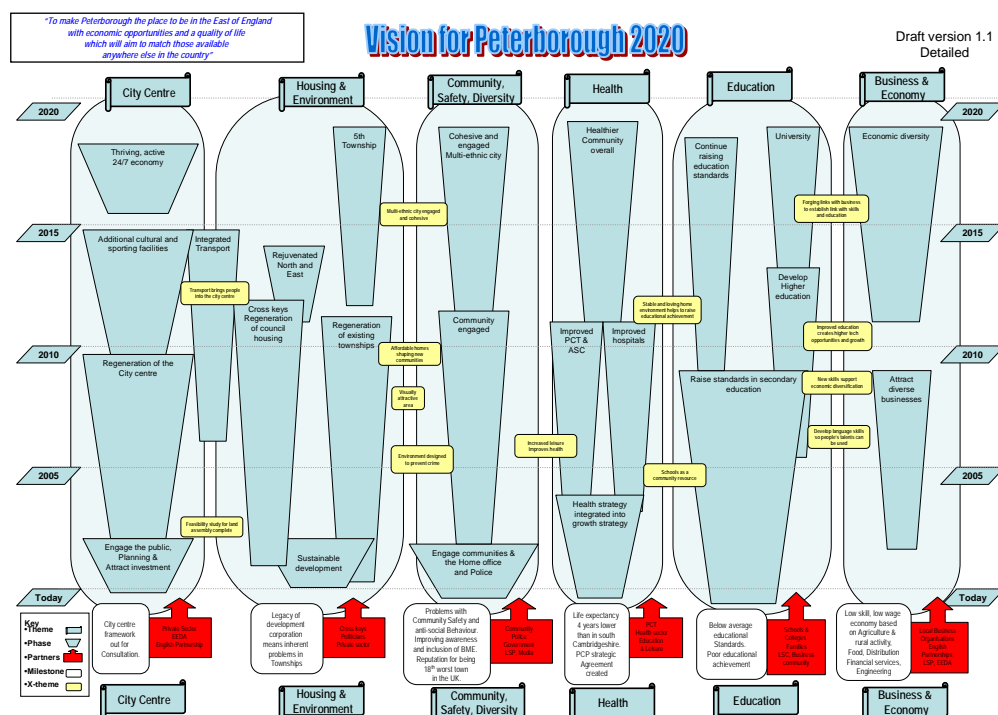
2.1   THE CITY'S TANGIBLE FUTURE

The Tangible Future was given a fifteen year time horizon and six major themes were identified
across the city's development. These themes evolved from the interviews with the Chief Executive,
the Directors and the local politicians that constituted the cabinet for the Council. Each of these
interviewees held a piece of the future vision. Most of them talked about the City Centre Master
Plan (to regenerate the centre of the city) as this was a key theme they had all been involved in.
However, city centre development was only one of the six themes of change in the city. The others
themes that emerged from the discussions included, how education would improve, tackling social
cohesion, commercial developments, improvements in health provision, and developments outside
the city centre.

The Tangible Future was initially developed as a large sheet some 2m wide by 1m tall. Once agreed,
an A3 version was developed in two forms. Figure 3 shows the simplified version. A more detailed
version contained pictures and detailed descriptions of the developments at each stage.   On the
simplified version of the Tangible Future, the major stages of development of each of the themes are
shown by overlapping shapes. For instance, there needs to be quite significant improvement in the
education of 11-16 year olds in the City, before the city can seriously start to develop its university.
In this example, the yellow boxes show areas where the themes interacted to support one another.
So, for instance, improvements in education standards are designed to make the city more attractive
to employers (so they have a better qualified workforce and they are willing to come to the city and
have their own children educated there). If they fail to deliver these improvements then they
jeopardise the constructive cycle of development of the city.

Figure 4: The Tangible Future for the city

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The text at the bottom is used to remind people reading the document where the city was at the time the picture was built. This ensures the Tangible Future is anchored in today's reality. The red boxes show where partners also contribute to each theme.

The management team realised how rich a picture they had between them, when they were presented with the first draft of their composite thinking of how the city would develop over the next 15 years. None had seen the whole picture before. Each was working on their piece, almost independently of the other parts.

It also became clear amongst the team that each part was dependent on the other parts. Improving health would also improve education outcomes. Likewise, improving education made people better informed to make better health decisions for themselves, so improving life expectancy in the area. It was a virtuous circle. When both of these were successful, economic prosperity would develop. So, rather than operating in silos, these directors needed to work together to deliver their joint vision for the city; a vision they were all responsible for.

When this draft picture was initially presented back to the directors there was roughly 80% agreement on the picture. There were about a dozen small areas (say 15%) where there were questions and discussions. With short discussions these were all resolved within a few hours. There were three areas that were considered much more complicated and where agreement was not going to be achieved in that meeting. These represented about 5% of the picture that would have to be resolved through more detailed discussions, later. These are typical of the figures we encounter when a management team discuss their Tangible Future.

2.2   THE EFFECT ON DISCUSSIONS

In a city council, the "Cabinet" is the collection of the most senior elected representatives. I had sat through a long and tedious "Cabinet meeting" whose paperwork consisted of nearly 200 pages of dense information: performance statistics and action reports. The substance of the discussions was extremely detailed and specific items. I was there for a brief session at the end where I was to introduce the project and provide some initial feedback. To show progress, I handed round the A3 laminated version of the Tangible Future vision for the next 15 years. It had been discussed and agreed with the management team the week before. One side of the laminate showed the summary, as in figure 4 and the other side provided more detail in each area.

As soon as I handed it out the discussion changed. The Cabinet Leader pointed out how the City needed to consider itself in the context of the region's economy and the discussion continued from there at a similar level. The mere act of providing a broad, long term vision raised political attention on the bigger issues: just as it had with the management team earlier.

The themes of this Tangble Future (and the corporate strategy map that resulted from it) were reflected in the city council's subsequent business plans. Many of the elements of the vision are coming to fruition through the city's urban regeneration projects.

2.3   IMPLICATIONS FOR STRATEGY MAPS AND PLANS

This Tangible Future set the rate of change and ambition for the city's strategy. It also shaped the structure of the Strategy Map which followed similar themes to the themes of the Tangible Future. Prior to this approach, the city operated in divisions with their own plans. This new approach introduced shared objectives on their Strategy Maps that were chosen around the needs of the community. This was done to deliberately join up parts of the organisation behind common objectives and to break down the silo-thinking and working, without having to re-organise the departments or divisions. This helped the city to think and act in a more joined-up way with budgets, planning and operations. The time taken that year to develop the council's plan was cut from eight weeks to just two, with far less effort.

3   A RICHER, FOURTH GENERATION, EXAMPLE

The second client is a manufacturer of modular buildings. They make the rooms for the building in a factory, each room fully-furnished and complete with all its heating and power supply. When all the rooms are made, and the site ready, the rooms are transported to site where they are fitted together. The building is essentially assembled. Traditional building skills are used to clad, roof and complete any parts of the building that could not be manufactured off-site. At the time, this company produced rooms only for the student accommodation market and was considering expanding the services of their design and build capability to other markets.
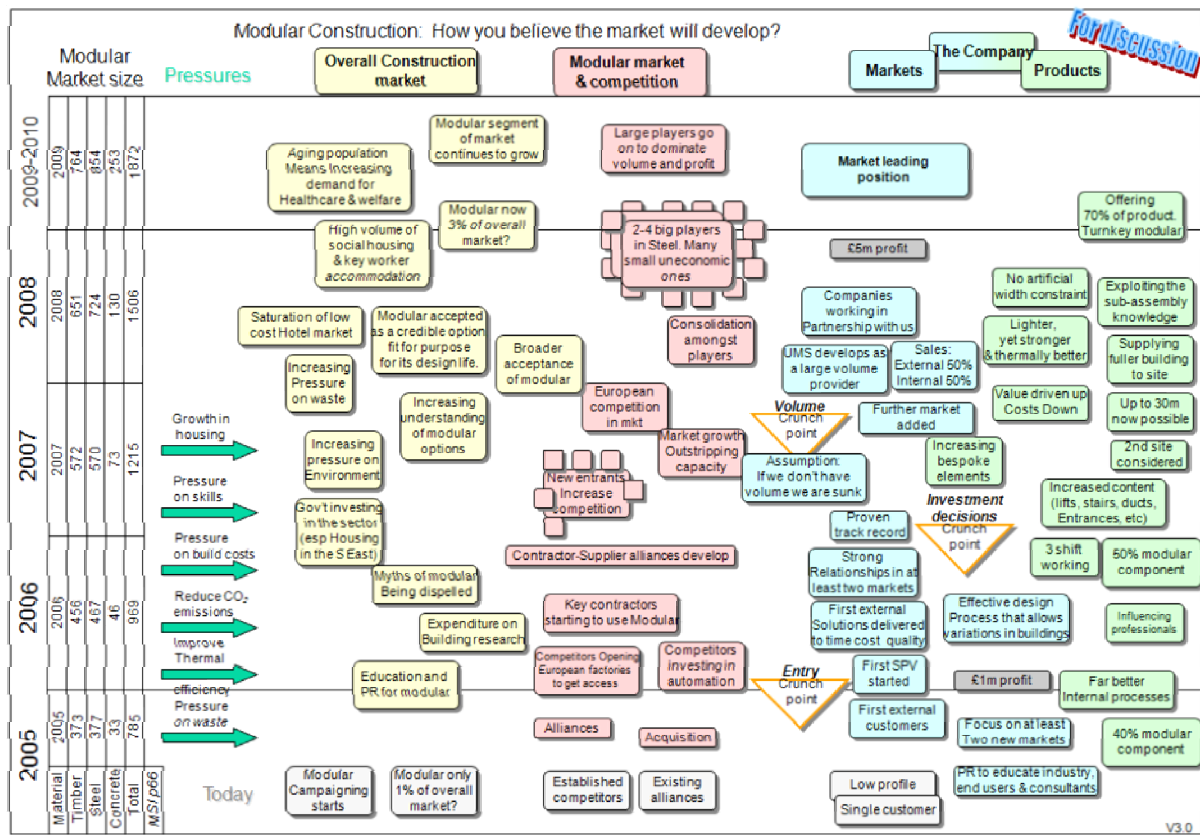
3.1   THE TANGIBLE FUTURE

The Tangible Future they developed is shown in figure 5. The left hand side has a five year horizon. Along side this are figures from their market research that show the size of the various markets they were considering tackling over the same time frame.

This Tangible Future had four themes. The pale yellow theme showed how they expected the overall construction market to develop and the influences on that market. The pink theme showed how they expected the modular and off-site market to develop. The modular and off site manufacturing market represents barely 5% of the whole construction market and, as you can see, they expected a number of entrants into different parts of the market, with various offerings.   The pale blue theme represented the management team's expectation of how it could position itself in that market, the markets they could address and most importantly when critical decision points would be reached. The green theme represented the changes that the company had to make to deliver its capability in that market.

You can see from the interaction of the four themes how the management team were thinking about their strategy developing as the market and competition evolved and developed. This ability to check across the themes to check for the logic and coherence of the story is an important part of the role of the Tangible Future.

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Figure 5: The Tangible Future for the Manufacturing Company

3.2   CRITICAL DECISION POINTS

The team identified three critical decision points that are represented by the three triangles within the blue theme. These decision points are where the organisation will have some choice to make that is significant to how the strategy will evolve.   This picture set a pace of development for the team that would be reflected in their strategy, their technology development plan, their Strategy Maps and their Balanced Scorecards.

For instance, the company needed to have gained sufficient credibility in its new markets to justify the investment decision. However, that meant that they had to create a critical mass of customers in this new market in a relatively short time. It was clear that they had 12 months to penetrate a market, otherwise, the opportunity might be missed and the competition would probably have stepped in.   To achieve this, they needed to be really clear which new markets they could most effectively serve with their existing capacity and capability.

This set the pace for their rate of expansion into new markets. They realised they had a second point, some two to three years out, at which they would have had to achieve a significant proportion of the market to be viable. If they failed to gain sufficient volume within this time, they believed competitors would have gained a significant foothold and it would be hard for them to

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develop a critical and economic market. They would be relegated to a bit player. So, the decision point and the amount of market they had developed by then was, for them, a crunch point.

They also realised that they had a critical decision about how to develop factory capacity that would emerge in between two and three years out. This could be extended by developing the technology in the existing factory, but at some point they would have to commit to new factory capacity.

3.3   IDENTIFYING ASSUMPTIONS, UNCERTAINTIES AND RISKS

The development of the tangible vision also helped the team to identify a number of assumptions about the market and to recognise where they had some uncertainty.

The management team was uncertain what some of the other competitors were planning. Some of the team were also uncertain that some of the markets would be willing to move to a modular construction and whether they would see the benefits of modular build.   As a result, they instigated conversations with both competitors and potential customers to explore the assumptions and check whether they were based in reality.   These conversations were instigated by various members of the team who reported back on their findings to the rest of team every month: thus building up their collective market knowledge and intelligence.

There were also some assumptions within their plans. The economics of modular and off-site was driven by the increasing costs of construction labour, which would be sucked into building for the 2012 Olympics when they started. Their product also used lightweight steel frames which relied on an economic steel price. They had already lost some margin due to rising steel prices and would need to monitor changes in this, and other commodities, to ensure comparable profitability.

One part of their potential market provided single living accommodation for military personnel. The team's initial intelligence (and assumption) was that the more rigorous standards that these buildings would have to meet would make it difficult to enter a market that already had established players providing buildings. They decided to dismiss the market, and concentrate on others, but to monitor the situation in the background. Some months later, their background tracking of this market led them to realise that the assumption was incorrect. This gave them the chance to reconsider entering this market. They decided to continue to concentrate on other markets, but had they not been monitoring this assumption, then that option would have been completely lost.

3.4   MONITORING THE EXTERNAL ENVIRONMENT DURING STRATEGY REVIEW

Armed with these insights, the management team members were able to introduce a new item on the agenda of their monthly strategy review meetings. They started off each meeting with a review of their policies, assumptions and any changes in the market, before starting to look at the progress with their strategy.

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The effect of this was to widen the discussion each month to the outside world rather than just looking internally. It ensured the management team developed a collective view of the outside world, rather than that being limited to a few individuals. It also reminded them of how they expected the future to develop. It provided an opportunity to discuss any changes, assumptions or risks that appeared to be emerging.   This only took a short time in the meeting, but acted to remind them of the wider picture and their ambition.

4   EXTERNAL PREDICTING INDICATORS

At Excitant these external indicators that are systematically monitored as a part of the strategy review are called External Predictive Indicators (EPIs). They are developed through the process of developing the Tangible Future. They are captured in an external perspective that sits alongside the Strategy Map and provides a context for that strategy.   They are reviewed alongside progress with the other measures and indicators in the financial, customer, process and learning and growth perspectives.

The reason for so much emphasis on understanding the underpinning assumptions and uncertainties in the future is to identify warning signals. These occur when the assumptions change and the beliefs are no longer valid.

A critical element of the strategic learning model is the review the strategy to check that the assumptions are still valid. When strategic thinking and planning is an annual event, the assumptions and beliefs are only revisited annually. However, markets, external events and competitors do not wait for an organisation's annual planning cycle to come around again. They occur throughout the year. They also send out signals that things are changing that can be picked up and acted upon.

In the same way that progress with the strategy will be reviewed and refined through the year, the underlying assumptions should be rechecked for signs that they are still valid. Being aware of these assumptions, beliefs and signals, makes the management team better positioned to refine its vision and strategy.

Recognising these underlying assumptions, decision points and the timing is crucial to the design of the strategy maps, scorecard, investment decisions, targets and timescales. There is no point setting targets that will not be achieved with the level of investment and the projects as planned. There is no point expecting the organisation to develop a capability, which it will not have by then. There is no point in having a strategy map that does not tell the story of delivering this future.

Moreover, they are critical to the maintenance, review and operation of the strategy and scorecard by the management team. If the managers are not aware of changes and are not monitoring the outside world for signals, then they will not recognise that the strategy needs to change emphasis or direction.   External Predicting Indicators (EPIs) and the review process that surround them, support the management of your strategy and its successful implementation.

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5   CONCLUSION

When you are managing your strategy, there are two questions that surround any conversation about the implementation of the strategy: two questions that the Tangible Future supports.

1) *"Is our strategy moving us towards our intended future, at the rate we expected?"*
2) *"We based our strategy on assumptions about the future: are these still valid and does our strategy need to change given what we have learnt?*

The purpose of the development of a Tangible Future is not merely to create a future, but to create discussion and understanding of what the future might be and to increase the understanding of the assumptions, uncertainties and expectations that are embedded within the strategy. It is the quality of thinking and conversation that matters. It is the mutual understanding of the assumptions, potential directions and ambition that is important. There will be areas where the management team disagree on the future or hold different underlying views of how things will develop. The purpose of this is to bring them out, so they are discussed, shared and understood

Two things always surprise me when I do this work. First, how little the management team have discussed the broad picture of the future. They may have discussed limited aspects of the future detail, but the broad picture is rarely discussed. When they do the discussions are conducted with enthusiasm and energy.

Secondly I am always surprised how much they agree with this future, even though it is little discussed. In part this is due to the future picture coming from them in the first place. It is their vision. However, the interview process is often described as very thought provoking and powerful and it is often the first time they have been asked to describe the future in as much detail, and as tangibly as this. It is often the first time they have articulated the future outside their own heads as completely as this though, despite this, there is much agreement with the description of the future. In some cases this has been as high as 85 or even 90%. Given 50 statements of the future, even three, five or ten years out, there may only be a dozen or so areas of disagreement. Many of these can be resolved easily. Often they are questions of degree and timing. This leaves only a few points of significant disagreement which the management team have either stopped discussing or have never discussed, yet are crucial to the strategy.   Again these can be discussed and often resolved quickly.

Sometimes these remaining issues require external information, research, or others outside the core management team to inform the debate and so some issues may need to be parked for a short period. On rare occasions these issues are just too early for the team to consider. However, there will be a point when they have to come back to them. Their importance cannot be lost.

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6   ABOUT EXCITANT

Now you have some of the insights our approach and how it creates a sustainable strategic performance management approach in an organisation.

Thank you for taking the time to read this case study.   We are happy to talk about what you found and the potential implications for your organisation's strategy.

To find out more, or to have a conversation about how performance management could be improved in your organisation, simply send us an email or pick up the phone.

6.1   ABOUT EXCITANT

We are a niche consultancy. We specialise in Fourth Generation Balanced Scorecards that improve how you manage strategy and performance. We are experts in making Balanced Scorecards work as a tool of strategy and performance. We help you to manage such organisations better, so you can get the best out of your people and measurably improve your financial performance and results.

6.2   WHAT MAKES US DIFFERENT?

We want to pass our skills to you, our clients, as quickly and effectively as possible. That way you get sustainable results and we get a good reference site.

We don't hold back. We ask hard questions and push our clients to uncover and address the deeper elements that stop performance happening.

Deep expertise: Our skills are based on practical experience and research, so you can improve and develop.

6.3   TO EXPLORE THIS FURTHER

For more information or to have an informal discussion about your needs, call Excitant directly and ask for Phil Jones.   The number is 08456 809 208 (in the UK) or from outside the UK +44 1780 784 887. Or send our Managing Director, Phil Jones, an email via info@excitant.co.uk , Thanks.