

**EXCITANT**

# How well is your strategy going to be implemented?

**And will a Modern Balanced Scorecard help you deliver your strategy? A Diagnostic tool**

**This paper provides a simple diagnostic test to help you establish where a Modern Balanced Scorecard might help you to implement your strategy better.**

**It will take you 15-20 minutes. It will help you to avoid several major pitfalls *and* help you appreciate how a Modern Balanced Scorecard could help your organisation.**

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HOW WELL IS YOUR STRATEGY GOING TO WORK?  
WILL A MODERN BALANCED SCORECARD HELP YOU  
DELIVER?

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## 1 IMPLEMENTING YOUR STRATEGY: WILL A MODERN BALANCED SCORECARD HELP?

This question gets to the heart of what a Modern Balanced Scorecard is about: helping you communicate, implement, and get results from, your strategy.

You can run this diagnostic tool in about 15-20 minutes to help you answer this question for your strategy. It is just one of the set of techniques I use when helping Executives decide how, and where, a Modern, Third or Fourth Generation Balanced Scorecard might help them. This simple test will give you insights into your strategy, and help you to avoid some of the many pitfalls of poor strategy design, management and implementation.

### 1.1 A SIMPLE, SHORT, EXERCISE

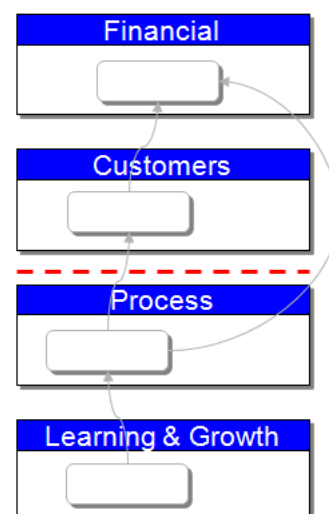
Let's get down to basics. You want to be sure your strategy is going to work and make a difference. A balanced scorecard is a *just a tool* to help you implement your strategy, to see that it is working and *demonstrate* that it is making a difference: We can talk about the theory and techniques (and we can do so later, if you like), but frankly it is about usefulness and action.

That is why I created this simple exercise: an exercise I do with all my clients at the start of an engagement. It is quick and simple to do, requires minimal effort, and yet is extremely revealing. It gets to the heart of how a modern balanced scorecard can help you implement your strategy better. You only need is a basic knowledge of balanced scorecards, (explained below), to do this exercise yourself. You do need four differently coloured highlighters (ordinary pens will do), some common sense, and a copy of your business plan. That is it.

### 1.2 ALL YOU NEED TO KNOW ABOUT THE BALANCED SCORECARD, FOR THIS EXERCISE

At its heart, the Balanced Scorecard has a simple principle that describes how strategy works: Cause and effect. At its most basic level the cause and effect model works across four perspectives, to tell the story of an organisation's strategy. It runs as follows:

- **The Financial perspective:** To improve your financials you will have to improve revenues, invest, reduce costs, or improve cash flow. It won't happen by magic. So what are your most important financial objectives and what improvements do you want?
- **The Customer perspective:** To improve revenues you have to satisfy your customers. So you need to be clear what your customers want, how it benefits them and how you serve them.
- **The Process perspective:** Your customers won't get more of what they want, unless you do things better or differently. So what are the few things that you need to do better, from amongst your many processes, that will make the biggest difference?
- **The Learning and Growth perspective:** Underpinning all this is your capability as an organisation to learn and grow. What skills, knowledge, culture, behaviours, values, technology, capability or capacity do you have to grow, or learn, as an organisation, to make a sustainable difference? What drives your strategy?



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All you need to remember for this exercise is:

- a) There are four perspectives: Financial, Customer, Process, and Learning and Growth<sup>1</sup>.
- b) There is a cause and effect relationship *that tells the story of your strategy*. It says, if you “Learn and grow” skills, knowledge, culture, technology, behaviours, capabilities, to improve what you do, “your processes”, then your “customers” will get more of what they want and, so, they will give you money. But you have to do all this economically (*financial*).

Just remember: 1) Money, 2) Customers, 3) What you do, and 4) What you have to Learn and Grow. It is that simple. Now, get your business plan, four coloured pens, and you are ready to do the exercise.

### 1.3 THE EXERCISE

The exercise is very easy: Go to go through your business plan, highlighting phrases that refer to each perspective. That is all. Use one colour for each perspective of the Balanced Scorecard: 1) Financial (The money), 2) Customer (What is in it for the customer), 3) Process (What you have to do well), 4) Learning and growth (Skills, knowledge, technology, behaviour, culture, and capability. (If you have not got coloured pens to hand, put a letter in the margin to note which perspective is being talked about). Go through the text and mark each phase that refers to one of these four perspectives, **Financial**, **Customer**, **Process**, **Learning and growth**. Here is a short example:

We intend to develop **20% of our revenues (£4m)** from export activity the next year, **up from £1m**. We believe that **customers** in both the EU and US will find our products **price competitive** since the changes in exchange rates. But in the longer term, the unique features of our Zygon-x model will help our customers **lower their operational and servicing costs by 10%** over our main competitors.

In order to **open up these markets** by targeting **potential customers** more effectively we need to improve up our **ability to partner with new distributors** in Europe and **get better market research data on potential users of our products across Europe**. This will mean an **investment of £50,000 in market research** and recruiting a **new overseas distribution manager at a cost of £70,000**.

We will need to **set up and manage new servicing arrangements** to support local servicing in France, Germany and in Philadelphia in the US. To make this happen we need to **develop standard service training arrangements** and **increase the number of service staff trainers**. This is expected to **cost £150,000 over the next year**.

It is as simple as that. So, go through your strategy, section by section, marking references to each perspective as you progress. Work quickly through aiming to cover the document fairly quickly, so you get an overview of the whole document. If you want to spend longer than 15 minutes, do so. It's up to you. So, pick up the pens and start to work through your strategy document.

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<sup>1</sup> If you are in a public sector organisation or charity all this still applies. It is just that your customers usually don't give you money in response to your services. Still use the four pens, as instructed. But also use a fifth pen to capture the demands of politicians or fund providers. Commercial organisations can also use a fifth pen for regulators where they are important in their industry.

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## 2 WHAT HAVE YOU FOUND?

OK, so by now you should have completed the exercise and have a highly coloured strategic plan. There are a number of tests I normally apply at this stage. I have included a few here to help you assess your strategy....

### 2.1 IMMEDIATE REACTIONS

Before you do anything else, jot down any concerns you had about the document, as you did this exercise. The chances are your first thoughts are revealing and insightful, so note your concerns....

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### 2.2 BALANCE

The simplest test is to look at the balance of colours or comments you have. You should have a fairly balanced percentage of comments that reflect financial improvements, improvements for customers, improvements for your activities, and improvements to your capability as an organisation.

Roughly what percentage of comments are there for each perspective (expect 25% in each)

- Financial...
- Customer...
- Process...
- Learning and growth...

Are there any business units, departments, or strategic themes where there is an obvious, or severe, imbalance?

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*A large imbalance amongst these perspectives suggests an over emphasis on some aspects, and a lack of focus or attention to other perspectives. Both are a warning. For instance:*

- *Some organisations cover the financial aspects well, but lack focus on what will create it.*
- *Few customer phrases suggest a lack of focus on what is important for them, from their perspective.*
- *Few learning and growth phrases can suggest a lack of sustainable development of the capability of the organisation and its people.*

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### 2.3 CLEAR CAUSE AND EFFECT – THE STORY OF THE STRATEGY

The exercise really highlights the cause and effect relationship and tests the story of your strategy. For any section it should be clear how the capabilities of the organisation will improve your activities and processes, thereby improving the experience for your customers and alter the financials. Unfortunately, this may not be as clear as it should be. If we want to reduce costs by 10%, what effect will it have on customers, where will the costs savings come from and what will be different this time?

Is there a clear story? Were there sections of the strategy or plan that did not tell a clear story for you?

Which sections told the story of their strategy well and explained how things will change?	Which sections did not explain how improvement will come about?
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If you have not done so already, go back over the various sections of the strategy, and review the cause and effect relationships. Ask yourself, does the logic stand up?

- Do we explain how the strategy will happen?
- What actually brings about the changes we want?
- If we have not changed in the past, what will be different this time?
- Do we tell the story of our strategy? If not what do we need to add?

I did this exercise with one organisation and could find almost no learning and growth statements. Despite intending to improve services for customers *and* reduce costs by 10%, there were no explanations as to how this would happen. I call this “Strategy by hope and magic”. I hope your strategy does not rely on this.

Remember that the Learning and Growth perspective is about building your *sustainable* capability as an organisation. Are you clear where your sustainable capability lies, and how you are building it?

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## 2.4 ORGANISATIONAL ALIGNMENT

Using this approach, we use several tests of organisational alignment: Here is one of them that looks specifically at **Projects and investments in change**.

Doing this exercise in more detail can show up some startling results. One organisation had £100m of change projects underway, yet when we asked which projects supported the strategy, we found £40m worth of projects that did not contribute. That soon paid the consultancy fees, and some.

As you read through *your* strategy did you get the sense that *your* projects:

- Support the changes you wish to achieve
- Are all necessary to implement the strategy?
- Are sufficient to bring about the changes required at the pace required?
- Are cost effective?
- Are sufficiently and effectively funded and resourced?
- Know what they have to deliver, by when?
- Are clear who is responsible for delivering the benefits?

## 2.5 GAPS IN THE STRATEGY

Having quickly reviewed your own strategy and plans, are there any major gaps:

- Sometimes there can be a major objective in the strategy, but little describes how it will be achieved....
- Sometimes there might be a major aspect of the strategy, which may not be mentioned in the plans....
- Sometimes, there is a fundamental change necessary, that is not in the strategy document (perhaps how you as a management team work together)...

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## 2.6 MEASURING STRATEGY AND MEASURING OPERATIONS

This exercise often reveals problems in the way an organisation measures its performance, which will make it difficult to track the implementation and results of the strategy difficult. I ask a set of questions about how the organisation measures its performance: Here are just three:

1) Do your current measures tell you about your current performance in each perspective?

- Go back through the statements and ask: How do I know we are achieving this?

Pay particular attention to statements about: a) your customers' views and desires; and b) Your organisation's capability and investment in learning and growth. This is where there are most likely to be gaps that you will need to fill. If you have a severe imbalance in either of these, you may have a problem.

2) Many organisations are good at measuring their operational performance. However, this is not the same as measuring the drivers and implementation of your strategy. One is what you do. The other about how you are changing and the pace of change. Are you measuring both:

- The operational performance of the organisation (which you are trying to improve)?
- The effect of the strategy in improving performance (designed to bring about change)?

3) Your measures should tell the story of your strategy as well as your words. If they tell a different story, you will have serious problems with implementation. There is a simple test of whether your measures also tell the story of your strategy to your staff.

Ask them...

## 2.7 TELLING THE SAME STORY, AS A TEAM

Finally, strategy must be understood consistently, and communicated coherently. So, as a management team:

- Do you all believe the same strategy? Do you all have the same understanding of the strategy?
- Do you all tell the same story of the strategy?

Do your staff all understand the strategy, the same way?

Ask them...

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### 3 WHAT NEXT? DISCUSSING THE IMPLICATIONS OF WHAT YOU FOUND...

Now you have some of the insights our diagnostic provides you can explore the implications in more detail. As a thank you for taking the time to complete our diagnostic, we are happy to talk about what you found and the potential implications for your organisation's strategy.

To arrange a discussion, 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.

Alternatively, send our Managing Director, Phil Jones, an email and we'll arrange a time convenient for us both.



#### 3.1 ABOUT EXCITANT

##### A NICHE CONSULTANCY

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.

##### 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.

##### CONTACT US

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