THEME 14:
STRATEGIC CONTROL

1.-Introduction: the process of (strategic) control.
2.-The Balanced Scorecard (BSC).
   2.1.-Perspectives.
   2.2.-Strategic maps.
   2.3.-Measuring the company’s performance: indicators.
   2.4.-The BSC in action: case studies.
STRATEGIC PROCESS

MISION
VISION

SWOT ANALYSIS

<table>
<thead>
<tr>
<th>STRENGHTS</th>
<th>WEAKNESSES</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPORTUNITIES</td>
<td>THREATS</td>
</tr>
</tbody>
</table>

STRATEGIC AXIS

OBJECTIVES

LINES OF ACTION

CONTROL (BSC) - DYNAMIC UPDATE
STRATEGIC PLAN

- AXIS
  - OBJECTIVES
    - LÍNES
      - ACTIONS
        - PRIORITIES (1, 2 o 3)
          - INDICATORS AND TARGETS
            - RESPONSIBLES
Successful Strategy

EFFECTIVE IMPLEMENTATION

- Simple, consistent and long-term objectives
- Profound understanding of the competitive environment
- Objective appraisal of resources
Why do 9 out of 10 companies fail to implement their business strategies? Due to:

**VISION BARRIER:**
only 5% of the workforce understands the strategy

**PEOPLE BARRIER:**
Only 25% of managers have incentives linked to strategy

**MANAGEMENT BARRIER:**
85% of executive teams spend less than one hour/month discussing strategy

**RESOURCES BARRIER:**
60% of organizations don’t link budgets to strategy

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Barriers to Strategy Implementation: Vision

Why is it so hard for employees to understand the company’s direction?

Strategy is rarely communicated in terms that relate to people’s everyday objectives, roles, and responsibilities.
TAKEAWAYS by Sanjiv Ahuja (Chairman, Orange)

- “The best way to get results from people when you’re leading a business is to ensure that the set of expectations is simple, understandable, and comprehensible across the board”.
- “You should be able to articulate your strategy on a single piece of paper. The language should be simple and crisp, not filled with buzzwords or other ‘techno-geeky’ stuff, so that employees can easily understand their roles.
- “If you cannot put that clarity in your goals, you cannot expect world-class execution”.
Why do 9 out of 10 companies fail to implement their business strategies? Due to:

**Four barriers**

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Barriers to Strategy Implementation: Management

Why do leaders spend so much time in company meetings focused on operating results (historical data and replaying history) instead of looking forward and discussing strategic issues?

Companies frequently have disconnects among financial, customer, and operational objectives, measures, and targets.
TAKEAWAYS by Lynda Gratton (Professor, LBS)

• “When looking to the future, avoid generating masses of ideas. Focus instead on the handful of ideas that will make a true difference”.
• “Doing this successfully requires focus. Align those key ideas with the business strategy in a way that employees can become excited and engaged”.
• “Identify those ideas that are important to the organization for the future, but that you’re not working on now, as areas of risk”.
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Barriers to Strategy Implementation: Resources

Why do most companies do not link budgets to strategy?

Companies may be pursuing financial strategies that differ from or, worse, may be in conflict with their operational and customer strategies.
TAKEAWAYS by David Brandon (Chairman and CEO, Domino’s Pizza)

• “When an organization is successful, people tend to believe that they can stop improving. But things never stay the same: either you get better, or you get worse”.
• “The minute companies become complacent and apathetic is the minute they begin to fail. To have a high-performance organization, you must foster a culture of continuous improvement”.
• “Don’t accept mediocrity: instead, look to your competitors, and benchmark yourself against them to achieve world-class performance”.
Why do 9 out of 10 companies fail to implement their business strategies? Due to:

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Barriers to Strategy Implementation: People

Why do management incentives are not linked to the company strategy?

Most companies are rewarding management for activities not linked to company strategic and operational plans.
TAKEAWAYS by Domenico de Sole
(Former President and CEO, Gucci Group)

• “For any company to be successful, a strong match must exist between the strategy and the human resources needed to achieve the goal”.
IMPLEMENTATION:
Alignment

ALIGNMENT
S/T & L/T

STRATEGY

PEOPLE & CULTURE

PROCESSES & STRUCTURE
MODEL FOR STRATEGY IMPLEMENTATION

CUSTOMER VALUE PROPOSITION
Why should customers buy from us?

STRATEGY COMMITMENT
What does the strategy mean for me and my job? What am I committing to?

CULTURE
What are our values, and how do we do things around here?

BEHAVIOR OF LEADERS
How do my leaders enable and support me to do the job they expect from me?

PERFORMANCE METRICS
Will I be evaluated and rewarded in function of our customer value proposition?

PROCESS & STRUCTURE
Do the processes/structure support our strategy/customer value proposition?
TAKEAWAYS by Robert Sutton (Professor, Stanford University)

• “It is great to have enthusiasm in an organization, but only if the ideas and beliefs are tested”.

• “When you have evidence for the strategy you’re undertaking, you make better decisions and avoid wasting money on things that don’t matter”.

• “Organizations should always test their ideas with real experiments or pilot programs”.
TO SUM UP:

- PLAN  LEADERS  PEOPLE  RESOURCES  ACTION  →  SUCCESS
- PLAN  LEADERS  PEOPLE  RESOURCES  ACTION  →  CONFUSION
- PLAN  PEOPLE  RESOURCES  ACTION  →  ANXIETY
- PLAN  LEADERS  RESOURCES  ACTION  →  SLOWNESS
- PLAN  LEADERS  PEOPLE  ACTION  →  FRUSTRATION
- PLAN  LEADERS  PEOPLE  RESOURCES  →  DREAMS
(*) "The Balanced Scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

(Kaplan & Norton)
THE BALANCED SCORECARD …

• …is like the dials in an airplane cockpit: it gives managers complex information at a glance.
• …shows how results are achieved.
• …tracks the key elements of a company’s strategy.
• …puts strategy –not control- at the center.
1. Differences from a traditional Scorecard

Beyond short run

Cause-effect relations

Four perspectives

Within each perspective

Between perspectives

Financial

Customer

Internal processes

Learning & growth

5.- LEARNING & GROWTH PERSPECTIVE

Inductors (means)

Indicators

Results

4.- INTERNAL PERSPECTIVE

Critical processes (value chain)

Objectives and indicators

3.- CUSTOMER PERSPECTIVE

Market segmentation

Objectives & indicators

2.- FINANCIAL PERSPECTIVE

Objectives

Indicators

Results (effect)

Inductors (causes)

BALANCED SCORECARD (BSC)

1. -Differences from a traditional Scorecard

2. -Financial perspective

3. -Customer perspective

4. -Internal perspective

5. -Learning & growth perspective

- People (competencies).
- Employees capabilities.
- Systems (technology infrastructure).
- Information Systems capabilities.
- Procedures (work climate).
- Motivation, power delegation, & objectives consistency.

Beyond short run

- Cause-effect relations
- Between perspectives
- Global perspective, not financial only

- Four perspectives
- Financial
- Customer
- Internal processes
- Learning & growth

- Growth and diversification
- Costs and productivity
- Assets use and investment

- SBU strategy
- Live Cycle
- Growth
- Stability
- Harvest

- Live Cycle
- SBU strategy
- Growth
- Stability
- Harvest

- Objectives & indicators
- Indicators
- Results (effect)
- Inductors (causes)
- Objectives
- Indicators
- Results (effect)
- Inductors (causes)

- Strategic issues
- Costs and productivity
- Assets use and investment

- Sales growth.
- Return on investment.
- Cash Flow.
- Risk.

- Market share.
- New customers.
- Customers retention.
- Customers satisfaction.
- Profitability from customers.

- Product attributes.
- Image.
- Customers relationships.
1. The creation of a strategy based company

Principles

1. To translate the strategy into operative terms.
2. To align the organisation with the strategy.
3. To ensure that the strategy becomes the daily work of everyone.
4. To make the strategy a continuous process.
5. To mobilise change through the upper echelon leadership.

Management Control

New management approach

Strategic Management

Strategic Map: elements

1. BSC perspectives
2. Key factors of success
3. Strategic objectives
4. Cause-effect relationships
5. Indicators
6. Targets
7. Initiatives (programs, actions)
8. Budgeting (resources allocation)
9. Responsibilities
THE CREATION OF A STRATEGY BASED COMPANY. Principles

1.-Translating the strategy into operative terms.
   -Corporate BSC (strategic map).
   -Its deployment towards the organizational units.

2.-Aligning the organisation with the strategy.
   -Decisions and actions based on (consistent with) the strategic plan.
   -Deployment of this plan to the organizational units (management by objectives).

3.-Ensuring that the strategy becomes the daily work of everyone.
   -Dissemination of our strategic plan.
   -Training.
   -System of incentives.

4.-Making the strategy a continuous process.
   -Regular monitoring of objectives and actions.
   -Establishing a link between strategic plan and budgets.

5.-Mobilising change through the upper echelon leadership.
   -Encouraging participation.
   -Implementing an Information System for Strategic Management.
# STRATEGIC MAP

## PERSPECTIVES

<table>
<thead>
<tr>
<th>Perspectives</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>Profitability</td>
</tr>
<tr>
<td>(it expresses the shareholders’ expectations, the measurement of the financial results)</td>
<td>Sales growth</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>Loyalty</td>
</tr>
<tr>
<td>(it reflects the company’s position in the market place)</td>
<td>Customers satisfaction</td>
</tr>
<tr>
<td><strong>Internal processes</strong></td>
<td>Quality of Service</td>
</tr>
<tr>
<td>(it is based on the internal processes that are critical to achieve the results sought)</td>
<td></td>
</tr>
<tr>
<td><strong>Learning &amp; Growth</strong></td>
<td>Employees satisfaction</td>
</tr>
<tr>
<td>(the development of people working for the organization)</td>
<td>Incentive schemes</td>
</tr>
<tr>
<td>Perspectives</td>
<td>Strategy</td>
</tr>
<tr>
<td>--------------</td>
<td>----------</td>
</tr>
<tr>
<td>Financial</td>
<td>Increase shareholders value</td>
</tr>
<tr>
<td></td>
<td>In each market become at least n.2</td>
</tr>
<tr>
<td>Customers</td>
<td>Create an image as a leading innovator</td>
</tr>
<tr>
<td></td>
<td>Offer the latest technology at a premium price</td>
</tr>
<tr>
<td>Internal Processes</td>
<td>Reduce time to market</td>
</tr>
<tr>
<td></td>
<td>Improve the patent process</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Improve the R&amp;D process</td>
</tr>
<tr>
<td></td>
<td>Create a network for know-how sharing</td>
</tr>
<tr>
<td></td>
<td>Improve the technological infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# EXAMPLES OF KEY FACTORS OF SUCCESS

<table>
<thead>
<tr>
<th>FOOD PROCESSING</th>
<th>AUTOMOBILE INDUSTRY</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Development of new products.</td>
<td>- Design.</td>
</tr>
<tr>
<td>- Good distribution.</td>
<td>- Organizational efficiency.</td>
</tr>
<tr>
<td>- Advertising.</td>
<td>- Control of production costs.</td>
</tr>
</tbody>
</table>
# MEASURING THE STRATEGY: control and learning

<table>
<thead>
<tr>
<th>PERSPECTIVE</th>
<th>SOME INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning &amp; Growth</td>
<td>Employee satisfaction. Availability of information.</td>
</tr>
</tbody>
</table>
The experience of a semiconductor company: Electronic Circuits Inc.

<table>
<thead>
<tr>
<th>OBJ.</th>
<th>INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survive</td>
<td>Cash Flow.</td>
</tr>
<tr>
<td>Succeed</td>
<td>Quarterly sales growth and operating income by division.</td>
</tr>
<tr>
<td>Prosper</td>
<td>Increased Market Share and ROE.</td>
</tr>
</tbody>
</table>
The experience of a semiconductor company: Electronic Circuits Inc.

<table>
<thead>
<tr>
<th>CUSTOMER PERSPECTIVE</th>
<th>OBJ. INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>New products</td>
<td>-Percent of sales from new products. -Percent of sales from proprietary products.</td>
</tr>
<tr>
<td>Responsive supply</td>
<td>On-time delivery (defined by customer).</td>
</tr>
<tr>
<td>Preferred supplier</td>
<td>-Share of key accounts’ purchases. -Ranking by key accounts.</td>
</tr>
<tr>
<td>Customer partnership</td>
<td>Number of cooperative engineering efforts.</td>
</tr>
</tbody>
</table>
The experience of a semiconductor company: Electronic Circuits Inc.

<table>
<thead>
<tr>
<th>Obj.</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology capability</td>
<td>Manufacturing geometry vs. competition.</td>
</tr>
<tr>
<td>Manufacturing excellence</td>
<td>Cycle time; Unit cost; Yield.</td>
</tr>
<tr>
<td>Design productivity</td>
<td>Silicon efficiency; Engineering efficiency.</td>
</tr>
<tr>
<td>New product introduction</td>
<td>Actual introduction schedule vs. plan.</td>
</tr>
</tbody>
</table>
The experience of a semiconductor company: Electronic Circuits Inc.

<table>
<thead>
<tr>
<th>OBJ.</th>
<th>INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology leadership</td>
<td>Time to develop next generation.</td>
</tr>
<tr>
<td>Manufacturing learning</td>
<td>Process time to maturity.</td>
</tr>
<tr>
<td>Product focus</td>
<td>Percent of products that equal 80% sales.</td>
</tr>
<tr>
<td>Time to market</td>
<td>New product introduction vs. competition.</td>
</tr>
</tbody>
</table>
OTHER MEASURES FOR THE CUSTOMER’S PERSPECTIVE

• A computer manufacturer wanted to be the competitive leader in customer satisfaction, so it measured competitive rankings. The company got the rankings through an outside organization hired to talk directly with customers.

• The company also wanted to do a better job of solving customer’s problems by creating more partnerships with other suppliers. It measured the percentage of revenue from third-party relationships.
OTHER MEASURES FOR THE CUSTOMER’S PERSPECTIVE

• The customers of a producer of very expensive medical equipment demanded high reliability. The company developed two customer-based metrics for its operations: equipment up-time percentage and mean-time response to a service call.
OTHER MEASURES FOR THE CUSTOMER’S PERSPECTIVE

• A semiconductor company asked each major customer to rank the company against comparable suppliers on efforts to improve quality, delivery time, and price performance. When the manufacturer discovered that it ranked in the middle, managers made improvements that moved the company to the top of customers’ ranking.
OTHER MEASURES FOR THE INTERNAL PROCESSES PERSPECTIVE

• One company recognized that the success of its TQM program depended on all its employees internalizing and acting on the program’s messages. The company performed a monthly survey of 600 randomly selected employees to determine if they were aware of TQM, had changed their behavior because of it, believed the outcome was favorable or had become missionaries to others.
OTHER MEASURES FOR THE INTERNAL PROCESSES PERSPECTIVE

• Hewlett-Packard uses a metric called breakeven time (BET) to measure the effectiveness of its product development cycle. BET measures the time required for all the accumulated expenses in the product and process development cycle (including equipment acquisition) to be recovered by the product’s contribution margin (the selling price less manufacturing, delivery, and selling expenses).
OTHER MEASURES FOR THE INTERNAL PROCESSES PERSPECTIVE

• A major office products manufacturer, wanting to respond rapidly to changes in the marketplace, set out to reduce cycle time by 50%. Lower levels of the organization aimed to radically cut the times required to process customers orders, order to suppliers and receive material from them, move materials and products between plants, produce and assemble products, and deliver products to customers.
THE BALANCED SCORECARD (BSC)

• VIDEO:
  http://www.thepalladiumgroup.com/Videos/video_norton_720x540.html

• Balanced Scorecard Collaborative:
  http://www.thepalladiumgroup.com/

• Balanced Scorecard Institute:
  http://www.balancedscorecard.org/
MAIN ELEMENTS OF A BSC

- STRATEGY
  - BSC PERSPECTIVES
    - OBJECTIVES+INDICATORS
      - RESULTS (EFFECTS)
      - GENERIC
    - INDUCTORS (CAUSES)
      - ESPECIFIC
    - CAUSE-EFFECTS RELATIONSHIPS (STRATEGIC MAP)
### CAUSE AND EFFECT RELATIONSHIPS WITHIN EACH PERSPECTIVE

<table>
<thead>
<tr>
<th>PERSPECTIVES</th>
<th>RELATIONSHIPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>- Claims for interest on delays.</td>
</tr>
<tr>
<td></td>
<td>- Time payment to suppliers.</td>
</tr>
<tr>
<td>Customers</td>
<td>+ Congratulations.</td>
</tr>
<tr>
<td></td>
<td>+ Times answering the phone within three rings.</td>
</tr>
<tr>
<td>Internal processes</td>
<td>- Corrective interventions.</td>
</tr>
<tr>
<td></td>
<td>+ Preventive inspections.</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>+ Promotions.</td>
</tr>
<tr>
<td></td>
<td>+ Technical training.</td>
</tr>
</tbody>
</table>
## Aliant Strategy Map (Nixen, 2005)

<table>
<thead>
<tr>
<th>PERSPECTIVES</th>
<th>OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial</strong></td>
<td>Grow Aliant Profitability</td>
</tr>
<tr>
<td>(Increase Shareholder Value)</td>
<td></td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td>Serve Customers on their Terms with Passion and Integrity to Build Loyalty</td>
</tr>
<tr>
<td>(Everything Begins with the Customer)</td>
<td></td>
</tr>
<tr>
<td><strong>Internal Processes</strong></td>
<td>Allocate all Aliant Resources Effectively</td>
</tr>
<tr>
<td>(Innovate, Collaborate and Allocate)</td>
<td></td>
</tr>
<tr>
<td><strong>Employee Learning &amp; Growth</strong></td>
<td>Build and Environment Where People Feel Valued and Maximize their Potential</td>
</tr>
<tr>
<td>(Create a Workforce that is Informed, Developed, Engaged and Inspired)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Share Information, Listen More and Respond</td>
</tr>
<tr>
<td></td>
<td>Create a Safe and Healthy Environment that Supports the Balance in People's Lives</td>
</tr>
</tbody>
</table>
La Casa di Poggi (Formisano, 2004)

<table>
<thead>
<tr>
<th>PERSPECTIVES</th>
<th>OBJECTIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Revenue</td>
</tr>
<tr>
<td>Customer</td>
<td>Quality</td>
</tr>
<tr>
<td>Internal Processes</td>
<td>Menu Options</td>
</tr>
<tr>
<td>Employee Learning &amp; Growth</td>
<td>Profit-Sharing Plan</td>
</tr>
<tr>
<td></td>
<td>Pricing-Portions</td>
</tr>
<tr>
<td></td>
<td>Training</td>
</tr>
</tbody>
</table>

Revenue
Profitability
Quality
Dining Experience
Menu Options
Pricing-Portions
Profit-Sharing Plan
Training
<table>
<thead>
<tr>
<th>PERSPECTIVES</th>
<th>OBJECTIVES</th>
<th>MEASURES-INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Profitability</td>
<td>-Return On Investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Revenue Per Available Reservation</td>
</tr>
<tr>
<td></td>
<td>Revenue</td>
<td></td>
</tr>
<tr>
<td>Customer</td>
<td>Quality</td>
<td>-Satisfaction &amp; Return Rate</td>
</tr>
<tr>
<td></td>
<td>Dining Experience</td>
<td>-Free Media Rate</td>
</tr>
<tr>
<td>Processes</td>
<td>Menu Options</td>
<td>-Revenue/Cost Ratio</td>
</tr>
<tr>
<td></td>
<td>Pricing-Portions</td>
<td>-Beverage/Food Ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Items per Check</td>
</tr>
<tr>
<td>Employee</td>
<td>Training</td>
<td>-Revenue/Employees</td>
</tr>
<tr>
<td></td>
<td>Profit-Sharing Plan</td>
<td>-Voluntary Turnover</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Employee Satisfaction</td>
</tr>
</tbody>
</table>

+ Targets + Initiatives + Budgets + Responsibilities.
A MORE COMPREHENSIVE CASE STUDY:

• The case of GIVSA

1. How to communicate the company’s direction effectively?
2. How to align financial, customer and operational objectives consistently?
3. Why is the budget-strategy link relevant?
4. How to create a strategy-oriented reward system?
“Making Strategy Work” (*). Lessons:

1. - COMMUNICATE YOUR STRATEGY CLEARLY.
2. - THE IMPACT OF STRATEGIC STORYTELLING.
3. - SETTING CLEAR AND ACHIEVABLE GOALS.
4. - IF YOU’RE NOT GETTING BETTER, YOU’RE GETTING WORSE.
5. - WATCH YOUR COMPETITORS AND CHALLENGE YOUR STRATEGY.
6. - TEACH MANAGERS HOW TO THINK, NOT WHAT TO THINK.
7. - FINDING THE FLOWERS AMONG THE WEEDS.
8. - TESTING BEFORE IMPLEMENTING.
9. - PROFITING FROM EVIDENCE-BASED MANAGEMENT.
10. - ALIGNING STRATEGY ACROSS MULTIPLE BUSINESS UNITS.
11. - MATCHING PEOPLE TO STRATEGY.
12. - SATISFYING YOUR CUSTOMERS.
13. - STICK TO BUSINESS PRINCIPLES.