

Balanced Scorecard **REPORT**

INSIGHT, EXPERIENCE & IDEAS FOR EXECUTING STRATEGY

ON BALANCE

Building an Organized Process for Strategy Communication

By David P. Norton, Chairman and Cofounder, Balanced Scorecard Collaborative, and President, Palladium Group, Inc., and James Coffey, Manager, Palladium Group, Inc.

What can make or break a customer partnership strategy? Sink an otherwise successful merger or acquisition? Answer: employee behavior. The frontline employee is the key to successful strategy execution. Successful organizations know that; that's why they put resources into communicating strategy to employees—over and over, through different channels and in different formats. What four elements should be the basis of every Strategy-Focused Organization's communications program?

In the New Economy, strategy is executed from the ranks. Employees interact with customers and peers; senior executives do not. No longer the exclusive domain of the CEO, strategy is literally everyone's job. As Dick Clark, CEO of Merck, once said, "Culture eats strategy for lunch."¹

Yet despite the ample evidence of employees' pivotal role in strategy execution, 95% of workers typically do not understand their organization's strategy.² Employees are not informed about it, do not know their relation to it, and are not incented to find out. Many executives treat their strategy with the same secrecy accorded the formula for Coca-Cola. They fear that by revealing it to their employees, they will also be revealing it to their competitors.

However, we are seeing signs of a new openness about strategy. In a March 2006 Balanced Scorecard Collaborative survey of 143 performance management professionals,³ we found that 73% of the companies that were outperforming their peers had a formal process for communicating strategy to their employees. Among the underperformers, only 28% had such a process.

In 2000, when the Royal Canadian Mounted Police (RCMP) introduced a new strategy of integrated policing, the force surveyed employees, asking, "Do you see value in personally understanding the organization's strategy?" A resounding 100% of the line employees who fight crime answered "no." To them, strategy was something that the bureaucrats in Ottawa worried about; a crime fighter had to deal with real-world, life-and-death issues every day. Fast forward four years. So successful was the new strategy⁴ that it won the RCMP entry into the Balanced Scorecard Hall of Fame in 2004. In the force's most recent survey, 70% of the frontline crime fighters said they saw value in understanding the strategy and overall performance results. This knowledge, they claimed, helped them perform their own jobs better, and even support other aspects of the agency's strategy they didn't directly touch.

Through our research of successful organizations, we have learned that *understanding* the strategy is a prerequisite to *executing* the strategy. Employees cannot make proper judgments when interacting with customers, partners, and peers unless they understand the strategy and their role within it. Creating this understanding is not easy. Strategy is a complex subject that touches every

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Winning the Transformation Battle at the Defense Finance and Accounting Service

Lean government? At DFAS, the U.S. Department of Defense's financial management arm, this is no oxymoron. In its brief existence, the agency—the world's largest finance and accounting service—has successfully transformed itself into a performance-driven, results-oriented organization amid major downsizings and restructurings.

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Linking Strategic Planning and the Rolling Financial Forecast at Millipore

Perhaps being on the cutting edge is just business as usual for a life sciences firm. Massachusetts-based Millipore abandoned the traditional budget in 2005 in favor of the more flexible, strategy-enabling rolling financial forecast. Its office of strategy management played a central role in this radical move, which has, among other things, given the company vastly greater control over managing its strategic initiative expenditures.

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Empowering the Individual to Execute Strategy

As Norton and Coffey argue in this month's On Balance article, strategy is executed from the ranks. But it's not enough for employees to understand the strategy; they must understand their role in executing it. That's where the personal Balanced Scorecard comes in. Learn how this important tool helps delineate the individual's job responsibilities while making the connection between their everyday job and the organization's objectives. Think of it as alignment at the cellular level.

facet of a business, from finance to products, customers to technology. For large companies with thousands of employees, the effort is complicated by diverse backgrounds and values. Educating your workforce about the strategy, as well as your progress in achieving it, takes more than a brochure, pep talk, or report. It requires a comprehensive approach that makes strategy the central agenda around which all internal communication is organized. The employee Strategic Communication (which we call “Stratcomm”) program must be as comprehensive and systematic as an external marketing communications program that’s intended to convert prospects into customers. It’s a call to action for the organization, designed to align behavior with the strategy. An effective Stratcomm program contains four components.

1. Define the Target Audience and Key Communication Objectives

Every part of an organization has different informational goals and needs, so the first step in designing a Stratcomm program is identifying each distinct audience segment and assessing its particular needs. *Figure 1* shows a simple 2x2 matrix of the basic audience segments,

both internal and external, that either formulate or execute strategy. With more than 1 million members, the U.S. Army is a huge, hierarchical organization that tends toward functional specialization. Its Stratcomm program focused heavily on the internal/strategy-formulating audience segment (Quadrant I) to promote a more strategic mindset at senior management levels. Leaders figured that attitude changes at the top would trickle down through the chain of command. The Army identified three distinct senior management audiences: (1) senior leadership/ headquarters (generals), (2) major commands and staff groups, and (3) subordinate organizations to which the strategy was being cascaded. A fourth segment, external audiences (Quadrant IV), included other military branches, global defense organizations, and the general public.

Southwest Airlines (SWA) faced a very different communications challenge. The company had developed an exemplary strategic infrastructure at the top based on its new strategy for competing in the post-9/11 world. Leaders had already developed a Quadrant I program that included an Executive Briefing Book, measures and targets, and a data warehouse. But something was missing: the link

Figure 1. Target Audience Segments

Strategy-Formulation Level	<ul style="list-style-type: none"> • Board of directors • Executive leadership • Senior management 	<ul style="list-style-type: none"> • Shareholders • Analysts 	I	III
	Strategy-Execution Level	<ul style="list-style-type: none"> • Middle management • Line management • Frontline staff 	<ul style="list-style-type: none"> • Customers • Suppliers • Regulators • Community • Family 	II
		Internal Audience	External Audience	

Classifying all audience groups into four primary segments—those that make strategy, those that execute it, and internal and external audiences—is the first step in designing a program.

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Letters, editorials, ideas for articles, and other contributions may be submitted to: Randall H. Russell, *Balanced Scorecard Report*, 55 Old Bedford Road, Lincoln, MA 01773 or russell@bscol.com.

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Figure 2. Types of Communications and Media Channels

Strategy Level	<ul style="list-style-type: none"> • Quarterly business unit reviews • Quarterly committee meetings • Annual management reviews • Executive forums • President’s strategy review • Board of directors meetings • Executive development program 	<ul style="list-style-type: none"> • Local intranet reports • Newsletters • Webinars • Best-practice sharing
	Execution Level	<ul style="list-style-type: none"> • Town hall meetings • CEO messages • Employee/manager discussions • “Walk the talk” (drop-ins) • Small group meetings • Performance workshops
	Rich Channels	Lean Channels

Some lean channels (such as videos) can be enriched through the use of other channels, such as post-screening departmental meetings, to reinforce a message.

to the lower ranks. SWA has traditionally empowered employees to make things happen. SWA soon launched “BizLit” (“business literacy”), a Quadrant II program, to make frontline employees aware of the strategy so they could understand how to execute it. SWA wanted employees to know that their prosperity was tied to the company’s prosperity, and that their actions could make a difference.

In between the hierarchical Army and the populist SWA lies Marriott Vacation Club International (MVCI). MVCI integrates all phases of the fractional vacation ownership business: it buys the land, develops five-star resorts, sells ownership interests, and manages the property for owners. The company’s greatest challenge has been sustaining its spectacular growth while still effectively managing its worldwide operations. Through process-based management,⁵ MVCI deconstructed organizational silos to manage its vertical activities more efficiently. The company then turned to the BSC to hone its management approach and distribute strategy management and execution responsibility throughout the

organization. Leaders created a Quadrant II communications program that targeted every employee, since they are all instrumental to MVCI’s mission—ensuring that clients have an “awesome vacation.”

The company established clear communications guidelines:

- Build a brand identity for its BSC to boost recognition.
- Communicate the right information at the right time.
- Make the message relevant for the intended audience.
- Use a variety of media.
- Solicit feedback to determine effectiveness.
- Have senior management personally lead BSC communications.

Through a broad mix of media and other channels, MVCI tailors its communications to specific audiences within Quadrant II to ensure they get the right message. MVCI keeps all employees informed of progress against the strategy, celebrates successes, and ensures management delivers news promptly.

2. Identify the Message Streams

The next step is to define the message streams that will accomplish your communications objectives. A message stream is a continuing flow of information on a given subject. The Army, for example, developed four: (1) “The Strategic Readiness System (SRS): Why We Need It” (SRS is the Army’s name for its BSC program), (2) “The Measurable Benefits” (What’s in it for me?), (3) “Integrating SRS with Other Processes” (such as planning and budgeting), and (4) “Achieving Buy-In” (to ensure midlevel leaders don’t sabotage the program).

SWA created four message streams to support its Quadrant II objectives: (1) “About the Strategy,” (2) “About the ‘Magic Numbers’” (an explanation of key financial results), (3) “Reporting Results” (how to convey results to employees), and (4) “Impact of the Individual on Performance.” Executives wanted employees to understand how their strategy related to the numbers—how fewer planes and faster turn-arounds could deliver the desired return on investment (ROI). They wanted to make ROI personal. For senior management, the “About the Strategy” message stream was built into executive development. For ramp agents and pilots, the description of the strategy in this stream was less detailed and technical.

3. Select and Design the Channels

A message must be reinforced if it is to be retained. And Stratcomm messages cannot just be easy to remember—they must change behavior. The art of designing an effective Stratcomm program is delivering the message “seven times in seven ways,” as the old advertising saw goes: selecting the right array of media and the appropriate frequency for your messages and audiences to drive

the information home and move people to act on it.

Some media facilitate retention better. Some are cheaper. We broadly characterize media as either “rich” or “lean.” Rich media involve personal interaction, such as meetings, workshops, and Webinars, and are thus more likely to “stick.” Lean media are impersonal and passive, and include brochures, newsletters, and information posted on the intranet. Each has its trade-offs, but effective programs require both. Rich programs cost more, and because they are events, entail scheduling logistics, which, at large organizations especially, can require more lead time. Rich programs, however, are inherently fresher, whereas lean media grow stale and require updating to remain relevant and effective. But lean media can be reviewed repeatedly, at the employee’s will and convenience. *Figure 2* (previous page) identifies typical media and channels for different audiences.

One of the richest channels for engaging the strategy makers is the regular strategy meeting. (Because executives routinely meet for management purposes, rich channels are the default at that level, though many companies also provide a lean channel—a quarterly report on strategic performance—to their executive committee, departments, functional areas, and board of directors.) Embedding the strategy in the agendas of all management meetings is the most effective way to educate senior management and influence their decision making. The Bank of Tokyo-Mitsubishi (before its merger with UBJ) did just that; it aligned its committee structure to its strategic themes. Risk management, one of three strategic themes, was on the agenda of five committees that met monthly or quarterly. Each committee reviewed its perform-

ance against strategy map objectives. The information supporting the committees provided a continuous stream of communications on risk.

So how do organizations use rich media to reach “the masses”? We’ve seen many creative approaches. Jack Klink, the former Vice Chairman of Mellon Europe, practiced “walk the talk.” As he strolled about the company’s offices, he would stop randomly at a cubicle, produce a copy of Mellon’s strategy map, and ask the individual, “How does your job affect our strategy?” The personal touch—a combination of on-the-spot pressure and flattery from a top executive—had a profound effect on heightening employees’ interest in the meaning of the strategy.

An effective Stratcomm program blends rich and lean media to provide constant education and reinforce the strategy message. Through a quarterly campaign (newsletter and posters) called “Knowing the Score,” SWA briefed its workforce on key performance results. Accompanying these lean communications was a video series called “The Reel Deal,” whose animated characters helped explain strategic performance. “Nick” described net income, “Marge” communicated margin, and “Cass” conveyed cost per available seat-mile. Animated graphics communicated the “magic numbers” and why Nick, Marge, and Cass were important to the strategy. The Reel Deal series also featured department heads explaining their numbers. After screening the latest video, department leaders would conduct a two-hour workshop with employees called “Let’s Talk About Us” to discuss their department’s quarterly performance. More than 17,000 employees participated in these workshops. By blending lean (video) and rich (workshop) media, this campaign resulted in 50% more

of SWA’s employees being able to describe the company’s strategy and key performance numbers.

MVCI also blends rich and lean communications wisely. Certain lean communications, such as the quarterly strategic performance report, come in two versions: a detailed one for management and a one-page overview for employees. Managers enrich these overviews by delivering the message personally to their associates. The “How to Manage Strategically” message stream is delivered via a Webinar where employees are walked through the message; it is also available via download from the company intranet. An annual strategy-planning brochure (lean), customized for employees by area of responsibility, links the individual’s performance to the strategy. It is translated into the employees’ local language (MVCI operates in six foreign countries) to ensure that nothing is lost in translation, and a letter from the company president accompanies each brochure to add weight to the communication. Other lean communications, such as posters and payroll stuffers, complement the rich media. As MVCI’s scorecard has matured, the messages have shifted their emphasis to employees’ daily work.

Figure 3 shows a large organization’s Stratcomm program, listing six main types of media and their position on the “Lean/Rich” scale. Where possible, this organization strives for the richest format.

4. Measure, Solicit Feedback, and Foster Learning

Getting employee feedback on your Stratcomm program is essential. It verifies whether the message was received, understood, and acted on by the target audience. Feedback will also indicate whether and how you must modify the message and/or the channels to ensure your audience(s) get the message.

Organizations use a variety of feedback mechanisms, such as e-mail surveys (annual, quarterly, and ad hoc) and an electronic intranet suggestion box. Be sure to:

- Seek feedback from all levels of the organization that you target.
- Ask target audiences “What did you understand?” (“How did you interpret the message?”) Probe to see that the message wasn’t misconstrued. If you say “We’re going to get more cost-effective to become more competitive,” be sure employees don’t interpret that as meaning “incentive compensation will disappear.”
- Convey that performance is measured against the strategy, so the audience knows why it is important to understand the strategy and their role in executing it.

Employee surveys are the primary source of statistical feedback and the most reliable barometer of whether your program is on track. To ensure employees aren’t simply paying lip service, ask substantive questions about the strategy, such as “Identify the three most important things about quality,” or “Why are we imple-

menting a new customer relationship management program?” Employee’s answers will indicate whether the message is getting through.

But statistics won’t tell the whole story. Observe the nature and quality of dialogue with your employees. What questions are they asking? For example, at MVCI, when employees start asking, “Where is the brochure?” around the time the annual planning brochure is due out, managers know it has become a valued tool. What kinds of decisions are employees making in the field? These are the ultimate indicators that your program is working. And by holding discussions with middle managers, senior managers can learn what their subordinates need to bolster communications to their teams, as well as share insights on ways to improve the Stratcomm program.

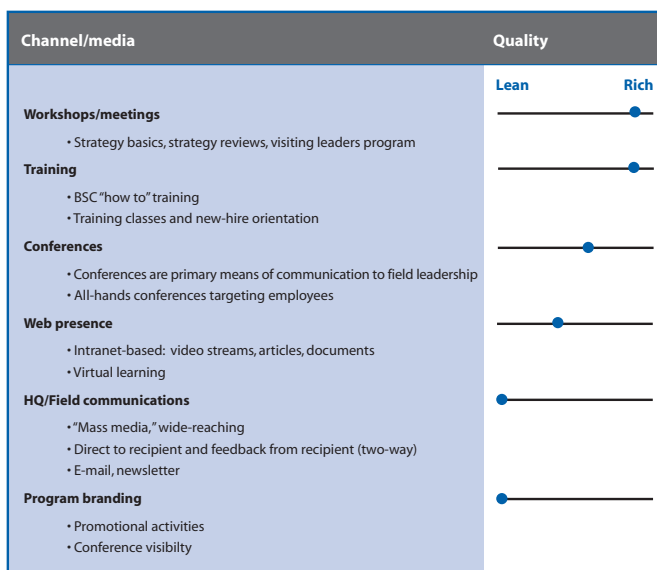
Effective communications engage employees. With a clearer understanding of the organization’s strategic goals and of their individual role in accomplishing them, employees can focus on the activities that are most important. They will also gain an intuitive sense of the right thing to do—

and more importantly, do it. Developing an effective communications program requires:

- *Understanding your audience.* Who are they and what do they need to know and understand?
- *Developing the right message.* What is the most effective way to communicate your message to your audience? How does each audience respond to different types of messages?
- *Deciding how to deliver the message.* What is the right mix of channels and media that will keep the audience interested and the message fresh?
- *Verifying what was actually communicated.* Institute a feedback mechanism that confirms your audience received the message you wanted them to receive—and that it is delivering the desired results.

Lou Gerstner, former CEO of IBM, succinctly framed the critical value of strategy communications: “If you want to out-execute your competitors, you must communicate clear strategies and values, reinforce those values in everything the company does, and allow people to act, trusting they will execute consistent with the values.”⁶ ■

Figure 3. Example of an Integrated Stratcomm Program



This table illustrates the six main types of media used by a large organization and their positions on the lean/rich scale.

1. Christopher Bowe, “The Man Who Has to Shake Up Merck,” *Financial Times*, March 27, 2006.

2. Renaissance Solutions study, 1996.

3. David P. Norton, *Making Strategy Execution a Competitive Advantage*, a Balanced Scorecard Collaborative research study sponsored by Cognos, Inc., June 2006.

4. See Andrew J. Pateman and Geoff Gruson, “Creating Organizational Alignment at the RCMP with the Scorecard,” *BSR* September–October 2004; the Balanced Scorecard Hall of Fame Profile on the Royal Canadian Mounted Police; and the *Balanced Scorecard Hall of Fame Report 2005*, which features an overview of the RCMP; available at www.harvardbusinessonline.org.

5. Organizational management expert Michael Hammer conceived of the process-based approach to organizational structure, introduced in his best-selling book (coauthored with James Champy) *Reengineering the Corporation* (HarperBusiness, 1993). See www.hammerandco.com.

6. Louis V. Gerstner, Jr., *Who Says Elephants Can’t Dance? Inside IBM’s Historic Turnaround* (HarperCollins, 2002).