Mark L. Frigo, Editor

The Office of Strategy Management*

BY ROBERT S. KAPLAN AND DAVID P. NORTON

The balanced scorecard, while initially developed to improve performance measurement, is now being used as a powerful tool for rapid and effective strategy implementation. After developing their balanced scorecards, however, many companies make a serious error by continuing to plan, allocate resources, budget, report, communicate, and conduct management reviews as they have in the past. The failure to align their management processes to strategy causes them to fall considerably short of achieving their strategy's potential. (In our 2001 book, *The Strategy-Focused Organization*, published by HBS Press, we described how successful companies align their management processes to strategy.)

We have recently observed several organizations sustaining their focus on strategy implementation by establishing a new corporate-level unit, an Office of Strategy Management (OSM). The emergence of this new office made us aware of a gap in most organizations' management structures. All organizations have offices that manage finances, human resources, information technology, marketing, strategic planning, and quality. But few have an office or department with prime responsibility for managing *strategy*. Though strategy execution is ultimately the responsibility of line managers, without central guidance, strategy is either omitted from key management processes, or management processes are uncoordinated across functions and business units. Organizations such as Chrysler, the U.S. Army, Crown Castle, Canadian Blood Services, and St. Mary's Duluth Clinics have avoided this pitfall by elevating their BSC project leader and team to a high-level corporate Office of Strategy Management to perform or coordinate nine ongoing strategy execution processes whose full responsibilities we describe next.

1. Scorecard Management

The OSM becomes the organizational owner of the balanced scorecard, which entails several responsibilities. At the annual strategy meeting, the OSM ensures that the updated strategy gets translated into the objectives, measures, targets, and initiatives on the organization's strategy map and balanced scorecard. During the year, the OSM conducts training and education courses about the balanced scorecard management system and serves as the central organizational resource to coach, educate, train, and assist local project leaders about the BSC methodology and tools.

The OSM manages the ongoing data collection and reporting process. It standardizes balanced scorecard terminology and measurement definitions across the organization; selects the metric owners, the people or departments that collect and report the data on individual BSC measures with the desired frequency; and coordinates with the internal audit department to ensure that data collection processes for the scorecard produce information that's valid, reliable, and auditable.

2. Organization Alignment

The OSM facilitates the development

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and cascading of balanced scorecards at different hierarchical levels of the organization. Its responsibilities for the alignment process include:

- Defining, on the corporate scorecard, the synergies to be created through cross-business behavior at lower organization levels.
- Linking business unit strategies and scorecards to corporate strategy.
- Linking support unit strategies and scorecards to business unit and corporate strategic objectives.
- Linking external partners, such as customers, suppliers, joint ventures, and the board of directors, to the organization's strategy.
- Organizing the executive leadership team's review and approval process for the scorecards produced by the business units, support units, and external partners.

3. Strategy Communication

The OSM ensures that internal communication to employees includes messages about strategy, the strategy map, and the measures, targets, and strategic initiatives on the balanced scorecard. It also ensures that training and education programs about the BSC are included in employee education programs, such as those run by the corporate university, and in training and orientation programs for new employees. Since one of the most effective communications channels is having each employee hear directly from the CEO of the enterprise and local unit heads about the strategy, the OSM should write or review the content of the messages they deliver about strategy.

4. Strategy Reviews

In the past, management meetings overemphasized short-term financial performance and fire-fighting plans. Strategic issues rarely got adequate airtime and attention. Now, before the meeting, the new OSM briefs the CEO about strategic issues identified in the most recent BSC, sets the agenda for discussion of important strategic issues, monitors the meeting to determine action plans, and follows up after the meeting to ensure that the action plans are carried out.

5. Initiative Management

Strategic initiatives are discretionary programs, typically cross-functional and interorganizational, that help accomplish strategic objectives. The OSM monitors all strategic initiatives to ensure that they are being managed to improve BSC measures and reports on initiative progress at periodic management meetings. Some organizations use the OSM to actively manage strategic initiatives to make sure they have sufficient resources, priority, and focus, especially initiatives that are cross-functional and cross-departmental—a typical situation for a strategic initiative—where no business or functional unit is a natural home for the initiative.

These first five management processes are typically new for an organization and are specific responsibilities of the Office of Strategy Management. But the OSM must also be linked to several existing management processes to ensure they are aligned with the strategy. In most organizations, these processes are already the direct responsibility of an existing department or office. In this case, the OSM plays a coordinating role, not a primary one.

Consider the development of strategy. The OSM often originates in the strategic planning office, which then adds the five previous processes to its roles and responsibilities. But in many organizations, the balanced scorecard project originates outside the strategic planning office, so as the project team assumes its broader OSM responsibilities, it operates as an organizational unit separate from the strategic planning office. We believe such separation is temporary and not desirable. We prefer that the development of strategy be closely linked to its execution, which places strategy planning and OSM in one organization unit. We envision the following integration of strategy formulation and implementation in an expanded OSM role.

6. Strategy Development and Update

Before the annual strategy meeting, the strategy planning function performs external and internal competitive analysis and conducts scenario planning. During the meeting, it coaches the executive team on strategic options. Rather than view strategy development as a once-a-year event, the executive team should review the strategy at periodic meetings during the year. Strategy consists of hypotheses about cause-and-effect relationships between internal actions and their expected impact on external constituents, such as customers and shareholders. The BSC measures provide continual evidence about the validity of these strategic hypotheses. These data should be discussed routinely at management meetings, and the strategy should be updated if the hypotheses are found to be invalid in some respect. (For an example of statistical testing of strategic hypotheses using BSC data, see Dennis Campbell, Srikant M. Datar, Susan L. Kulp, and V.G. Narayanan, "The Strategic Information Content of Non-financial Performance Measures," HBS Working Paper, November 2004.)

The OSM should receive and filter strategies that emerge from within the organization during the year so

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the executive team can consider adopting innovative ideas that employees suggest. It also should ensure that the strategy development and update process—at any organizational level—ends by producing an updated strategy map and scorecard.

In addition to integrating strategy development and execution, the OSM has three more coordination responsibilities to link existing planning, budgeting, goal-setting, compensation, and knowledge-sharing processes to strategy.

7. Planning and Budgeting

The OSM plays a coordination role to ensure that budgets, HR planning, IT investments, and marketing programs are aligned with the strategy. Without an explicit OSM role, most functional organization plans are narrow and tactical, making it difficult for an integrated strategy to be executed.

Starting with the finance department, the OSM ensures that financial targets in the budget are consistent with the targets established in the strategic planning process. It also ensures that financial plans and budgets incorporate funding and personnel resources for strategic initiatives. As we already mentioned, many strategic initiatives are cross-functional and can't be financed through the budgets of operating or functional departments.

The OSM coordinates with the human resources office so that hiring, training, and leadership-development programs are aligned with the skill requirements, particularly for strategic job families, in the learning and growth objectives in all organizational unit scorecards. (We describe strategic job families in "Measuring the Strategic Readiness of Intangible Assets," *Harvard Business Review*, February 2004.) It assists the information technology department in identifying and selecting those databases, infrastructure in-

Figure 1 An aligned organization links management processes to strategy.

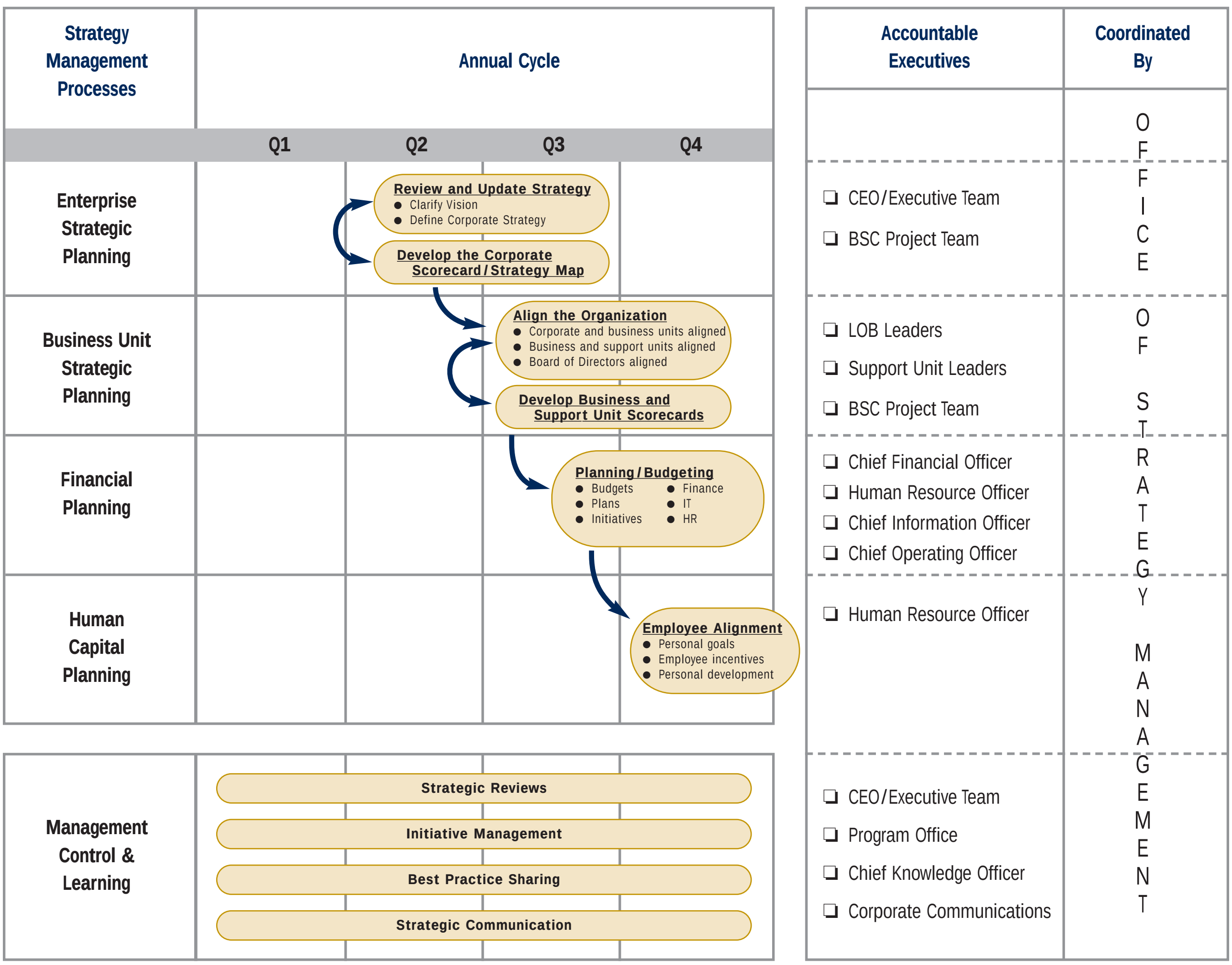

Figure ©2005 Balanced Scorecard Collaborative, Inc., A Palladium company vestments, and application programs that will have the highest payoff for BSC strategic objectives. And it ensures that the marketing department's plans are consistent with the strategy's customer value proposition and targeted market segments.

8. *Employee Alignment*

Communication, goal setting, compensation, and personal and leadership development are employee-focused processes that fall within the domain of the human resources organization. Our experience indicates that human capital is greatly enhanced when these processes align employees and their development to the strategy. Linking employee-focused processes to strategy should be a shared agenda between the human resources executive and the new strategy management officer. In this way, employee goals and objectives, compensation, and development plans become aligned to make strategy everyone's job.

9. *Knowledge Management*

Ideas for improving strategic measures can arise anywhere in the organization, and many can be applied in different units and functions. The OSM should facilitate the identification and transfer of best practices throughout the organization, helping ideas cross departmental, functional, and business unit boundaries. In organizations with a strong and active chief knowledge or learning officer, the OSM plays a coordination role in this process. If a designated chief knowledge or learning officer doesn't exist, then the OSM plays the leadership role in transferring ideas and best practices throughout the organization.

In the steady state, as shown in Figure 1, the Office of Strategy Management ensures that previously disparate, unaligned, or missing management processes are now performed in an integrated manner. We have found that, in terms of positioning, the OSM should report directly to the CEO or one level below, perhaps within the finance or planning office, with a dotted-line link to the CEO. The CEO connection is critical for imbuing the OSM with the authority to get the attention of line and staff executives and to help the CEO set the agenda for periodic leadership team meetings. In effect, the OSM serves as the chief of staff for the senior operating executive of the enterprise just as, in the military, a colonel can be the chief of staff—with direct access—to a multi-star general. The size of the office varies with the size and complexity of the enterprise. In organizations ranging in size from \$500 million to \$5 billion in annual sales, typical staffing is six to eight full-time people, most of whom are drawn from existing functions in planning and finance.

A Core Competency

More than 60% of organizations now claim to be using a balanced scorecard. In contrast to organizations that use only a simplistic version of the scorecard and don't integrate it into their management processes and systems, others have achieved dramatic performance improvements by making the balanced scorecard the cornerstone of their strategy management system. We captured and codified a body of knowledge from these successful organizations to provide the foundation for an emerging profession of strategy management. To realize the benefits from this body of knowledge, organizations must establish a new corporate Office of Strategy Management to make strategy execution a core competency. ■

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Editor's Note

Joel Litman and I launched the Strategic Management column in December 2001 with the intent of exploring timely evidence of timeless strategic management concepts.

The Office of Strategy Management (OSM) is a major step forward in the evolution of strategy execution. In many organizations, the OSM can represent a way to achieve the alignment and support needed for improved strategy execution, one of the underlying goals of strategic management.

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