New Strategy Alignment in Multinational Corporations

By Thomas Wunder

"The whole is more than the sum of its parts." This famous Aristotle quote serves as a strategic imperative for multinational corporations (MNCs) because the corporate headquarters must ensure that its business units are collectively more successful than if they were acting individually. To create additional value through parenting advantage, a corporate headquarters must clearly define its role and strategic priorities to optimize the competitive advantage that lies within its global network of business units and people.

ILLUSTRATION: JONATHAN EVANS/ARTVILLE

An MNC realizes parenting advantage by global scale and scope efficiencies, regional differences (e.g., raw material prices, customer/market requirements, labor costs, local knowledge), global risk diversification, or leveraging global learning and innovation within its international organization. If an MNC pursues all these objectives simultaneously, we talk about a transnational strategy.

Transnational strategies seldom fail for lack of ideas or strategic content but because of an unstructured or completely inflexible strategy process that doesn't:

◆ Consolidate strategic ideas,

◆ Synchronize or align strategies of different organizational units, and

◆ Give proper consideration to consensus and commitment among key decision makers.

Finally, strategy refinement and execution represents a balance between creativity and analysis. Analytical studies and evaluations should support the creative process. If the entire process is too unstructured, then the MNC runs the risk of missing essential considerations. But if the process is overly structured, then truly creative ideas are suppressed, thus compromising the core of successful strategies.

Today, the combination of the strategy map, balanced scorecard (BSC), and strategic action program (strap) has become a standard within the strategy process. Yet it's hard to find much information on applying these integrated concepts to the strategic alignment processes among strategic business units (SBUs), global functions or services, and regions within the MNC's often complex organizational structure. Henkel Corporation is a $13 billion German group in home care, cosmetics, and consumer/craftsman/industrial adhesives whose product portfolio includes Dial® soaps, Purex® laundry detergents, Loctite® super glues, Duck® tapes, and L.A. LOOKS hair gels. The group's adhesives division has successfully implemented and synchronized strategy maps, BSCs, and straps across the corporate level, three SBUs, supply chain, operations, R&D, international sales, and nearly 30 regions. Whereas strategy maps helped clarify, describe, and—most importantly—*align* strategic objectives of these different units, BSCs and straps ensured strategic control and execution. Henkel's annual employee survey clearly shows the degree of buy-in from the individual employee level. After the strategy map and BSC implementation, Henkel's adhesives division improved on the already excellent results of previous years with top marks in "organizational learning," "vision," "strategic direction and intent," and "agreement."

A German multinational medical product group also has applied strategy maps and the BSC to balance its highly autonomous international subsidiaries with strongly integrated and standardized global R&D, operations, and marketing activities. While strategic priorities of regional sales units are still focused on specific local customer, market, and legal issues, synchronizing global strategic priorities helped to reduce the cost of core products by 8% and increase productivity by 15% in the first year alone.

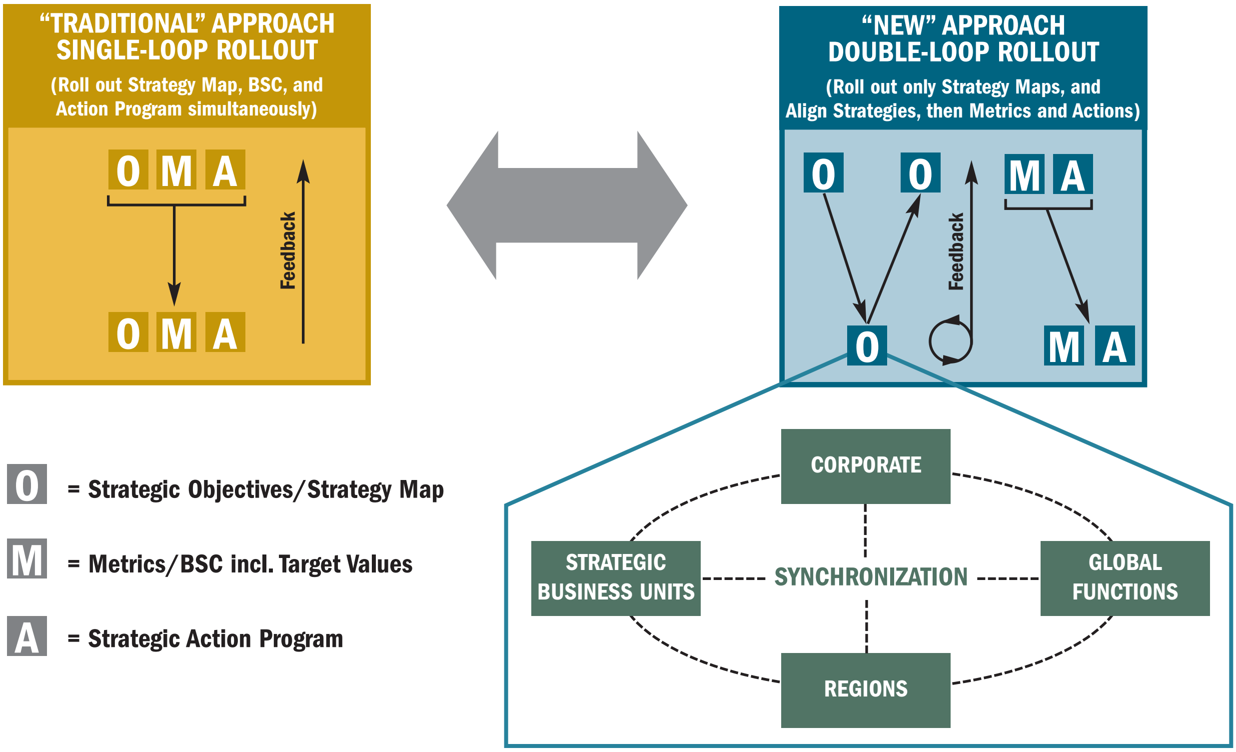
Now let's look at specific steps, principles, and lessons learned that are necessary for you to apply strategy maps, BSCs, and straps to a transnational strategy. I'll place special emphasis on the strategy rollout and strategic alignment in MNCs.

STRATEGY REFINEMENT

In addition to strategy maps and the BSC, factors like leadership, market dynamics, and, most importantly, the quality of the strategy itself play a decisive role in improving revenue, profit, and shareholder value. If the underlying strategy is poorly conceived, a strategy map and balanced scorecard will help the company's performance erode even faster, so developing and refining a solid strategy based on sophisticated analysis is crucial.

An important factor here is a clear differentiation of the organizational levels you need to consider. Accordingly, you need to define strategy options for the entire corporation as well as for SBUs, global functions, and regions. The result is a clear picture of what each organizational level will accomplish as a result of today's strategic priorities ("By the year 20xx, we are…"). After you clarify the strategic direction, a strategy map visualizes

Figure 1: An Innovative Key Element Is the Separation of Strategy Mapping/Strategic Alignment from Metrics and Action Program



specific strategic objectives and their interaction, which together present a strategy storyline. The benefits of this process and quality of results in the MNC highly depend on some crucial principles.

Select only strategic objectives that need special attention and resources. Include only those objectives that have a high *competitive* relevance (i.e., they directly help you win in the marketplace) and a time-critical need for *action*. The goal is to reduce complexity by focusing management's attention! Pure "diagnostic" objectives—i.e., those that are important for the company but currently don't need special management attention and resources—aren't shown on the map. The head of Henkel's adhesives division says, "Our strategy map should show only the strategic objectives that will cross my mind first when I wake up at 2 a.m."

Ensure specific objective narratives. A strategy map should convey clear and compelling strategy messages as well as orient employees. Goals like "improve customer satisfaction," "enhance skills," or "optimize our supply chain" aren't specific strategic objectives but are general business wisdoms that everyone would agree to.

After the implementation of strategy maps and BSCs throughout a European oil corporation, the chief executive put it this way: "In this process, we became aware of having a number of 'lofty' statements in our strategy…Merely preaching that we want to be bigger, nicer, and stronger are not strategic objectives." To be specific, a strategy map should provide answers to questions such as:

- ◆ In which segments do we need to emphasize the improvement of customer satisfaction; i.e., which customer groups are our strategic focus and why?
- ◆ Which special skills and people do we currently lack but critically need to develop for our strategy execution?
- ◆ Which areas of our supply chain need the most attention, and what does "optimize" mean; i.e., do we have a speed, quality, or cost issue—or all three?

Many companies define their strategic objectives with action statements instead of buzz phrases like "excellent people development." Use a verb that indicates the direction of accomplishment, such as "*Ensure (maintain, improve, etc.)* excellent people development."

Limit visualized links between objectives: "story"

instead of "analytics." A strategy map should be clearly differentiated from classic cause-and-effect chains where many relationships between objectives are determined analytically in the sense of if-then connections. If you describe a strategy this way, it leads to an enormous increase in complexity and the danger of "spurious precision." The original purpose of connecting the objectives is the convincing description and transmission of a compelling, understandable, motivating, and differentiated strategy. As a guideline, highlight only a few links between strategic objectives and the basic strategic intention underlying these objectives. An increasing number of companies also are pursuing linking individual strategic objectives from the strategy map with their value-driver trees.

STRATEGY ROLLOUT

Initially, the strategic framework for the entire MNC is developed in the corporate strategy map, followed by strategy maps for downstream organizational units. It's crucial that the heads of downstream units get a clear understanding of the strategy and buy into the corporate strategic objectives that will be cascaded. Therefore, corporate strategy development must involve more than just the executive suite. At Henkel Adhesives, for example, the top strategy map was developed through a group of 20 top managers, including general managers of key regions, heads of global functions, SBU leaders, and the division manager. In a second round, elaborating SBU and global function strategy maps should have the highest priority because they usually reflect strategic guidelines for the regions that will be developed last. The rollout process includes two basic methods—single-loop and double-loop rollouts (see Figure 1).

Single-Loop Rollout

The MNC pursuing a single-loop rollout will ask its SBU, functional, and regional management teams to develop their strategy map, balanced scorecard, and strategic action program in *one sequence*. They achieve alignment through discussions and adjustments during multiday workshops or via objectives and metrics defined before or after the cascading exercise and deployed from the top down. In this case, however, teams must place a great deal of effort on developing metrics (BSC) and action programs before you can ensure an alignment with corporate and other units. You may need many readjustments later, which not only wastes resources but decreases motivation and buy-in.

Double-Loop Rollout

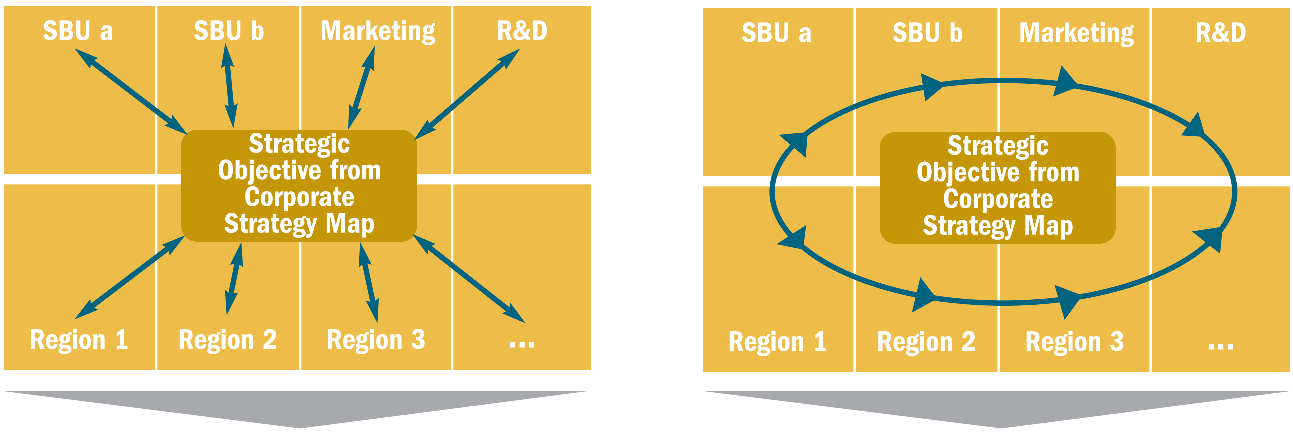
In large MNCs with matrix or tensor structures, it will be very hard to predefine and align all the objectives and measurements of the diverse units and regions because their strategy worlds aren't always transparent from the corporate level. Viewpoints must be discussed, compared, and synchronized with the strategic perspectives of other units, and strategy contents (based on strategy maps) must be coordinated *before* balanced scorecards can be derived and strategic action programs can be conducted in the various organizational units. In the cascading process, local management teams adapt strategic objectives from the corporate strategy map.

Not every corporate objective may be relevant to every other organizational unit, and specific strategic priorities in downstream units may lead to additional strategic objectives in their strategy maps that aren't directly derived from the top-level map. In this case, it must be clear how such local goals contribute to the MNC's overall strategy. For example, how does the corporate strategic objective "leverage global power brands" trickle down to the different regions? Which global power brands will be leveraged in these regions, and which local brands are crucial to keep? By clearly describing which strategic issues an SBU, a global function, or a region wants to emphasize, strategy maps definitively represent the logic of downstream units in the battle for scarce resources within the MNC.

Strategy maps of downstream organizational units may provide strategic insights that lead to adjustments of the corporate strategy map later on. The cascading process typically is done with each local management team and representatives from the headquarters. This provides several benefits:

- Examining corporate objectives and discussing how to cascade them lead to a *clear understanding* of the corporate strategic agenda for the local executive team.
- Participation in this process will increase the *buy-in* of both the corporate objectives and the derived SBU, functional, or regional strategy map for the local management team.
- *Mental strategy models* of local executives that may have never been systematically expressed, discussed, or visualized become *transparent* and form the basis for a holistic and thorough examination.
- In a double-loop rollout, the primary focus is on *strategy contents instead of metrics.* You postpone discussing metrics until after the alignment and standardized indicators in the different units will support them.

Figure 2: Structure for Alignment Process: Vertically between Corporate and Units and Horizontally among Units



- Do SBU/Functional/Regional objectives conform with the Corporate objectives?
- Is the Corporate objective sufficiently supported?
- Do the objectives reflect the right level of detail?
- Are the units accountable for their objectives?

- Are there any contradictions between SBU/Functional/Regional objectives?
- Do all strategic objectives reflect a common strategy language?

STRATEGY ALIGNMENT

Achieving strategic objectives requires different forms of alignment or strategy synchronization within the MNC. Let's now look at both vertical and horizontal alignment (see Figure 2).

Vertical Alignment

First of all, you want to make sure that all downstream units are moving in the same direction as the MNC. Strategy maps for the corporate level, SBUs, and functions provide the global strategy framework and thus the strategic guidelines for the regions. Align the strategies of these units first, as they ultimately need to be sufficiently backed in the regions.

During a strategic alignment workshop at Henkel Adhesives, executives from corporate, SBU, and global functions synchronized their strategy maps and thus provided an aligned framework for the regions. In a separate international executive meeting, corresponding general managers presented and explained the regional maps. After the meeting, corporate, SBU, global function, and regional executives jointly clarified the direct or indirect contribution of the regions to the corporate strategy framework, covering both financials and nonfinancials. Along the way, they answered these important questions:

- Do the cascaded regional objectives *conform* to the corporate strategy?
- Do the regions *sufficiently support* the corporate strategy?
- Do regional, SBU, and global function objectives reflect the right *level of detail*?
- Do the corresponding units have *accountability* for the strategic objectives on their maps?

For example, if "improve international collaboration between regions" is a corporate objective to foster innovation, it needs to somehow be represented in every regional strategy map to get the necessary attention globally. On the other hand, regional managers may explain why and how they came up with their own strategy maps that emphasize specific local strategic priorities over purely global priorities of integration and standardization. Based on the vertical alignment process, it's finally possible to show how each strategic objective in the corporate strategy map is directly or indirectly supported in the SBUs, global functions, and regions.

Horizontal Alignment

In addition to orienting the downstream units, you also need to resolve goal conflicts between units on the same organizational level. One region's pricing strategy, for example, may cannibalize another region if the two deal with the same global customers. In this case, aligning the corresponding strategic objective on the regional map(s) is required even if the goal makes sense from a purely local perspective.

Companies reduce the need for horizontal (and vertical) alignment on the local level by pre-defining a number of strategic objectives that should appear on each regional map. You can see this with financial goals or topics like corporate culture, code of ethics, or HSEQ (health, safety, environment, quality) that should be emphasized in all subsidiaries.

Communication Fit

To optimize strategy alignment, every team in the MNC must communicate on the same frequency. This means that all units need to speak the same strategy language and must have the same strategy dictionary. You should also phrase strategic objectives in regional maps the same way. At Henkel, for example, some regions traditionally referred to "craftsmen" business, while others used the term "professional" business. If you maintain these differences in corresponding strategic objectives, they'll always be a barrier to global communication.

STRATEGY EXECUTION

In the sense of "what gets measured gets done," you need to regularly evaluate the state of strategy execution and monitor it both locally and on the corporate level. This means that strategic objectives must be linked to a BSC (i.e., measurements with actual vs. target values) to determine the degree of goal achievement at any given time. Furthermore, you need to develop strategic action programs and update them regularly for each strategy map.

Here are some important guidelines for developing these two key elements that are particularly relevant for acceptance and sustainability within the MNC.

Balanced Scorecard (BSC)

Measure exactly what is stated as a strategic objective. For each strategic objective on any corporate, SBU, functional, or regional strategy map, there must be an indicator from which you can determine whether you've achieved the goal. Note the sequence here: First you clarify the strategy and describe it in a strategy map, and then you measure it—not vice versa! If there's a mismatch between the indicators available or suggested for development and the corresponding goal statement(s) they're intended to measure, you adjust either the indicator or the goal. You don't want to send one strategy message but measure something entirely different. This also means that soft goals such as "improve international collaboration" require a soft indicator (e.g., number of international manager meetings per month).

Limit the number of measurements. Based on the different principles for developing strategic objectives, such as the "20 is plenty" rule, a strategy map should be simple and easy to communicate. To make sure the map is also easy to manage, it's very important to focus on the metrics' design. For instance, if you have only one or two indicators for each of the 20 strategic objectives (with, say, 30 regional maps), you'll end up with 600 to 1,200 indicators to monitor from headquarters. Even if you standardize some measurements, you'll need to define target values for each indicator for the entire time horizon of your strategy and continuously monitor them by comparing target and actual values.

Once you create multiple indicators for any strategic objective, you have another potential challenge: What if two indicators say the objective has been achieved (green), one indicator shows you are on track (yellow), and the fourth one is totally out of range (red)? The more indicators you define, the more complex the system becomes and the more you'll tend to focus on a measurement itself. Finally, there's another problem with metrics. Even if you have only one indicator for each strategic objective, SBUs and global functions tend to deploy their own measurements throughout the regions to get valid global data. This can lead to a tremendous burden for the regions as they already have to manage the more than 20 indicators in their local strategy map.

Based on these examples, the double-loop rollout offers a significant advantage over the single-loop rollout: The second loop gives you a chance to carefully think about the entire metrics system based on the strategy maps and contents aligned during the first loop.

Strategic Action Program (strap)

No strategic actions for the financials perspective. Once you've established the metrics system, elaborating the strategic action plans—specific short-term initiatives—for each strategy map is the final step in the cascading process. One example is developing a specific training concept for the strategic objective, "Improve skills in the area of _____." Usually you define strategic actions for each objective in the strategy map except the financials perspective. In a properly designed strategy map, the financial goals are the result of the interrelation of all other strategic objectives and their corresponding actions.

Define responsibilities, required resources, and milestones. With each strategic action, there should be a promoter responsible for action implementation; a budget of time, personnel, and other costs, such as traveling or external consulting; and definite start/end dates. This information will be the basis for global multiproject management and for operational planning and budgeting. Many companies prioritize the typical 30 to 40 strategic actions of the strategy map and start with only the actions they can "afford" at that time.

Identify initiative redundancies and synergies globally. As with the measurements, it makes sense to look at all strategic action programs from a global perspective to find redundancies and where the assistance of corporate headquarters may be required. At Henkel, the global HR service unit analyzes the "potentials" perspective of each strategy map. This way, they can identify where HR support for local initiatives is required—for example, by developing training programs or recruiting initiatives to fill skill gaps highlighted in various regions or business units.

STRATEGY PROCESS

If strategy maps, BSCs, and straps are implemented successfully, SBUs, global functions, and regions will proactively use their maps as a guideline for regular management meetings on a *biweekly* or *monthly* basis. Usually these short-term discussions are centered on the one or two strategic objectives for which decisions need to be made immediately. Since the strategy maps function as an agenda for the meeting, they will continuously be on the minds of the local management team.

Based on a global reporting system, MNCs usually monitor goal achievement and thus the state of strategy execution on a *monthly* or *quarterly* basis. This includes evaluating whether strategic actions are on track and whether they are serving to achieve their corresponding strategic objectives. You need to replace actions that have been completed to ensure continuous support for achieving the goals. This ensures strategy execution for a sustainable period and that it doesn't turn into a one-time project.

Finally, any changes in the strategy need to be reflected in the corresponding strategy map(s). Therefore, at least *annually*, you need to challenge and review the total strategy map cascade with respect to several issues:

- Are there any changes in the corporate strategic framework that need to be represented in strategy maps of downstream units? This review will have the same sequence as the initial cascading.
- Do market dynamics or other external developments in a region require changes in the local strategy map?
- Are there any strategic objectives that no longer need special management attention and resources? If so, you should replace them with more relevant items.

To sustain the strategy map, BSC, and strap cascading, you should take an inventory of the existing management systems and carefully design interfaces. When you use several strategy maps, BSCs, and straps on a global basis, the measurements and strategic actions are typically integrated into a management information system or some kind of IT support. The strategic actions (usually projects) form the basis for resource allocation and thus the linking of strategy with operational planning and budgeting. The integration into target agreements (management by objectives) and the incentive system is based on achieving strategic objectives and/or certain strategic actions. You typically do this after a learning period in which the validity and applicability of measurements are evaluated *before* they impact compensation. A strategy communication program for internal and external stakeholders has to be created.

To develop and manage the global strategy map, BSC, and strap system, there must be adequate resources on the corporate level and in each SBU, global function, and region. MNCs typically establish a set of *guidelines*, assign *responsibilities*, and develop a *train-the-trainer* program. Last, but not least, continuous top management support from executives who "practice what they preach" is a prerequisite for successfully anchoring strategy maps, BSCs, and straps in the MNC.

Strategy maps have enormous potential to achieve strategic alignment in MNCs only if the global implementation is highly customized. Furthermore, the strategy map needs to be connected with concrete measurements in the sense of a balanced scorecard and with strategic action programs. Strategy maps offer diverse possibilities for aligning corporate, SBU, functional, and regional strategic objectives in an MNC and thus for executing a transnational strategy. ■

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