

Leading Change with the Strategy Execution System

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Traditionally, leadership and strategy execution have been studied as two separate, yet parallel, disciplines. Generally, leadership scholarship identifies principles, but not a means of integrating them into an overarching management approach — of putting them into action. Here, Robert Kaplan bridges the two literatures to see how they reinforce each

other. Drawing on the work of the preeminent leadership scholar John Kotter, Kaplan demonstrates how the six stages of the Kaplan-Norton strategy execution system can help operationalise Kotter's eight principles of change management — and thus help embed both disciplines more firmly into the organisational culture.

Research shows that leadership is the single most important factor explaining whether companies succeed in implementing the Kaplan-Norton strategy execution system. Without exception, the companies, nonprofits and public sector enterprises that have won entry into the Palladium Hall of Fame for Executing Strategy® benefitted from visionary and committed leadership. Conversely, when investigating why apparently similar projects in other organisations failed to deliver impressive results, we find that the lack of effective leadership behind the project explains most of the shortfalls.

We are not the only ones who extol the critical importance of leadership in driving change. For decades, leadership scholars have been studying the roots of effective leadership and the processes that leaders follow to implement change and achieve results. In this article I bridge the two separate literatures — leading change and strategy execution — to see how they mutually reinforce each other.

John Kotter, formerly of Harvard Business School, is one of the most influential leadership scholars. He wrote a best-selling 1995 Harvard Business School Press book, *Leading Change*, and followed that with a popular version for mass audiences, *Our Iceberg is Melting* (St. Martins Press, 2006). His research, described in these books, identifies an eight-step process for leading successful change (paraphrased here):

- 1. Establish a sense of urgency.**
- 2. Form a powerful guiding coalition.**
- 3. Create the vision for change and a strategy for achieving it.**
- 4. Communicate the vision and the strategy.**
- 5. Empower others to act on the vision and strategy.**
- 6. Produce short-term wins.**
- 7. Sustain the effort; produce still more change.**
- 8. Institutionalise the new culture.**

Our focus is documenting how well these general principles for leading successful change apply to the six-stage strategy execution system that David Norton and I described in *The Execution Premium*.¹ What is striking is the absence of any role for measurement and management systems in the Kotter model. But perhaps that is not surprising. Kotter is a scholar of leadership and organisational behaviour, and likely feels that changing and aligning measurement and management systems is “out of scope” for his teaching and consulting assignments. We, however, can leverage the measurement and management processes in our strategy execution framework to enhance the eight Kotter principles and make them more operational and effective for enterprise leaders.

¹R.S. Kaplan and D.P. Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* (HBS Press, 2008).

Establish a Sense of Urgency

Kotter's first step is for leaders to overcome complacency with the status quo. The beliefs reflected in several popular management maxims must be overcome to create the climate for change, including the most destructive of all: "If it ain't broke, don't fix it." In a world of continuous change, global competition and dynamic technological disruption, the maxim should be rephrased as, "If it ain't broke, it soon will be," or in the words used by legendary pitcher Satchel Paige to explain his life philosophy, "Don't look back — someone may be gaining on you." Kotter's observation is not unique to him. In their best seller *Built to Last*, Jim Collins and Jerry Porras observed, "Visionary companies may appear straightlaced and conservative to outsiders, but they're not afraid to make bold commitments to BHAGs, 'Big Hairy Audacious Goals.'"²

Several of the CEOs of Palladium Hall of Fame for Executing Strategy® companies understood well the importance of getting the organisation to recognise current problems and of imple-

menting change immediately. One recalled starting meetings by writing the letters "L O W" on a whiteboard. When his executive team enquired about the meaning of these letters, he replied, "Look out window," meaning, "Compare our results with the competition; we're not as good as we think." Bill Catucci, who led two dramatic transformations of underperforming organisations, claimed that at AT&T Canada, "Our only core competency was losing money. We were good at this, losing C\$1 million per day." Despite dismal financial performance at both companies, when Catucci talked individually with members of his senior executive team, each said, "My department is performing fine. If there's a problem, it must be caused by someone else." Catucci described how he overcame this finger-pointing, blame-shifting culture: "I told them that we're all in the same boat, and if there's a hole on your side of the boat, it's not your problem to solve; it's *our* problem. We're going to succeed or sink together." Both of these leaders, and many others, started their BSC projects by convincing the organisation that it either had a major performance problem or would soon have one, unless executives collectively crafted a new strategy for future success.

²J. Collins and J. Porras, *Built to Last: Successful Habits of Visionary Companies* (HarperCollins Publishers, 2004).

Form a Powerful Guiding Coalition

Often, resistance to change comes from within the senior management team. Some members are on the team because they head a major corporate function, such as human resources, finance or technology, or a major business or geographical unit. They view themselves as technical, product-line or regional experts but are still unused to or uncomfortable thinking like a senior general manager with accountability for overall corporate results. Effective leaders must help senior managers leave their comfort zone as subject-matter experts and think about overall company direction and strategy.

When asked to do so, however, many managers worry about what the change will mean to them and how it will affect their function or product line. They become defensive, which manifests itself in resistance to change. Leaders must identify who will be the team players for the new strategy and who may have to be asked to consider other employment opportunities, because continued resistance and negativism can undermine any change effort.

Most CEOs who have successfully implemented the Kaplan-Norton strategy execution system report to us that the process of building a strategy map and scorecard with their leadership team was the most useful benefit of the programme. Although they extolled the benefits of having a map and a scorecard, they felt the process of creating them helped forge a *consensus* among the team members about the strategy and a *commitment* to helping the enterprise achieve it that had never before existed. “You could take our scorecard and give it to a competitor and it wouldn’t work,” explained one CEO. “You had to have sweated through the hours and hours of work and effort that went behind the card to get the benefits from the measures. It’s got to become part of the company’s belief system, almost a religion.” The active dialogue and debate that take place over the 12-week period of developing a strategy map and scorecard are an essential part of the process of building clarity, consensus and commitment to a new way of doing business. The dialogue emphasises that the goal is to determine what is right, not who is right, and that everyone’s views can influence the final document. Participants in the process recall all the objectives and measures that had been proposed but were ultimately left off the map and scorecard, imbuing the final documents with even more personal meaning. This difficult process of debating and agreeing on the strategy is a powerful mechanism for building a guiding coalition at the top of the enterprise.

Create the Vision for Change and a Strategy for Achieving It

This principle is clearly already embedded in stage 1 of the Kaplan-Norton strategy execution system: Develop the Strategy. In this stage, we state that every enterprise should annually review and reaffirm its mission statement (the organisational purpose; why the organisation exists) and its value statements (the attitudes and behaviours the organisation insists on when dealing with employees, customers, suppliers and communities). The enterprise should craft a vision statement, which consists of a measurable stretch target (such as a BHAG) and a date for achieving it. The vision serves to mobilise the organisation into action by defining the target that it cannot achieve through business-as-usual actions. This motivates the leadership team to select a strategy that will enable it to achieve the vision. We find that this step and step 2 in Kotter’s framework are usually simultaneous, not sequential; defining the vision and selecting the strategy are an essential part of creating the guiding coalition for transformational change.

In our recent work, we have inserted an additional step between crafting the vision and developing the strategy: creating a strategic agenda. Leaders can use this management tool to link the vision to the strategy. The strategic agenda compares the current status of several organisational structures, capabilities and processes with what they need to become over the next three to five years. Consider the challenges faced by the US Federal Bureau of Investigation (FBI) in the aftermath of the 9/11 terrorist attacks. To respond to its new challenges and competitive threats, the FBI needed a completely new strategy and major changes in its organisational culture. FBI Director Robert Mueller recognised the need to prepare and educate all employees about the massive changes ahead. He prepared a strategic change agenda (Figure 1) to describe the scale and scope of the transformation.

	Law enforcement	Roles	National security and law enforcement
	Case-driven	Focus	Threat-driven
	Quantitative evaluation (case-based)	Measurements of Success	Qualitative evaluation (threat-based)
	“Restrict; and share what you must”	Information Sharing	“Share; and restrict what you must”
	Contributor	Intelligence Community	Full partner
PAST	Domestic	Scope	Global
	Tactical	Senior Management	Strategic
	Ineffective communications	Internal Communications	Effective, relevant and timely communications
	Operational silos	Organisation	Integrated team approach
	Inefficient and ineffective HR processes	Human Capital	Highly efficient and effective HR processes
	Agents/support	Culture	Team of professionals
	Antiquated and disparate IT systems	Information Technology	Mission-enhancing integrated IT systems, productivity tools
	Applying developed S&T	Science & Technology	Developing and applying optimal S&T
	Budget drives strategy	Resource Management	Strategy drives budget

Figure 1: FBI Director Robert Mueller created this strategic change agenda to educate employees about the transformational change the agency needed to undergo post 9/11.

The change agenda indicates that the FBI would have to undergo a major shift from being a case-driven organisation (reacting to crimes already committed) to becoming a threat-driven organisation (attempting to prevent a terrorist incident from occurring). Instead of being secretive, agents now had to work outside of the traditional operational silos and become contributors to integrated teams. In even more of a discontinuity, the FBI had to learn to share information and work collaboratively with other federal and local agencies to prevent incidents that could harm US citizens.

These guidelines, which emerged from extensive dialogue throughout the organisation, engaged all levels of the FBI to participate in setting the goals for the new strategic direction and contributed to widespread understanding and support for the new strategy that followed. Director Mueller carried a laminated FBI strategic change agenda chart with him whenever he visited a field office. If agents expressed skepticism about or resistance to the new initiatives and structures, he reminded them, using the single-page summary, why change was necessary.

A strategic change agenda helps the leadership team articulate the cultural, structural and operating changes necessary to transition from the past to the future.

Communicate the Vision and Strategy

While the selection of the vision and strategy is ultimately the responsibility of the leadership team, the strategy must be executed by all the organisation's employees. One of the most powerful benefits of the strategy map and scorecard is their ability to make the strategy completely clear and actionable to every employee. We learned from the early BSC-adopting executives the value they placed on communication. One CEO declared, "You overcommunicate the strategy; it's like trying to hit a nail into granite. The first few times you try, it glances off their consciousness. Eventually, a little bit sinks in and then you have to keep pounding it in deeper and deeper." Communication specialists have told us, "You can't communicate it once. You have to tell people seven times and seven different ways, throughout the year."

But just communicating the words in the vision and strategy is never enough. Employees hear the words, but they don't know the answer to the questions, "What's in it for me? What am I supposed to do differently and better to help the organisation implement its strategy and achieve its vision?" Words have ambiguous meanings, and different people interpret them differently. Balanced Scorecard measures eliminate the ambiguity and provide a clear message and targets for every employee. As another CEO remarked, "I struggled with how to merge two great companies with proud histories and 12 different languages

and cultures. The scorecard gave us a common language about our strategic intent. We could develop and communicate strategy so that it was clear for everyone.” The president of a global hotel chain told how every single employee, from the hotel manager through housekeepers and dishwashers, had become aligned to the strategy: “Team members now understand the strategy and align their objectives and incentives to performance that will enable us to achieve our strategic goals.”

Communication enables all employees to understand the strategy and how they can contribute to its successful execution. It unleashes the powerful forces of what psychologists call “intrinsic motivation,” in which people internalise for themselves the goals of the company’s strategy. Employees continually ask two key questions about their organisation:

1. Does my company have a strategy for success?
2. How does my coming to work each day play a role in my company’s success?

Employees want to work for a successful, high-performing organisation. A company that can clearly communicate its mission, vision and strategy to employees answers the first question well. As employees learn about the key processes for delivering value to customers and capital suppliers, they start to link their daily activities to the accomplishment of organisational objectives. They search for ways to do their job differently and better to contribute to these objectives. In this way, all employees become empowered to act, leading to the next Kotter principle.

Empower Others to Act on the Vision and Strategy

Middle managers and all employees must feel that they can take actions that will contribute to successful strategy execution. Such empowerment may be difficult to establish in decentralised and diversified companies where different business units and individuals are often unsure about how their local actions contribute to overall success. Companies can now use linked strategy maps and scorecards to align all organisational units to achieve corporate synergies.³ Companies such as Infosys, Statoil and HSBC Brasil have hundreds of strategy maps and scorecards throughout the enterprise that help them achieve both vertical alignment — objectives drawn from the corporate scorecard — and horizontal alignment — objectives shared with other business units. The decentralisation of strategic objectives facilitates local decision making and empowers decision making throughout the enterprise that is coherent and synergistic.

To facilitate even more local decision making that cuts across organisational lines, companies also form theme teams based on the thematic structure of their strategy maps.⁴ Theme teams are empowered to execute on boundary-crossing initiatives.

³R.S. Kaplan and D.P. Norton, *Alignment: Using the Balanced Scorecard to Create Corporate Synergies* (HBS Press, 2006).

⁴R.S. Kaplan and C. Jackson, “Managing by Strategic Themes,” *BSR* September-October 2007 (Reprint #B0709A).

Stage 4 of the strategy execution system, Plan Operations, provides yet another mechanism to empower frontline and back-office employees to act on strategic priorities. In this stage, teams drill each BSC process objective into a detailed process map. The process map typically identifies multiple opportunities for process redesign and process improvements that can be accomplished by local teams. Once processes have been properly designed and structured, employees strive to achieve continuous improvements in these critical processes. Companies design dashboards that provide continual motivation and feedback for ongoing operational process enhancements. The high-level guidance from the strategy map and scorecard ensures that all local process improvements are aligned with the vision and strategy.

Produce Short-Term Wins

A principal challenge for any change management programme is sustaining momentum during the journey. Although visionary leadership can generate excitement and high motivation at the launch of the programme, interest and enthusiasm can wane during the difficult months as the change gets under way but the destination (the target in the vision statement) is still distant. Many change efforts fail during this critical middle stage of the journey as managers and employees get discouraged by the distance still to be traversed.

Strategy maps and scorecards solve this problem. They define not only the destination but also the road map to achieve it. Objectives and measures in the internal process and the learning and growth perspectives provide near-term indicators of the progress the organisation is making in improving the capabilities required to realise breakthrough performance for customers and shareholders. The multiple perspectives of the Balanced Scorecard automatically provide a balance between the longer-term outcomes the strategy is striving to achieve — for customers and shareholders — and the near-term improvements in processes, employee capabilities and information technologies intended to drive those outcomes.

One immediate source of short-term wins is the initiative rationalisation process, which companies usually conduct in the third

or fourth month of their Balanced Scorecard implementation.⁵ Companies generally find that they can eliminate or consolidate at least 25% of their existing initiatives without affecting strategy execution. The savings from eliminating nonstrategic initiatives usually exceed the cost of the entire BSC project, providing a near-term benefit from implementing the new strategy execution system.

Beyond the ability to rationalise initiative spending and motivate and track near-term process and learning and growth performance, the multiple themes within the process perspective provide a natural balance between short- and long-term performance. Companies can generally achieve significant improvements in key operational management processes within six to twelve months. When the returns from operational improvements begin to slow, improvements in customer management processes (improving acquisition, loyalty and growth) can play a more dominant role, typically in months 12 to 24. Finally, innovation processes will produce a new stream of products and customers during months 18 to 30, providing the final boost to achieving the visionary stretch target.

For example, the leadership team of a retail banking unit of a large financial institution established a vision to increase operating income from \$20 million to \$130 million in five years.

⁵P. LaCasse and T. Manzione, "Initiative Management: Putting Strategy into Action," *BSR* November-December 2007 (Reprint #B0711B).

Managers and employees were initially shocked by the audacity of this goal. But the theme-based strategy map and scorecard showed them a feasible path to this destination. The operational efficiency theme had a target to reduce the cost per customer to 25% over the five years, with 80% of this improvement occurring in the first two years. The customer management theme had a target to increase annual revenue per customer, through cross-selling and increased balances and fees, by 50%. Eighty percent of this improvement would occur in years two and four. And a customer acquisition theme had a target of tripling the number of high-value customers. Much work had to be done in improving processes, developing new products and services and rebranding the bank before the customer growth could occur, so most of the increase in customers was targeted for years three to five. Each theme's targets phased in over time and interacted with one another (lower cost and higher revenues per customer, multiplied by many more customers) to exceed the ambitious five-year profit improvement vision.

As they plan their trajectory for achieving the vision, companies assign short-term targets to improve operational processes, middle-term targets to improve customer management processes and longer-term targets to improve their innovation processes. In this way, managers and employees can track their progress and achievements all along the trajectory to success. They are not left in the dark about whether their strategy is delivering on performance.

Sustain the Effort; Produce Still More Change

Although intrinsic motivation can inspire employees to do their jobs differently and better, sustaining their motivation will require extrinsic motivation to maintain and reward employees' efforts. Extrinsic motivation occurs when managers set explicit targets for employee performance and align their incentives to reward the achievement of personal and organisational goals. In Stage 3 of the Kaplan-Norton strategy execution system, Align the Organisation, employees discuss with their supervisors and HR managers the limited set of personal objectives that they will attempt to achieve in the upcoming period. They must demonstrate that achieving their personal objectives will contribute, in some way, to achieving business unit and company-wide strategic objectives. The forces of extrinsic motivation are also unleashed when employees have explicit incentives, usually monetary but sometimes nonmonetary, that are awarded based on achieving personal, business unit and corporate targets. The number one response from CEOs when asked what they would have done differently in implementing the strategy execution system is linking variable pay to performance sooner, because it created such a powerful motivational force for employees.

In addition to sustaining momentum by aligning personal goals and rewards to strategic objectives, stages 5 and 6 of the Kaplan-Norton strategy execution system provide ongoing feedback for learning and improvement opportunities in strategy execution. Although all companies perform periodic operational reviews, a new feature introduced by the strategy execution system is a separate, usually monthly, strategy review meeting. At this meeting, the leadership team reviews progress and shortfalls in strategic objectives, reallocates resources among strategic initiatives and implements midcourse changes in the strategic trajectory. Among the questions asked at this meet-

ing are: "Why are we falling short of the target? What corrective actions should we consider? Are strategic initiatives on schedule and on budget? Where do we need to put more resources? Do we need a multifunctional, multibusiness task force to address a problem?" Much as a racing ship's captain adjusts course to compensate for changes in wind, current and competitors' actions, the strategy review meetings enable leaders to revisit the strategy at least monthly and react to new information, challenges and opportunities.

The strategy review meetings stress learning and improvement, not finger-pointing or blaming. Using words rarely, if ever, used to describe the operational monthly variance analysis meetings conducted by the finance staff, several managers have told us, "These are the best meetings we have ever had. We are talking about important issues and developing action plans to address them. They are fun and exciting."

Even more change occurs during stage 6, Test and Adapt the Strategy, when the organisation reviews a year's worth of data on strategy implementation to learn what has worked and where the strategy might be flawed.⁶ By measuring the strategy, the company can distinguish between when it is implementing a bad strategy well versus when it is implementing a good strategy badly — an extremely important distinction that has very different action implications for the leadership team.

Formulating the strategy execution system as a continuous closed-loop system emphasises that accomplishing strategic change requires an integrated and embedded management system to sustain the change and provide multiple opportunities for learning, improvement and adaptation.

⁶D. Campbell, "Putting Strategy Hypotheses to the Test with Cause-and-Effect Analysis," *BSR* September-October 2002 (Reprint #B0209E).

Institutionalise the New Culture

The final step in Kotter's leading change process is to ensure that a new culture gets established to sustain the change. The biggest change introduced by the new Kaplan-Norton strategy execution system is that the enterprise's core management system is centered on implementing strategy and not on achieving a budget's short-term financial targets. Companies have been using the budget as their central management system for more than a century, and this practice has engendered a pervasive culture of short-term financial control. It is indeed difficult to supplement and eventually replace the budget culture with the innovation and learning required for a strategy execution culture.

We have found that to accomplish and sustain a strategy-focused culture, companies need a new organisational function, which we call the Office of Strategy Management (OSM).⁷ The new OSM function keeps the organisation focused on strategy execution by implementing the six-stage management system throughout the year. The OSM does not select the strategy, nor is it responsible or accountable for its successful implementation. These remain the responsibility of line management. But busy and easily distracted senior executives need the constant attention of a small staff dedicated to ensuring that all the processes required for successful strategy execution get performed on schedule throughout the year. Establishing an OSM and having it dictate the rhythm and pace of the strategy execution process are essential in establishing and sustaining a strategy-focused culture.

⁷R.S. Kaplan and D.P. Norton, "The Office of Strategy Management," *Harvard Business Review*, October 2005 (Product #R0510D). See also Chapter 10 in Kaplan and Norton, *The Execution Premium: Linking Strategy to Operations for Competitive Advantage* (HBS Press, 2008); and Kaplan and Norton, "The Office of Strategy Management: Emerging Roles and Responsibilities," *BSR* July-August 2008 (Reprint #B0807A).

Putting Principles into Action

Leading change is demanding. Leaders must establish direction by developing a vision of the future along with a strategy for producing the changes needed to achieve the vision. Once the vision and strategy have been selected, leaders must align all employees to them, communicating the direction and creating the coalitions committed to achieving the strategic vision. And leaders must continually use intrinsic and extrinsic motivation to inspire employees to stay the course and remain focused on moving in the right direction. The Kaplan-Norton strategy execution system provides leaders with a tool previously unavailable for accomplishing their tasks: the capability to create an entirely new management system designed for and aligned to the journey toward achieving transformational change.



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