



White Paper

Strategy Management vs. Metrics Management: How to Create a Strategy-Focused Organization

A true Balanced Scorecard helps to create a Strategy-Focused Organization (SFO), rather than a metrics-focused organization (MFO), enabling companies to beat the odds against successful strategy execution. A Strategy-Focused Organization aligns its daily activities to strategy, and communicates that strategy throughout the enterprise.

Decades of focus on tactical measures, short term goals and an emphasis on business intelligence tools for extracting and reporting those measures have led many organizations to implement tactical key performance indicator (KPI) scorecards. Scoring for these KPIs is limited to the metrics themselves, and is not rolled into a measure or score indicating actual performance in relation to strategy. These deployments overlook the fact that the Balanced Scorecard concept is based upon scoring successful execution of strategy (achievement of strategic objectives), rather than simple monitoring of metrics. With KPI scorecards, users are scoring buckets of metrics, rather than measuring the strategy. Individual measures are not necessarily indicative of the overall corporate strategy. A Strategy-Focused Organization is concerned with the quality, not quantity of its measures. Rather than monitoring volumes of measures, it is more beneficial to measure what matters.

Are You a Metrics Manager or a Strategic Leader?

Drs. Kaplan and Norton recently released a follow-up to The Balanced Scorecard, titled The Strategy-Focused Organization. The authors note, “The Balanced Scorecard approach retained measures of financial performance, the lagging indicators, but supplemented them with the measures on the drivers, the lead indicators, of future financial performance. But what were the appropriate measures of financial performance? If financial measures were causing organizations to do wrong things, what measures would prompt them to do the right things? The answer turned out to be obvious: Measure the strategy! Thus all of the objectives and measures on a Balanced Scorecard – financial and nonfinancial – should be derived from the organization’s vision and strategy.”

Does it matter whether measures are scored and if those scores are aggregated to the top-level scorecard? Many current metric or KPI scorecard vendors display traffic light indicators, directional arrows or numerical scores, but these indicators reflect only the performance of individual metrics. This does not provide users with a real, holistic view of how the organization is performing, and can never lead to breakthrough performance.

How to Drive Organizational Performance Into the Ground

Most executives want to drive breakthrough performance, not drive organizational performance into the ground. Unfortunately, some so-called scorecard vendors have failed to realize the latter. Instead, many vendors offer metrics scorecards, which only color-code measures. Metrics scorecards will logically drive an organization to focus on metrics and ultimately let tactics drive the business, rather than the strategy. To illustrate the difference between a metrics-focused organization and a strategy-focused organization, let’s consider the following scenario:

If a student has received the following scores in Math class, what is the overall grade? Grades – 87, 78, 93, 48, 0, 87, 77, 95, 98

In this illustration, Math represents the objective, with the overall objective score being the overall grade. The test scores represent measures and data points. Without a scoring model, one cannot determine the final grade in Math. Based upon the strategic objective, or Math scoring model, the grades may be weighted differently to reflect their strategic value. For instance, the student would fail the class if the “0” represented 90% of the grade value. However, the opposite would be true if the “98” represented 90%. Strategic measures must be weighted to reflect their strategic value, and then linked to the appropriate objective to receive an accurate overall score. If this cannot be accomplished, organizations will have to treat all metrics as equal, and will be unable to tie them to strategy, creating a precariously tactical performance model.

How to Automate & Weight Your Strategy to Drive Breakthrough Performance

Scoring or color-coding Objectives on scorecards is essential. Many vendors only color-code Measures. This manifests itself dramatically when presenting performance results. Without scoring and color-coding at the Objective level, users will not be able to accurately and consistently communicate successful achievement of strategic Objectives. They will only be able to accurately assess Measure performance, making it impossible to develop scorecards and dashboards that provide a high-level, at a glance view of strategic performance.

As explained in the Math illustration, the ability to weight Measures allows an organization to assign more value to a Measure that may have a greater impact on performance. Users should be able to establish a performance index for each Measure – done by comparing actuals to predetermined targets/plans and applying a user-defined algorithm to derive the index. Then, multiply indexes by relative weights to establish a performance index for each Objective. Indexes can then be color-coded according to value. The result is a weighted score, which is accurately color-coded, based on the performance index. This gives users an immediate visual representation of performance.

The following diagrams demonstrate how this functionality provides executives with a critical snapshot of objective attainment.

Strategy maps should like Figure 1, not Figure 2:

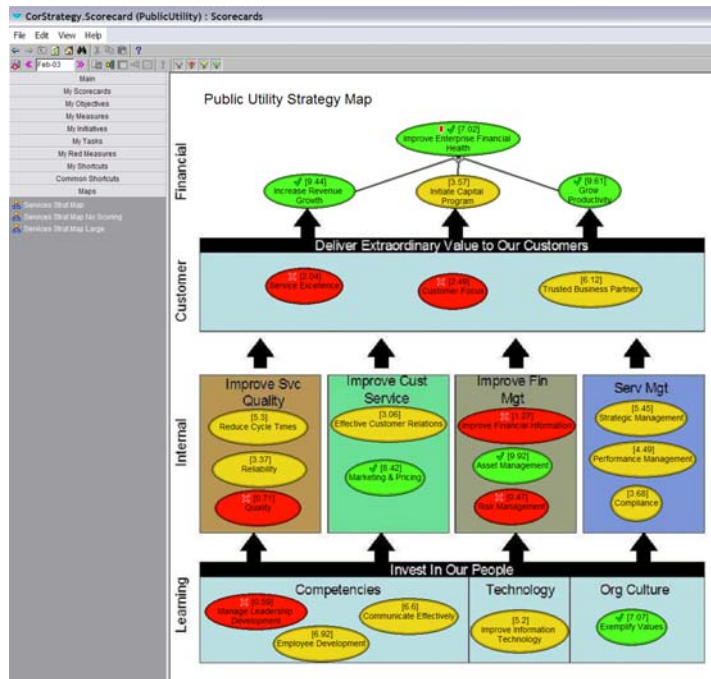


Figure 1

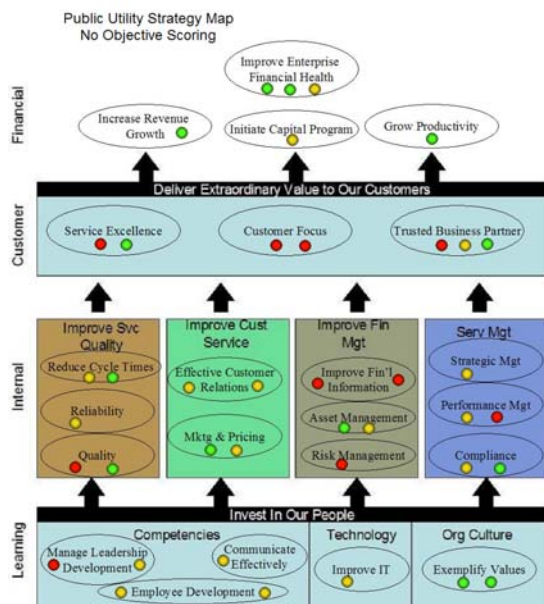


Figure 2

Keep the Wallpaper on the Desktop, not in the Strategy Map

Interactive, integrated strategy maps or cause/effect diagrams provide this at a glance view of strategic performance. However, many vendors require users to create such maps in a design application, save the maps as an image file and then use it as wallpaper within their application. While this may not seem critical, it makes it nearly impossible to score (color-code) Objectives. In some products, cause and effect relationships are defined via a dialog on the screen but may only be viewed one Objective at a time - not within the context of an actual diagram showing the big picture. This significantly detracts from the strategy map's ability to communicate the vision accurately. Users need to see the big picture to know where their contribution is made.

Managing the strategy, not measuring metrics, is essential to becoming a Strategy-Focused Organization. Drs. Kaplan and Norton put it best: “Companies whose scorecard projects fail because of poor design are typically not designing scorecards to tell the story of their strategy. For example, companies that build KPI scorecards are not likely to realize performance breakthroughs. KPI scorecards can drive improved operational performance, but unless they are accompanied by an explicit strategy to capture the benefits, the organization will experience disappointing outcomes. KPI and stakeholder scorecards omit critical internal processes and the linkages for driving breakthroughs for customers and shareholders.”

They conclude, “Unless the link to strategy has been clearly thought through, however, the KPI scorecard can be a dangerous illusion. Only a strategy scorecard ... can create a Strategy-Focused Organization.”

Most products focus only on the performance measurement aspects of the scorecard, not the performance management side - where real alignment of activities with strategy becomes apparent. Is your scorecard implementation enabling you to be a Strategy-Focused Organization?

CorVu Locations

Americas

CorVu North America, Inc.
3400 West 66th Street
Suite 445
Edina, MN 55435
USA
Tel +1 952 944 7777
Fax +1 952 944 7447
US Toll free 1 800 610 0769
Email info@corvu.com
Web www.corvu.com

Asia Pacific

CorVu Australasia Pty Ltd.
Level 4
1 James Place
North Sydney NSW 2060
Australia
Tel +61 2 9959 3522
Fax +61 2 9959 3583
Australia Toll free 1 800 500 644
Email info@corvu.com
Web www.corvu.com

EMEA

CorVu Plc
Craven House
40 Uxbridge Road
Ealing, London W5 2BS
United Kingdom
Tel +44 (0)20 8832 7700
Fax +44 (0)20 8832 7709
UK Toll free 0 800 214 804
Email info@corvu.com
Web www.corvu.com

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