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What is the optimal role of measures in strategy execution?

In this series, Palladium asks expert strategy practitioners to share their experiences and opinions. We asked:

The adage 'what gets measured gets done' still dominates the thinking of many leaders when it comes to performance management. Measures are undoubtedly critically important, but they are only one component of a strategy management system.

How can organisations shift the emphasis from measurement to strategy? What is the optimal role of measures in this new, strategy-focused conversation?

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'If you are red, you are dead' is often leadership's measurement philosophy. As a result, organisations spend a lot of time focusing actions on meeting a target instead of ensuring that what they are doing drives successful strategy implementation. Managers' actions may even be counterproductive, but as long as they get rewarded for hitting their targets they have no incentive to question what they are doing. Achieving the organisation's overall strategic goals becomes secondary to attaining their own division, department or individual goals, resulting in short-term success at the expense of long-term strategic success.

The right strategic measures focus attention onto two things: 1) strategic discussions and 2) decision making.

Strategic discussions answer several key questions:

- Why did this happen?
- What do we need to do?
- What has changed that may require adapting our strategy?

This results in strategic decisions:

- What new initiatives do we need to improve performance?
- Is this a temporary dip and no action is needed?
- What changes are needed to our strategy?

For strategic measures to be meaningful, leaders have to encourage accurate and honest reporting. The first time someone is punished for reporting poor results everyone else will do whatever is necessary to game the results.

Developing measures requires addressing three concerns:

1. Will leadership care about the results? If all they do is review them but not discuss them then they are not strategic.
2. Will they drive the right behaviours? If they are easily gamed, then it is vital to determine if the organisation is doing the right things or merely doing what it takes to be green regardless of the overall impact on the strategic goals.
3. What are the risks associated with the performance? Strategic measures also drive risk discussions. They support assessing and understanding the consequences of not addressing risk.

With a good set of strategic measures at the corporate level, they must then be cascaded throughout the organisation. Properly cascading measures not only shows what must be done at each level but illustrates the relationships between each part of the organisation. That way, instead of everyone optimising their own results, they work together to drive the overall strategy; trade-offs are made with an understanding of why they are important to overall success. This system encourages cooperative decision making and reinforces strategy execution as a team effort, sacrificing departmental goals for the greater good.

Finally, strategic measures must support trend analysis. Individual data points describe performance for a point in time and are useful for assessing current performance. Trends, however, provide insights into how well your strategy has performed over time and likely future performance. To be viable for trending, strategic measures must be repeatable, i.e. they must for the same actions yield the same results. If they exhibit random variations, then period-to-period comparison is impossible and thus is not useful for determining how effective the strategy will likely be in the future. Decisions based on their results may not address needed changes in the strategy and leaders are left wondering what happened when future results are not as expected.

Good strategic measures provide information. Information drives informed decision making. If you punish honest reporting you will get incomplete or manipulated information, which leads to a false sense of security and bad decisions. Leadership has to develop the right strategic measures, cascade them throughout the organisation and then demand accurate results reporting. Anything less is a prescription for failure.

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When building a Balanced Scorecard management system, you are constructing a model of top priorities, which focuses the whole organisation on executing the strategy. A model is a prioritised simplification of reality, but the Balanced Scorecard is not an analytics model: it is a synthesis framework focused on the most important aspects and changes that will bring the strategy to life.

Building a model requires insight and rationale for deciding what deserves a place within the limited space of our model and what doesn't. The Balanced Scorecard model places the strategic objectives at its core, as they best synthesise the vision, bringing it to an actionable level.

When we discuss the meaning of 'balanced,' we usually focus on the balance between financials and non-financials, the driving and driven perspectives, and so on. We seldom mention that 'balanced' means the convergence of the synthesis and analytics layers.

When we build our Balanced Scorecard we have to create a model that is simple to manage, so the most important strategic choices and the value gaps to be closed, as well as our strategy's objectives, have to be synthesised into our model. But what brings this synthesis model down to the reality of our organisation's processes, resources and capabilities? That's the analytical layer, which allows us to look into the relevant data and use that for quantifying our objectives' accomplishment. That is what the measures are designed for, and the scorecard brings the synthesis layer (objectives) and the analytical layer (measures) together.

The second stage of the Kaplan-Norton BSC framework, the Execution Premium Process™ (XPP), is 'Translate the Strategy,' which concerns the translation of the strategy into the components of the strategy map, scorecard and initiatives portfolio. The most challenging task of this stage is identifying the relevant measures for each strategic objective. This is where the operational and strategic views intersect. You can often hear during workshops opinions such as, *'We've always measured this KPI, so we should find a place for it in the scorecard,'* or *'I'd like to see these additional KPIs in the scorecard, to have a more complete picture.'* This is what 'translation' means for too many people, so it's no wonder that the Balanced Scorecard soon becomes an unbalanced KPI system with lots of analytics that often succeed in masking its fundamental synthesis role.

Years ago, I was immersed in a Balanced Scorecard implementation at an organisation in Southeast Europe. Everything went well until we reached the alignment wrap-up where we had to re-assemble the top-level scorecard based on the outcomes of the departmental alignment workshops. It looked easy, initially, but then we entered the KPI aggregation nightmare.

We spent many days and nights in front of Excel spreadsheets, trying to make the aggregation of the aligned KPIs' statuses match the aggregation of the aligned objectives' statuses, a big and dirty trap. Years later, the alignment aggregation cases became clear, but at that time they were not.

Since then, I've never encouraged people to use measures for anything else than for quantifying the achievement of objectives' statuses. When you aggregate the statuses, do that for the objectives. If it happens that some measures' aggregation provides the same result, that's fine, but the alignment is about the objectives, not about the measures.

So focus on objectives instead of measures and use the Balanced Scorecard for its synthesis role, based on objectives, rather than for analytical purposes, based on measures.

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Albert Einstein once said that if he had an hour to save his life he'd spend the first 55 minutes determining the proper questions to ask.

This adage well describes a common issue that organisations face when discussing the Balanced Scorecard. The conversations revolve around measures (or Key Performance Indicators – KPIs) without the context of the strategic performance questions they need to ask in order to deliver on a strategic objective. This situation is one reason why an objective is often supported by lots of KPIs; managers have rushed to the measures before thinking through what the real information needs are.

An innovation that many organisations have found helpful is Key Performance Questions (KPQs). A KPQ is a management question that captures precisely what a manager needs to know when reviewing strategic objectives. The rationale for KPQs is that they focus attention on what really needs to be discussed in strategy review meetings. By first designing KPQs, organisational leaders are able to ask themselves, 'What is the best data and management information we need to collect to answer our Key Performance Questions?' Starting with KPQs ensures that by default, all subsequently designed KPIs are meaningful, relevant and useful. KPQs put performance data into context and therefore facilitate communication, guide discussions and direct decision making.

As an illustration, consider the UK-based police force, Durham Constabulary. The objective 'Tackle Criminality' has three supporting KPQs, including 'How well do we prevent people from becoming criminals?' This KPQ is answered by a KPI that measures the number of first time entrants as a percentage of all persons arrested, as well as KPIs on reoffending rates and the percentage of the population who are offenders. The link to professional investigations and effective problem-solving is made in these discussions and is a key focus for the other core deliverables.

The following is a 10-step guide to designing KPQs.

1. Design between one and three KPQs for each Strategic Objective.
2. Ensure KPQs are performance related. The aim is to design questions that you need to revisit and answer to better manage the strategy.
3. Engage people in the creation of the KPQs. This is a great way to engage many employees in the strategic process.
4. Create short and clear KPQs. They should be unambiguous and only include one question.
5. Use open questions. Avoid the potential for yes or no answers.
6. KPQs should address the present or future, not the past.
7. Refine and improve the KPQ over time. As with any learning process, practice makes perfect.
8. Use the KPQs to design relevant and meaningful KPIs.
9. Use KPQs to challenge existing KPIs. Linking to present KPIs can put the measures into context and justify their existence as well as eliminate the unnecessary ones.
10. Use KPQs to report and communicate performance. The person looking at the data knows why the data is being collected and so puts it into context.

Albert Einstein also famously said, 'Not everything that counts can be counted, and not everything that can be counted counts.' KPQs ensure that performance discussions are not just about metrics but that they consider other strategically critical sources of information and insights to answer the most strategically important questions.

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Measures support strategic objectives and are not goals in and of themselves. Well-designed strategic measures enable a data-driven conversation about not just the progress toward individual objectives but also how the objectives are working together to successfully implement the strategy. It is all about cause and effect.

When developing strategic measures (or key performance indicators), it is important to start with the objectives at the highest level financial/stakeholder outcome perspective. The supporting measures should be designed sequentially to clearly show how improvement here moves the dial on the measures above. Through this process we can better understand cause and effect between the measures and the objectives that they support. Too often organisations parcel off objectives to internal departments who then design measures that are not aligned with the measures they are trying to impact.

Being so precisely focused on designing measures that drive objectives in isolation also means that reporting managers get very concerned over their red, amber or green ratings. With a full understanding of how objectives and their measures work together, it becomes apparent that no one person can be reasonably held responsible for reported results. Such individual accountability contradicts the essence of cause and effect. For example, if a customer objective is red (due to the colours of its measures), it must be the consequence of what is happening in both the internal process and learning and growth perspectives, as this is where the work gets done to deliver on customer/financial outcomes. Conversely, constantly green internal process measures provide little value if the outcome measures are constantly red. Clearly, the cause-and-effect hypothesis is wrong, or there is something out of sync with regard to the targets. Setting targets that are misaligned with the targets above is inappropriate – but not uncommon.

Historically, little attention was paid to cause and effect because the technology was not readily available to do this work economically or quickly. With the advent of advanced data analytics (especially as a result of big data), we now have the tools to provide detailed and precise insights into how objectives and their measures are progressing and how they impact others on the map and scorecard.

Organisations are now able to translate these cause-and-effect links between objectives and their measures into quantified formulas based on historical data (descriptive analytics). The next step is for organisations to use predictive analytics to quantify what the future could look like if the organisation achieves its learning and growth and internal process objectives and conduct scenarios and assess risks of what the customer and financial perspectives objectives could look like if the organisation fails to achieve its enabler objectives. With quantified cause-and-effect formulas, an organisation can define the targets for enabler measures at the exact levels that would help it achieve its targets for its customer and financial objectives.

Organisations need to stop designing measures in isolation and design scorecard systems based on cause-and-effect hypotheses that can be tested and modelled. Measures and their corresponding targets then become important aids to successful strategy execution, as they provide rich data-driven information on the strategic impact of the objectives and guidance on where appropriate initiatives or incremental process improvements are required.

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