Essentials

Strategic Clarity and Communication

What is Clarity?

At the simplest level, clarity is when the leadership team is aligned around six critical questions of the organization:

1. **Why do we exist**? What is our core purpose or the fundamental reason we exist? What is our "winning aspiration?"

   Peter Drucker argued that the purpose of an organization is to create customers; without customers, there is no business. But we don't just want customers; we want to win with customers – to have all their business and loyalty. We want to be the industry leader. To truly be the industry leader, an organization needs to focus on winning with those that matter most and against the best. This requires a focus outward, rather than an inward focus on products, innovations, employees, and functions (turf). Leaders should set a purpose/aspiration that is meaningful and powerful to the organization's employees and customers. The purpose/winning aspiration must also be 'real' – based on the motivations of the people who founded or are currently running the organization. The purpose should never be a set of words that simply sound good on paper; it is NOT a marketing slogan. A real purpose/aspiration needs to live out in the hearts and minds of the leaders and guide their decisions and actions. If this is done, the purpose will be apparent to all employees and customers.

2. **How do we behave**? What are the behaviors and values required for success to achieve our purpose?

   Values define an organization's personality; they provide clarity to employees on how to behave. Clear values attract the right employees and customers. The mistake some organizations make is identifying values that are too broad and inclusive; the leaders try to be all things to all people.

   There are different kinds of values.
   a. <u>Core Values</u> – The few (two or three) behavioral traits that are inherent in an organization; they are at the heart of the organization's identity. They cannot be contrived; they must be discovered. Core values do not change over time. They are by far the most important and must not be confused with the other types.
   b. <u>Aspirational Values</u> – Characteristics an organization wants to have, wishes it already had and believes it must develop in order to maximize success. Such values must be purposefully created into the culture of the organization.
   c. <u>Permission-to-Play Values</u> – Minimum behavioral standards that are required in an organization, such as honesty, integrity, respect for others. While important, these values do not clearly define or differentiate an organization from others.

When an organization identifies and describes its core values and separates them from other kinds of values, it must do its best to be intolerant of violations of those values. EVERY activity it undertakes, EVERY employee it hires, and EVERY policy it enacts reflects those core values.

3. **What do we do**? What products and services do we provide? What are our core competencies?

   The reason for existence answers the question *Why*? This question answers the *What*? While it would appear to be a clear and straightforward question to answer, organization leaders rarely can accurately describe the nature of their organization's business. Without a crystal clear description, leaders create confusion within the company and potentially in the market. A simple statement with no adverbs or qualifiers is all that is needed. For example, a biopharmaceutical company's answer may be: "*We discover, develop, make and commercialize better medicines through integrated sciences*."

   An organization's business definition can change over time as the market changes and requires a meaningful shift in the fundamental activity of the organization

4. **How will we succeed**? What is our strategy? What is our value discipline and competitive advantage? Where do we compete (geography, customer segments, vertical stages of production)?

   Strategy is nothing more than the collection of intentional decisions made by an organization to give it the best chance possible to thrive and differentiate itself from the competition. To make this actionable, the leaders need to boil the strategy down to "*strategic anchors*." Strategic anchors provide the lens or filter through which all decisions are made. Strategic anchors can be identified by creating an exhaustive list of everything related to the organization and clustering similar/related items together. Each cluster is then given a name that captures the essence of the items in the cluster that makes them similar/related. As an example, strategic anchors for a grocery chain with multiple stores may be:
   - Keep prices low by being frugal whenever and wherever we can;
   - Create a positive, flexible environment for our employees; and
   - Build loyalty and become a community destination.

   Once the strategic anchors are identified, the leaders must decide the organization's value discipline. Companies that have taken leadership in their industry over the last three decades have done so by narrowing their focus, not broadening it. They focus on one of three possible value disciplines:
   1. <u>Operational Excellence</u> - lead the industry in price and convenience. Organizations that follow this discipline constantly seek to minimize overhead

costs, eliminate non-value-add steps, and reduce "friction" (inconvenience) at the intersections with customers and suppliers. Such organizations are considered 'lean and efficient.' **Dell** is an example of an organization focused on operational excellence.

2. Customer Intimacy – continually tailor products and services to fit an increasingly fine definition of the customer. Such organizations seek to build customer loyalty for the long-term by looking at a customer's lifetime value, not just the value from one transaction. Employees pay little attention to cost, but make sure the customer gets exactly what they expect. **Nordstrom's** is one example of a company positioned for customer intimacy.
3. Product Leadership - strive to produce a continuous stream of state-of-the-art products and services. Such organizations must be creative, must be able to commercialize innovations quickly, and must relentlessly pursue new solutions to the problems their latest product or service has just solved. They want to be the one to render their own technology obsolete. To accomplish this, they quickly embrace new ideas that originate outside the organization; engineer their business and management processes for speed, and manage risk well. **Johnson & Johnson** is one example of such an organization.

Becoming an industry leader requires an organization to choose the discipline that aligns with its capabilities (products & services) and culture (values) and then design and execute their entire operating model with that one discipline. Companies falter when they lose sight of their value discipline and pursue opportunities that are inconsistent with their value discipline. Sears Retail in the 1980's is a good example: Sears went from an operational excellence discipline to customer intimacy to product leadership with one initiative after another, without taking the actions required to be good at or sustain any one of them. Organizations that push the boundaries in one discipline while meeting industry standard in the other two have the potential to gain such a large lead over the competition that it is difficult for others to catch up.

The anchors and value discipline may also include where-to-play choices:

- Geographic
- Consumer segment
- Distribution channel
- Vertical stage of production

Choosing where to play is also choosing where not to play. A choice to serve everyone everywhere will lose. Organizations should look for places to play that enable an attack on the competition from an unexpected direction and with the least resistance. No where-to-play choice needs to last forever, just long enough to obtain the advantage needed for long-term success.

5. **What is most important right now**? What is the single most important priority for the next 12 months?

Given the answers to the first four questions, what do we need to do TODAY? Too many organizations fail to answer this question, assuming that employees will know what to do with the answers to the first four. This is far from the truth and as a result there are many organizations suffering from ADD (attention deficit disorder). People are busy doing things, but they are not focused around a single rallying cry. Instead there are a lot of initiatives being done in a mediocre way, resulting in a failure to accomplish what matters most. This phenomenon is reflective of the old adage, "If everything is important, nothing is."

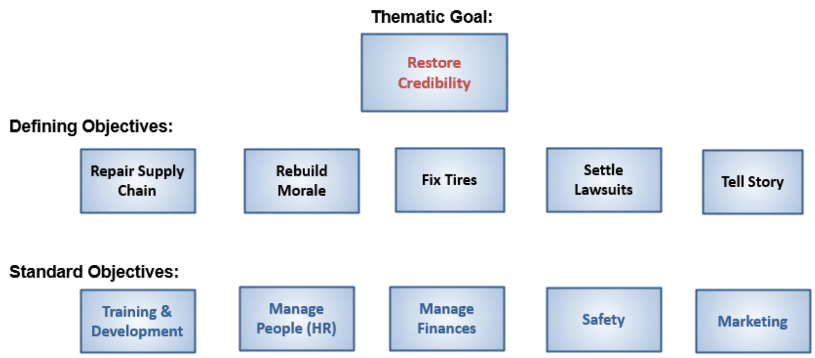
If an organization it wants to create a sense of alignment and focus, it must have a single top priority for a given period of time, a "*thematic goal*." A thematic goal is:

- Singular – **one** thing.
- Qualitative – vs quantitative so as not to limit people's ability to rally around it.
- Temporary – achievable within a clear time boundary, usually 3 to 12 months. Anything less than 3 months is a fire drill; anything more than 12 months invites procrastination and skepticism.

The best way to identify a thematic goal is to answer the question, "*If we accomplish only one thing in the next x months, what would it be*?

The thematic goal is more helpful to the leadership team than the troops within the organization as it provides the leadership team alignment and clarity around how to spend their time, energy and resources which will in turn create alignment and clarity in the rest of the organization through their actions and words. Specific d*efining objectives* and *standard operating objectives* can then be set for categories of activity within each of the functions led by the leaders.

1) An example of a thematic goal, its supporting defining objectives and standard operating objectives is Firestone after their early 2000's tire failures. The thematic goal had to be much more than 'fix the tires.' Yes, they had to fix the tires, but to stay in business and grow past these failures, they had to 'restore credibility' as their focus. This involved fixing the fires, settling lawsuits, repairing their relationships with customers and suppliers, and rebuilding morale with employees. It also involved telling their story in a way that would engender trust. This all had to be done while continuing to run the business and make product: managing people, managing finances, training, and development, maintaining safety in their manufacturing facilities and marketing, and selling their products. The relationship of these is shown in a goal tree below:



*from: Lencioni, Patrick. *Answering Question #5 – What Is Most Important Right Now?* CAPA Pro Webinar, 2021

6. **Who will do what**? What are the roles and responsibilities within the leadership team?

   Leaders need to clearly and unambiguously know their respective roles and responsibilities if they are to execute against the thematic goal as a team and the defining and standard operating objectives within their functions. Seems common sense, but don't take it for granted. It is always worthwhile to take time to clarify roles and responsibilities on the leadership team so everyone agrees on what everyone does and that all critical areas are covered.

Think of these questions as an integrated cascade of choices. A simple way to document the answers to the six questions is to create a "*Playbook*." It should be short (no more than one page per question, for a total of 6 pages) and should be accessible to each leader wherever they go (bring to meetings, keep on desk as a tool for communicating with employees).

With this clarity and alignment, the leadership team can determine the strategic brick & mortar and infrastructure decisions needed to execute the thematic goal, defining objectives, and standard operating objectives for industry leadership. Strategic brick and mortar decisions include: What amount of total production capacity to provide the market; how this capacity is divided into specific production facilities and where they should be located; what kind of production equipment and systems to provide these facilities; which materials, systems and services should be produced internally and which should be outsourced. Strategic Infrastructure decisions include: HR policies & procedures; training policies; quality assurance and quality control systems; production planning and inventory control systems; New product development processes; performance measurement and reward systems; organization structure and design; or all the management systems of the organization.

Making these strategic decisions without alignment and clarity on the answers to the six questions results in waste throughout the organization – wasted money and resources to build facilities and/or production lines and implement systems to support them which do not contribute to the long-term value discipline and thematic goal. This in turn does not create good relationships with employees, suppliers and customers.

Alignment

Imagine:

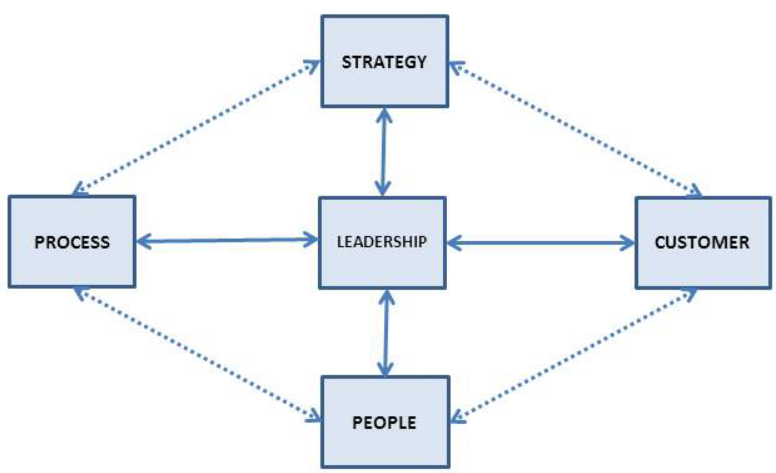
- Working in an organization where every member, from top management to the newly hired employee, shares an understanding of the business, its goals and purpose.
- Working in a department where everyone knows how he or she contributes to the organization's business strategy
- Being on a team whose every member can clearly state the needs of the organization's customers and how the team contributes to satisfying those needs.

Impossible, you say? No, it is not. The best organizations act this way and accomplish extraordinary things (see the list of Malcolm Baldrige National Quality Award winners for examples, www. http://patapsco.nist.gov/Award_Recipients/index.cfm).

Alignment gives an organization the power to:

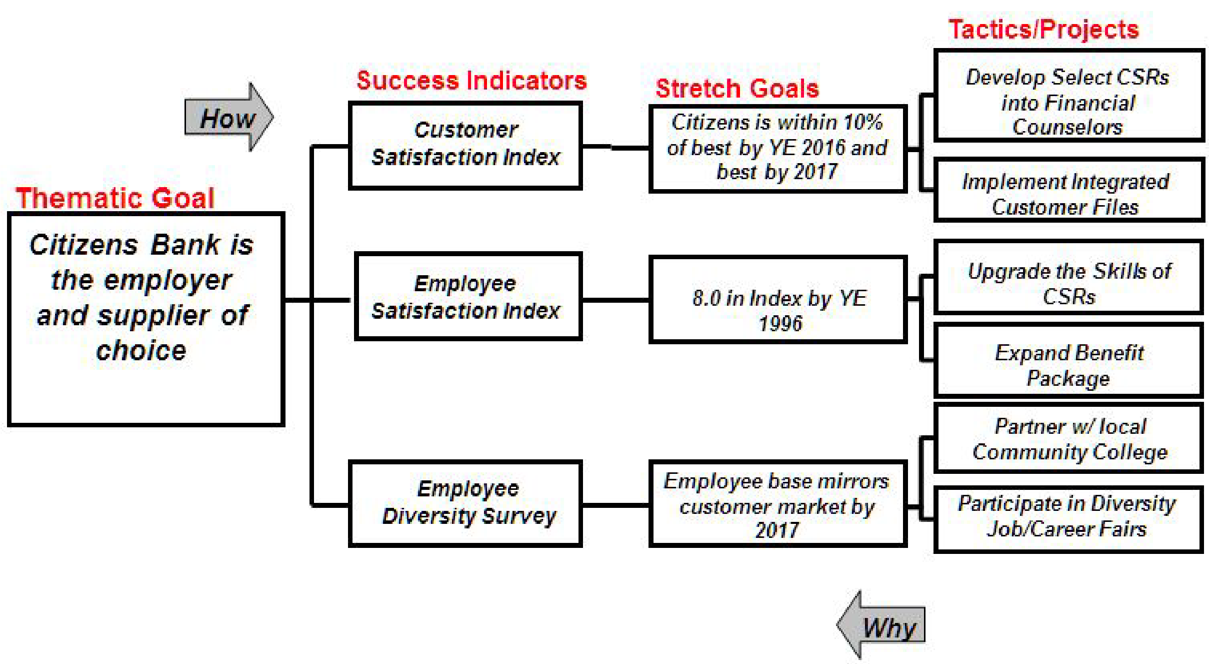
- get and stay competitive by bringing together previously unconnected parts of the organization into an interrelated, easily comprehensible whole;
- create an organizational culture of shared purpose;
- achieve consistent, defined levels of performance and growth.

"Alignment is a state of being that ensures an organization is in balance." It is a balancing act that involves setting direction, linking processes and systems, and making constant adjustments. Alignment is both a noun and a verb – a state of being and a set of actions. It relies on two dimensions: vertical and horizontal; both dimensions must be synchronized. See the figure below for a representation of this model.



The vertical dimension is concerned with strategy and the people that transform strategy into meaningful work on a daily basis (standard operating objectives); it energizes people, provides direction and offers opportunity for involvement. It is all about rapid deployment of the business strategy (strategic clarity). The ultimate proof of vertical alignment is observable in the actions of front-line employees. A good example of this is Southwest Airlines where everyone knows planes sitting at the gate do not make money; gate agents, baggage handlers and crews act with urgency to get planes into the air.   Vertical alignment is more than employee compliance with strategy set by the organization's leadership; it is a two-way street as depicted by the double arrows in the figure above. Strategy must be determined based on customer value creation AND must be informed by the people who will implement it. Employees on the front-line almost always have greater intimacy with customers and the competition than senior leaders. Therefore, the insights of front-line employees can greatly enrich strategy. But those insights must be actively solicited through mechanisms that provide continual dialog, such as Planning, Deployment and Review (PDR).

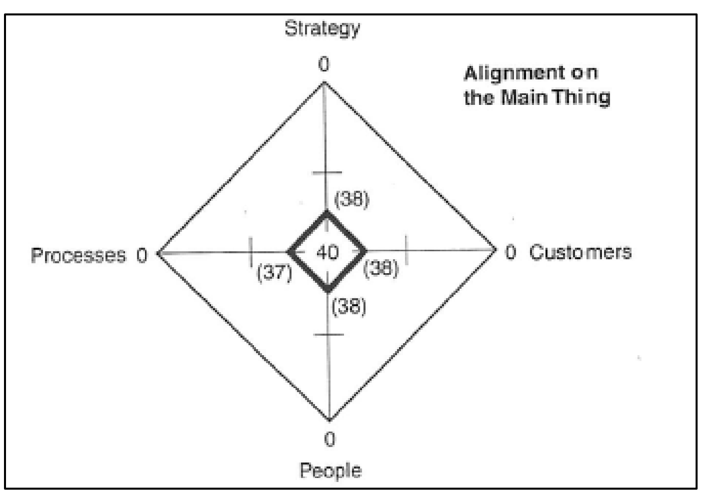
PDR is an on-going cycle. It begins with the "main thing "of the organization – the highest-level purpose of the organization or the single most important thing, driven by customer values, that will improve performance in the near term (thematic goal). Such planning demands a set of critical success indicators, stretch goals, activities and tactics. These may be represented in a Tree Diagram known as a Goal Tree. See Figure below for a goal tree of a local bank. Note that as you move from left to right, you are answering the question "how will we achieve this goal?" Moving from right to left you answer the question "why are we doing this?" Goal Trees are a simple, visual way to communicate strategy to all levels of an organization. They can be cascaded down the organization: the stretch goal at one level becomes the thematic goal of the next level.



The horizontal dimension involves the processes that create what customers most value (process thinking); it understands what customers really want and then delivers it when and how they want it (relationship).   To eliminate the boundaries with customers, aligned organizations bring customers inside, making them participants in the organization's value-creating processes. Potential ways to do this include: involving in new product design and development, involving the customer's customer in design and development, keeping internal customers happy, process improvement to drive out waste, time and cost. The trick is to engage the most challenging customers – we often learn the most from our biggest critics. The old adage "keep your critics close" is appropriately applied here.

Neither a great strategy nor full commitment of leaders will create high performance and growth if an organization's processes for creating and delivering value target customers with the wrong product/solution. Nor will an organization with processes for creating and delivering value aligned with the customer succeed if strategy development and deployment are flawed. – the vertical and horizontal dimensions must be aligned with each other. Alignment in both directions creates dynamic relationship between all four elements where each element is supported and strengthened by the other three. The organization will be resilient and agile, adapting to changes in the environment with speed. If and when such organizations hit a wall, they are quickly able to pick up and redirect.

Is your organization aligned? In their book, *The Power of Alignment: how Great Companies Stay Centered and Accomplish Extraordinary Things*, George Labovitz and Victor Rosansky provide a short Alignment Diagnostic which asks leaders to rate four statements on a scale of 1 to 10 (strongly disagree to strongly agree) for each of the four elements (Strategy, Customers, People, and Process).   The higher the score for each element, the better. More important is the balance in scores between the four elements. This is best represented in a radar chart in which the higher scores are closer to the center (See Figure 2 below). This short diagnostic is easy to understand and score making it an effective mechanism for revealing misalignment.



Brick & Mortar and Infrastructure Decisions

Decisions remain with respect to strategic clarity. Once leaders decide the organization's value discipline (operational excellence, customer intimacy or product leadership), brick and mortar and infrastructure decisions must be made to "fit" with the value discipline.

Brick & Mortar decisions

Brick and mortar decisions include:

- total production capacity to provide;
- how this capacity is divided into specific production facilities and where they should be located;
- what kind of production equipment and systems to provide these facilities;
- which materials, systems and services should be produced internally and which should be outsourced

A manufacturing organization that has chosen an operational excellence value discipline focuses on eliminating intermediate production steps, reducing transaction costs and time. They engineer the order fulfillment process from order entry to product delivery in a way that emphasizes efficiency and reliability. In order to minimize costs, the manufacturer will need to schedule production around long runs with highly automated factories with low skilled workers, located in areas where labor and material costs are low. As a result, this value discipline works best with high-volume, mature products.

In contrast, a manufacturing organization that has chosen a customer intimacy value discipline will compete on the basis of special features that appeal to different customer segments. This calls for a production process that is very flexible, employs highly skilled workers, general-purpose tooling and little automation. It will need to be located close to R&D to quickly modify products for different customer needs and produce small batches.

A manufacturing organization that choses a product leadership discipline must commercialize their ideas quickly so all their manufacturing processes must be engineered for speed and flexibility. Like a manufacturer that has chosen customer intimacy, the production process will need highly skilled workers, general purpose tooling and little automation, located close to R&D, and initially produce small batches. As the new product(s) gain market share and volume increases, production will need to transition to long runs in highly automated factories with low skilled workers located in areas where labor and material costs are low. As a result, it is highly unlikely that new products will be produced in the same facilities as mature products. This will require additional brick and mortar decisions concerning number of production facilities, location of facilities relative to one another, commonality of equipment, layout, materials and distribution.

Infrastructure Decisions

Infrastructure decisions are primarily management system decisions. A management system is an integrated set of processes and tools to translate strategy into operational actions and drive improvement on a daily basis. A management system helps an organization achieve strategic objectives, sustain improvements, and maintain a capability for change, meet and exceed customer expectations, attain high performance, and gain a competitive advantage. Examples of management systems include: Quality (ISO 9000 series), Environmental (ISO 14000 series), Safety (OSHA, PSM), financial, security, health, and human resources.

A manufacturing organization that has chosen an operational excellence value discipline will need to adopt an integrated information management system that emphasizes integration and low-cost. These information systems will require good data which in turn demands shop floor discipline and computer skills in the workforce.

A manufacturing organization that has chosen a customer intimacy value discipline will need infrastructure that stresses flexibility and responsiveness. Information systems will need to collect, integrate and analyze data from many sources. The organization structure will need to emphasize empowerment of those employees working close to customers; its hiring and training program will need to stress creative decision-making and a "have it your way" mindset.

A manufacturing organization that choses a product leadership value discipline will need to be organized like a small, entrepreneurial company and manage risk well. They will need to recruit, hire and train employees to work cooperatively with an open-mindedness to new ideas.

Linkages.

As you may have noticed, from the above discussion, there are linkages between value discipline, brick and mortar, infrastructure and the product life cycle. The options for brick and mortar and infrastructure decisions will be dependent on the product life cycle. Early in the product life cycle, volume will tend to be small and changes frequent, making a job shop with general purpose equipment and highly-skilled employees the most appropriate process. At the other end of the life-cycle, a mature product with few models/options, each with high volume, a highly automated process with low-skilled employees is appropriate. Thus, leaders of manufacturing organizations must consider not only its product stage when making strategic decisions, but future product stages to develop the capabilities needed to transition easily from one stage to the next.

Developing a strategy for manufacturing is challenging. Over the last three decades, US manufacturing leaders have confused strategy with continuous improvement initiatives. As this discussion has demonstrated, it is much more than that.

Strategic Communication

Only when a cohesive leadership team has strategic clarity and alignment can there be effective communication. Without clarity and alignment, any communication, no matter how well structured or delivered, will create confusion and will not mobilize the workforce. People are skeptical about what they are told until they hear it consistently over time. Leaders must communicate strategic clarity over and over and over and over and over and over and over again; seven times. Employees wait to see how serious leaders really are about the message.

Messaging is not so much an intellectual process as an emotional one. The whole point of leadership is to mobilize the workforce around what is most important. Therefore, leaders must appeal to the head and the heart when communicating.

Communication is the real work of leadership.

- *Nitin Nohria*

It is important that key messages come from different sources and through various channels using a variety of tools. Today's technologies (email, teleconferencing and social media) can be useful. But effective communication has nothing to do with technology. The world is full of organizations in which employees feel uninformed despite access to newsletters, intranet sites, Facebook groups, and town halls; these methods lack interaction with the leaders, each other, and the message.

The most effective way to communicate is for members of the leadership team to come out of meetings with a clear message and promptly share with their direct reports and then have those direct reports do the same for their direct reports. This is called "cascading communication." When employees hear all leaders saying the same thing after a meeting, they start to believe that alignment and clarity exists. This will create momentum for action.

The process for accomplishing cascading communication starts at the end of a leadership meeting when the leaders agree on what they are going to go back and tell their people. This requires the leaders to review their decisions, decide which are ready to share, which are not and commit to the message and timing (within 24 hours is a good standard).

Face-to-face communication is best as it gives employees a chance to ask questions for clarification and to hear the tone and see the body language in which it is delivered. It is also best to communicate with the entire group so everyone hears the same message at the same time and can benefit from each other's questions.

The most important thing in communication is hearing what isn't said

- Peter Drucker

In summary, the three keys to effective cascading communication are:

1. Consistency of message from leader to leader

2. Timeliness of delivery
3. Face-to-face communication

Clear communication is crisp and structured. It is communication that provides enough information, but not too much; it is efficient. It is simple but addresses real-world complexities. Meandering, unfocused communication leaves people confused and questioning leadership. This means leaders need to share enough specifics to anticipate questions without overwhelming the hearer in details. A simple reason for a change should help people follow the logic and reach the same conclusion. Providing rationale is particularly important in times of uncertainty or large change. Speculation and gossip will occur if leaders do not step forward to offer clarity on the situation; people will fill in the gaps in communication, often with information that is far from the truth. When crafting communications, leaders should look at the situation from the listener's point of view and then monitor people's reaction for comprehension.

To listen well is as powerful a means of communication and influence as to talk well.

- John Marshall

Crafting a crisp structured message starts by identifying the "headline." This should be no more than 8 words. Next, nail down the talking points. Ask *"If people walk away with nothing else, what two or three points, do I want them to remember?"* Finally, once you have structured your message, refer back to it often and consistently. Repetition and familiarity will shape people's attitudes and feelings.

Everyone Needs to Know the Score

Leaders need to communicate in ways that stick. The old adage, "A picture is worth a thousand words" is really true. Simple tables, graphics, and drawings can be effective ways of painting a picture of the current situation or possible future. They can also help to weave information (facts/data) into a story.

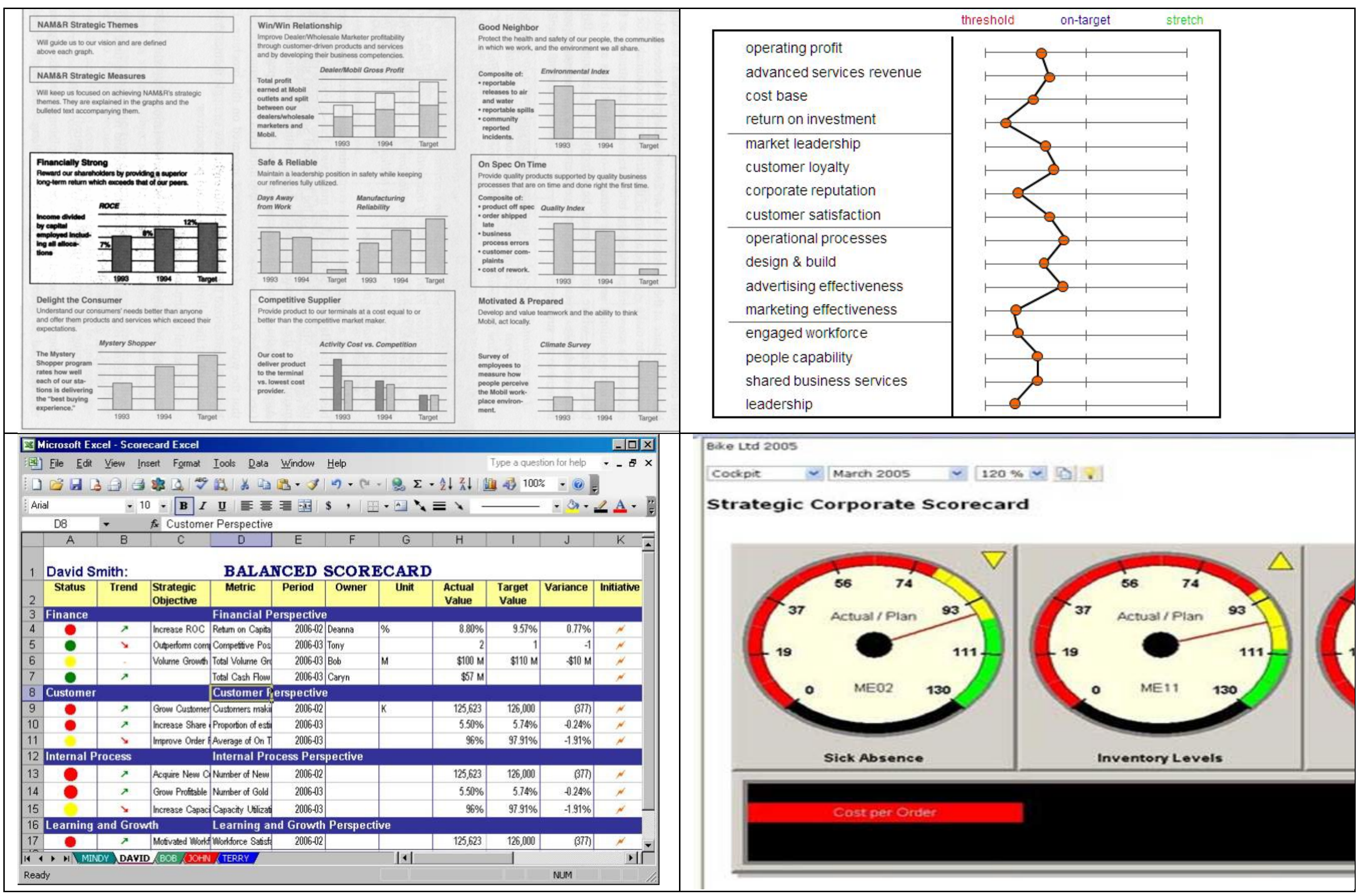
Scorecards and other visual management techniques help leaders and help team members manage and achieve performance results. They are timely, easy to understand, and often provide a graphical depiction of the performance of key performance indicators (KPIs) – like in sports, they let members of the team know if the organization is "winning" (achieving its targets for success). They help employees think and act like owners. Scorecards enable an organization to:

- Drive achievement toward goals;
- Focus on strategies;
- Align employee efforts toward common objectives;
- Improve performance;
- Guide shifts in direction; and
- Balance results across all stakeholder groups.

In their book, The *Balanced Scorecard*, Kaplan and Norton state that organizations can more effectively manage results with a balance of measures in four categories:

1) Financial – measures of the economic consequences of actions **already taken**; typically related to profitability (for example., operating income, return on capital, economic-value-added).
2) Customer – measures of the value proposition **already delivered** to targeted market segments (for example, customer satisfaction, customer retention, customer acquisition, customer loyalty, customer profitability, market share, specific customer drivers such as lead time and on-time delivery)
3) Internal Process – measures of the internal processes that **enable** the organization to deliver value proposition(s) that will attract and retain customers in targeted markets and satisfy shareholder expectations (for example, quality and time-based metrics, new product development)
4) Learning and Growth – measures of the organization's infrastructure that **enable** long-term growth and improvement. These measures come from three sources: people (employee satisfaction, employee retention, employee training & development), systems (real-time availability of accurate data at point of use) and organizational procedures (rates of improvement in critical customer-based processes).

A balanced scorecard may take various formats from tabular to graphical, computerized to manually maintained white boards:



In its simplest terms, the balanced scorecard is a set of measures (scores) that translate the organization's strategies and goals into a comprehensive set of measures that provides a strategic framework for communicating clarity and driving alignment across the organization. There is usually a hierarchy of scorecards. The scorecards are linked vertically and horizontally to each other. Vertical linkages connect the individual work team scorecard to organizational strategy and top-level goals; it helps work teams focus on strategic priorities and the organization's vision. Horizontal linkages connect customer's needs to process measures across work teams.

Historically, organizations have measured and communicated performance financially; this approach focuses on improving cost, quality and time of existing processes. The financial reporting process, however, is anchored in an accounting model that does not include the intangible and intellectual assets of an organization. These assets and capabilities are critical for success in today's competitive environment.

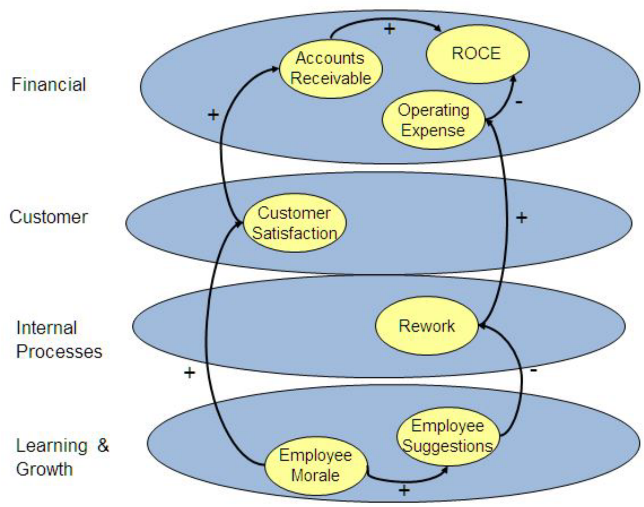
The objectives and measures of a balanced scorecard are more than a collection of financial and non-financial performance measures. The measures represent a balance between external measures related to shareholders and customers and internal measures of critical processes, innovation, and learning and growth; they are balanced between outcome measures, or results of past efforts, and the process and infrastructure measures that enable future performance.

World-class organizations use the balanced scorecard as a strategic management system consisting of four steps:

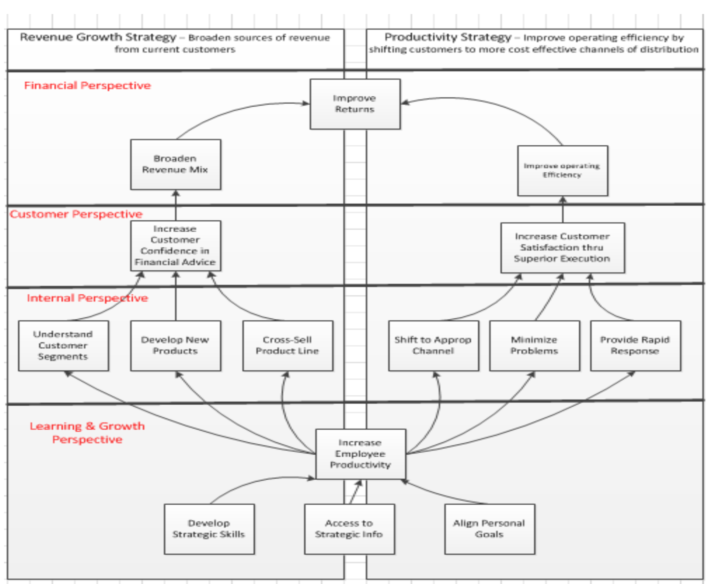
1) Clarify and translate vision and strategy (Essential #2, Clarity)
2) Link strategic objectives and measures (Essential #2, Clarity)
3) Plan, set targets and align strategic initiatives (Essential #2, Clarity)
4) Feedback and learning

1. <u>Clarify and Translate Vision and Strategy</u>
   The senior leadership team must first clarify and be in alignment on the mission, vision, values, and objectives of the organization (Essential #2, Clarity). From a financial perspective, the team must agree on whether to emphasize revenue, market growth, profitability or cash flow generation. From a customer perspective, the team must be explicit about the customer and market segments in which it will compete. This requires a cohesive leadership team, one that trusts one another, can constructively debate the options, commit to a decision, and hold one another accountable to action (Essential #1, Cohesive Leadership). Without this type of clarity and alignment, each senior leader may have a different definition of superior customer service, making development and use of a balanced scorecard challenging and useless. Such clarity on vision, strategy and measurement will highlight those processes that are critical for achieving breakthrough performance for customers and shareholders, which often involve investment in employee skills, information technology and new procedures, which are difficult to justify with a traditional financial approach.

2. Link Strategic Objectives and Measures
   The best scorecards consist of a linked set of objectives and measures that are both consistent and mutually reinforcing. They include cause and effect relationships and a mixture of outcome and performance drivers). Outcome measures alone do little to communicate how the outcomes are to be achieved. On the other hand, performance drivers without outcome measures will not reveal whether operational improvements have been translated into customer and financial performance. Strategy maps are particularly useful in identifying these relationships. A simple map depicting the relationships between strategies in the four categories is shown below:



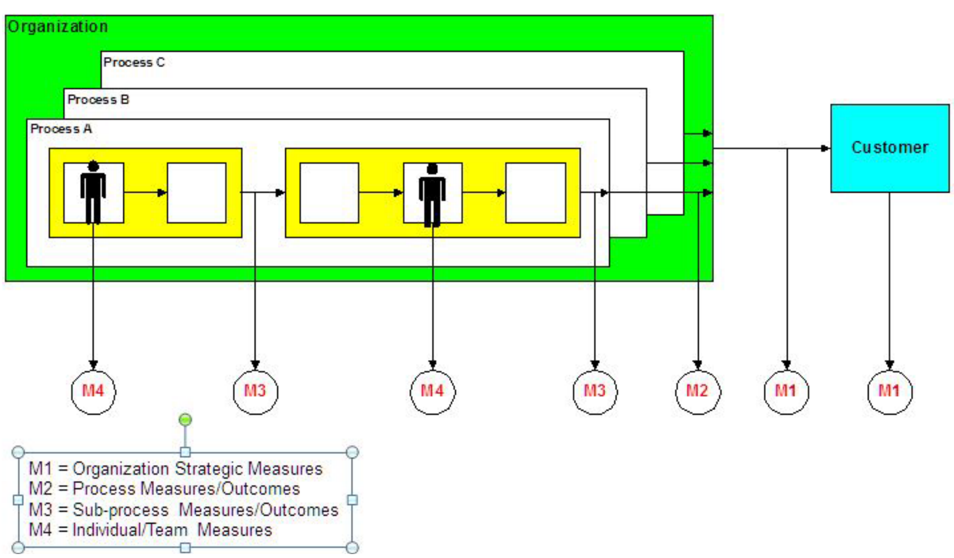
Most strategy maps are more complex and contain multiple strategies for each category. For example, the complex strategy map for Metro Bank as presented in Kaplan & Norton's *The Strategy Focused Organization* (2001):



This translated into the following strategic scorecard:

Strategic Objectives	Strategic Measures	
	Lagging Indicators	Leading Indicators
Financial F1- Improve Returns F2 – Broaden Revenue Mix F3 – Reduce Cost Structure	Return on Investment Revenue Growth Deposit Service Cost Change	Revenue Mix
C1 – Increase Customer Satisfaction re: Products & People C2 – Increase Satisfaction “After the Sale”	Share of Segment Customer Retention	Depth of Relationship Satisfaction Survey
I1 – Understand Customers I2 – Create Innovative Products I3 – Cross-Sell Products I4 – Shift Customers to Cost-Effective Channels I5 – Minimize Operational Problems I6 – Responsive Service	New Product Revenue Cross-Sell Ratio Channel Mix Change Service Error Rate Request Fulfillment Time	Product Development Cycle Time Hours F2F with Customers
L1 – Develop Strategic Skills L2 – provide Strategic Information L3 – Align Personal Goals	Employee Satisfaction Revenue per Employee	Strategic Job Coverage Ratio Strategic Information Availability Ratio Personal Goals Alignment (%)

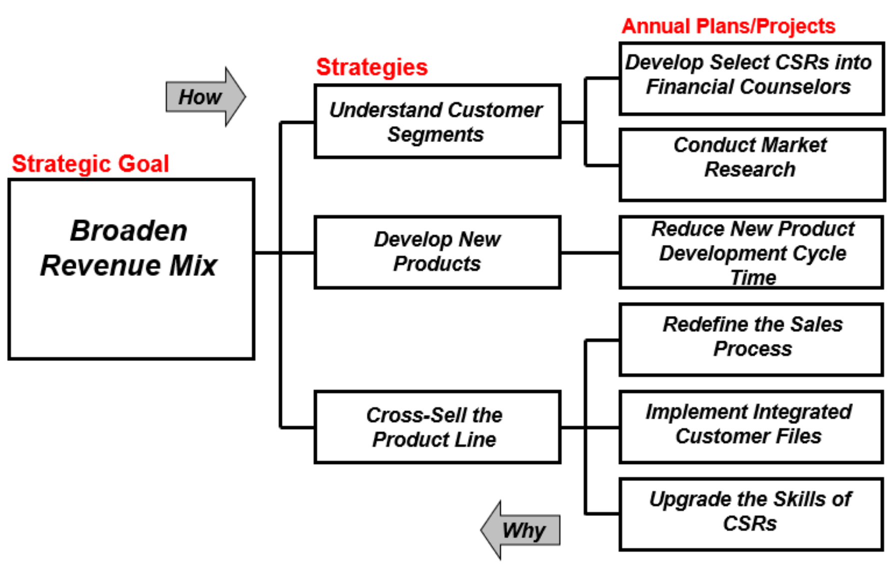
This begs the question: How many metrics should a scorecard contain? Of course, the answer will depend on the size of the organization and its strategic objectives. Still, no single scorecard should contain more than twenty measures – it is just not manageable for a leader to understand and take action on more than twenty. Therefore, measures should be split between different levels of the organization. There is a natural hierarchy to measures that can be used to cascade the scorecard to individuals and work teams throughout the organization:



The scorecard for each level should be appropriate for the scope and responsibility of the leaders/teams of the level. By appropriate, the scorecard should help the leaders/teams answer and **take action** on key questions within their control:

- What does it cost to operate at this level?
- What revenues and profits are generated at this level?
- How long does it take to perform/service the task at this level?
- How much work is completed at this level?
- How many resources are used to perform at this level?
- How many defects/errors are generated at this level?
- How satisfied are the customers with the output? Note: this may apply to internal customers (versus external customers) at lower levels of the organization

3. Plan, Set Targets and Align Strategic Initiatives
Leaders should set ambitious targets for the balanced scorecard measures that all employees can accept and buy into. Benchmarking best-in-class performers is a good way to understand what is possible. The strategy map can help identify the critical drivers that will create breakthrough performance on important financial and customer measures. The gaps between targets and current performance should be used to set priorities for capital investment and improvement initiatives intended to close those gaps. When the scorecard is used to drive transformation, the organization can focus on the issues that create growth, not just those that reduce cost and increase internal efficiencies. The relationships between strategic objectives, and improvement projects can easily be communicated using a Goal Tree like that shown below:



4. Feedback and Learning

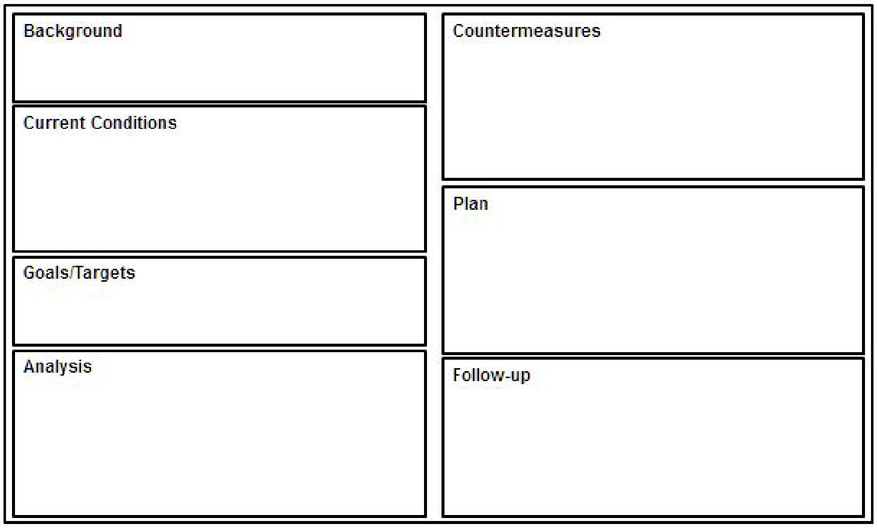
    A planned strategy, though initiated with the best information available at the time, may no longer be appropriate given the current situation. There is also the need, on occasion, to devise new strategies to capitalize on new opportunities or to counter new threats. In short, leaders need to routinely question their assumptions and reflect on past decisions.

    This requires a feedback and problem-solving process that collects performance data about strategy and allows hypotheses about the interrelationships between strategies, measures, and initiatives to be tested. A formal strategic review should be conducted at least quarterly. The review is a separate meeting from operational performance reviews that assess whether recent performance is consistent with the short-term operating plan. In contrast, the strategic review focuses on trends, drivers, and correlations of results over the long-term. The goal of the strategic review is to refine strategy and implementation.

Invariably, data is not available for 20% of the measures, especially with respect to employee development and reskilling. This reveals a problem: "If you cannot measure it, you cannot manage it." If the data do not exist, progress on the associated strategic objective is likely to be inadequate or nonexistent. This should not be used as an excuse to only use measures for which data is currently available. Leaders should identify the measure that best provides insight into performance on which they can take action and obtain the data. Data is more easily available than ever using current sensor technology.

Other visual tools should be used in a work area to create a visual workplace that is self-explaining, self-ordering, and self-improving – in other words, an unusual, out of standard situation that could negatively impact strategic goals is immediately obvious for the local work team to correct. Wall schedules, tool boards, control charts, and flashing lights are examples of visual signals and controls that can be put in place and aligned with the strategic scorecard.

A visual tool often used in Lean Manufacturing is A3. A3 is a simple communication tool that uses an A3 size piece of paper (roughly 11"x17"). It is a standard methodology for innovating, planning, and problem-solving that is deeply rooted in operational learning. The standard format of A3 is shown below. Background and Current Conditions define the problem; Goals/Target defines the desired state or outcome; Analysis is all about finding the root cause. Countermeasures are proposed actions to move to desired outcome while Plan are the specific actions to implement the countermeasures, including who will do what, when. Follow-up involves monitoring of the plans and results after completion. The A3 is posted in a convenient location for all stakeholders to read and comment, facilitating both communication and learning.



There are many different ways to communicate an organization's vision, mission, values, strategic objectives and "score" or progress on achieving those objectives. Every organization should have communication mechanisms embedded at all levels and functions of the organization, including scorecards, Goal Trees, and A3 to clarify the organization's strategic decisions so employees at all levels know exactly what they should do in their daily work to make the organization successful and know if they are winning the game of business (the score).

Using Stories for Strategic Communication

In most organizations, few employees have the analytical skills to critically look at the data they have at their fingertips, let alone use it for good decision-making. Few organizations have addressed how to effectively share knowledge/data/information among employees; workers often have insufficient knowledge to make key decisions and take effective action for improved productivity.

Without…[developing]… a cohesive, dedicated and informed staff… businesses can easily become the equivalent of dinosaurs - stuck in the mud, doomed to extinction.

- Lori Silverman in Wake Me Up When the Data is Over

Given that a satisfied and engaged workforce is a significant factor in productivity, it is all the more important that organizations find ways to communicate organizational information/knowledge that gives workers what they need to make and be engaged in key decisions and actions that improve and sustain the organization's profitability. How do leaders do this if 62% of employees are unquestioning empiricists or visceral decision-makers?

Enter stories. Facts inform but stories resonate. Strategy, culture and systems do not change behavior in the same way stories do.

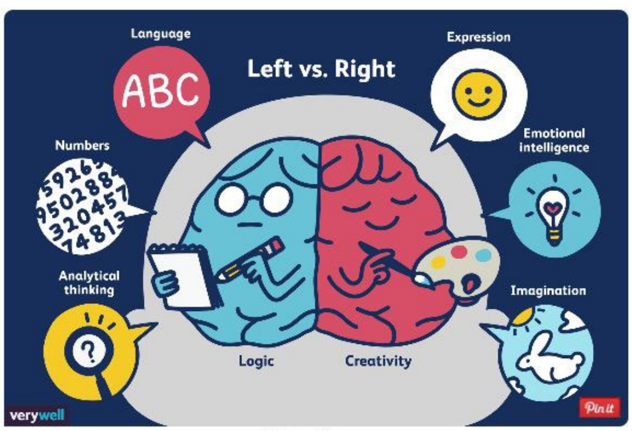
People will remember stories long after they've forgotten the facts.

- Sharon Love, owner, Incredible Pets

Stories are the most ancient forms of communication. Prehistoric people conveyed stories with drawings on stone walls, Egyptians told stories with hieroglyphics. Jesus used parables to change people's thinking and beliefs, redirecting lives. The use of stories in today's businesses, non-profit organizations and government is only just being recognized as a way to engage people in the organization's mission.

Stores of our lives form the basis of all we are and do. Lest leaders think this is all fluff, stories and storytelling have bottom-line impact. Stories can convey tribal knowledge, demonstrate the value of specific initiatives and of the organization to its customers and community. Stories which envision the future build trust, enable mutual respect and have the power to reframe perspectives and create alignment. All of these benefits positively engage workers which in turn increases productivity and profitability. When organizations provide customers with something to talk about, they will talk about it, positive or negative. Positive stories will attract more business; this is the ripple effect stories have on organization's profitability. Organizations that use stories as part of their sales process create two powerful advantages: they better understand their customer needs by listening to their stories, and they build trust, an essential ingredient to a long-term customer relationship. One hospital that captures and shares patient stories sends the message that patients are valued. Sharing patient stories also provides ordinary people a way to give back to the hospital staff that helped them heal while providing hope to others.

The key to telling good stories in organizations is to integrate right-brain imagination with left-brain analytical thought. Those that learn how to do this through the power of story are the most likely to succeed.



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The challenge is getting employees to come forward with their stories. Assume employees are already telling stories (at the lunch table, in the copier room). Train managers/supervisors to be on the lookout for them. Share stories about outstanding service during training, starting with orientation. Identify the key learning points and values you want to highlight and then search for stories that reinforce them. Be intentional about finding such stories. Sponsor contests to share the best stories then publish and broadly share them. Regular encouragement and recognition can help. Lands' End has implemented a Legendary Customer Service Award to draw out employee stories.

There is an art to telling stories that have impact. Success requires a good story and someone comfortable telling it. According to Doug Stevenson, creator of the Story Theatre Method, great stories make great theatre. Story comes alive when we move around. Acting implies action. Good storytelling features both physical and emotional movement. Spicing up a story with acting techniques helps your audience SEE what you are saying.

If you want to inspire and stir your audience to action, you don't do it by standing in one place.

- Doug Stevenson

Key to acting out any story is to be authentic – remain true to yourself; bring yourself to the platform. You are the vehicle through which information is being transmitted. If you are not comfortable with yourself, transmission of the message will not be strong. Inexperienced storytellers spend a disproportionate time on content, not enough on delivery.

You don't have to be a good actor to tell a good story.

How to Tell a Good Story
First choose the right story – one that:

1) includes vivid details,
2) includes a lesson learned,
3) can use in a business context,
4) will call people to a higher standard
5) you enjoy telling

The story does not have to be personal. You can use current events, inspirational historical individuals, TV shows, movies. Good stories often involve a 'turning point' – a time when someone made a change in their life – geography, relationship, job. career, responsibility, perspective, accomplishment, or tragedy/injury.

The story must be congruent with the point you want to make and be relevant to the audience. This may take some imagination. As long as you stick to the facts, the essence of the event/situation/obstacle and the process used to overcome the obstacle and lesson learned, it is ok to embellish details – timelines, location, character names and character descriptions.

Once you have chosen the right story, craft the story. Crafting a good story takes time and multiple drafts. Doug Stevenson suggests you use the first draft to remember the story, use the second to structure the story using the 9 steps below, the third to embellish the story with juicy details and the fourth to polish the story.

The 9 steps to structuring a good story are:

1) Set the stage/scene – create context; frame the story to help audience know where you are starting
2) Introduce the characters - use physical and emotional descriptions
3) Begin the journey – leave the safety and comfort of the initial scene
4) Encounter obstacle – a person, decision, physical or emotional problem; this is the most dramatic part of the story. Help your audience experience it.
5) Overcome the obstacle- plant the seed for the lesson to be learned
6) Resolve the story –; the let audience know how everything turned out; tie up loose ends, leaving no unanswered questions
7) Make the point - share the lesson learned
8) Ask the question – engage the audience in their experience with something similar
9) Restate the point – summarize the story and call your audience to action

Audiences will seldom take away more than one or two ideas from your story. People remember what hits home for them, not necessarily the point you wanted them to take home. If you want your story to accomplish a specific purpose for employees to buy into new technology or embrace a new way of work, you need a Phrase that Sticks – something memorable. Doug Stevenson suggests ten ways to make it memorable:

1) Summarizes the point of the stories
2) Use only one phase per story
3) Make it short and sweet
4) Make it musical and rhythmic
5) Use word organic to the story
6) Use words that repeat the initial consonant sound
7) Use rhyming words
8) Turn it into a call to action
9) Use words that end in a consonant
10) Make it memorable by saying it repeatedly during your story.

Six Stories Leaders Need to Know How to Tell

Annette Simmons in The Story Factor identifies six stories you need to know how to tell:

1) Who Am I? This story allows others to see you ‘walk the talk’ before they have an opportunity to work with you and serves to establish trust
2) Why Am I Here? This story reveals enough for people to make a distinction between healthy ambition and dishonest exploitation.
3) Vision Story This story connects people to a promised tomorrow in a way that shrinks today’s frustration.
4) Teaching Stories These stories allow you to deal with complexity by helping people make sense of new information/skills in new ways. Can also demonstrate your values.
5) Values in Action. These stories provide an example of what the value looks like in daily use.

6) I know What you Are Thinking These stories disarm objections to the information/proposal you are sharing; serves to neutralize concerns without direct confrontation.

No communication, no story, no matter how well structured or delivered, will mobilize the workforce without clarity and alignment (Essential #2). That is why the SOS believes to Compete Today and Tomorrow, starts with building a cohesive leadership team (Essential #1) that is aligned on the six critical questions of the organization. People are skeptical about what they are told until they hear it consistently over time. Leaders must communicate strategic clarity (Essential # 3) over and over and over and over and over and over and over again; seven times. Employees wait to see how serious leaders really are about the message. A strategic story with a memorable phrase that sticks related to that clarity will appeal to the head and the heart of the workforce and inspire action faster than a PowerPoint presentation or poster.

Communication is the real work of leadership.

- Nitin Nohria

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