

HARVARD BUSINESS PRESS

The
**EXECUTION
PREMIUM**

*Linking Strategy to Operations
for Competitive Advantage*

**ROBERT S. KAPLAN
DAVID P. NORTON**


*Authors of worldwide bestsellers **The Balanced Scorecard**
and **The Strategy-Focused Organization***

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LINKING STRATEGY TO OPERATIONS
FOR COMPETITIVE ADVANTAGE

Robert S. Kaplan
David P. Norton


GIFT OF THE ASIA FOUNDATION
NOT FOR RE-SALE

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PREFACE

IN 1992, WE INTRODUCED the Balanced Scorecard as a performance measurement system.¹ We helped several companies implement this approach and learned how they used this performance measurement tool as the cornerstone of a new management system that would drive the implementation of their strategies.² We spent the next several years refining the strategy management system and published our updated framework in our second book, *The Strategy-Focused Organization*. The framework was built around five management principles:

1. *Mobilize* change through executive leadership
2. *Translate* strategy into operational terms
3. *Align* the organization to the strategy
4. *Motivate* to make strategy everyone's job
5. *Govern* to make strategy a continual process

Our third book, *Strategy Maps*, expanded on Principle 2 by introducing a general framework for translating a strategy into objectives that are linked, in cause-and-effect relationships, across the four Balanced Scorecard perspectives: financial, customer, internal process, and learning and growth. The framework aligned processes, people, technology, and culture to the customer value proposition and shareholder objectives.

Our fourth book, *Alignment*, expanded on Principle 3 and showed how to use strategy maps and scorecards to align organizational units, both line business units and corporate staff ones, to a comprehensive corporate strategy. The organizational alignment enabled the enterprise to

capture the synergies from operating multiple units within the same corporate entity. The last chapter in *Alignment* described the application of Principle 4, communicating the strategy and aligning individuals' goals and incentives to business unit and corporate objectives.

Most companies, in implementing the strategy management system based on the Balanced Scorecard, followed a sequence that generally began with Principle 1 (mobilize the executive team), followed quickly by Principle 2 (translate the strategy into a strategy map of linked strategic objectives with an accompanying Balanced Scorecard of measures and targets) and Principle 3 (align the various parts of the business through linked scorecards). Principle 4 required redesign of some key Human Resource systems (goal-setting, incentives), while Principle 5 required the redesign of various planning, budgeting, and control systems. Typically, the implementation of Principles 4 and 5 did not start until the program was one or more years down the road. In fact, we found that companies were able to get breakthrough results just by implementing Principles 1, 2, and 3 in their entirety and performing a few basic activities in Principle 4, such as a program to communicate strategy to employees, and, following one practice in Principle 5, instituting a new management meeting to review strategy. This limited approach produced results until the leader who had introduced the program departed. The message was clear; a strong leader using the tools of Principles 1, 2, and 3 could mobilize, focus, and align the organization to achieve excellent performance. However, because the new approaches had not been embedded in the ongoing management systems of the organization (Principle 5), the performance was often not sustained. We had not yet found a way to embed the ongoing management of strategy into the organization's way of doing business.

In 2004, we and our colleagues at the Balanced Scorecard Collaborative convened an Action Working Group (AWG) of about twelve companies to address how to sustain a focus on strategy implementation. Our group included several Balanced Scorecard Hall of Fame companies, including Hilton Hotels, Motorola, Ricoh, Serono, KeyCorp, Canon, and the U.S. Army. Among their most important innovations was to introduce a small but dedicated group of managers to oversee the various processes required for strategy execution. We described this group as an office of strategy management (OSM) and published this finding in a 2005 *Harvard Business Review* article.³

Through continued engagement with this working group, both in North America and Europe, we eventually identified all the key processes required to implement Principle 5, "Make strategy a continual process."

The current book, *The Execution Premium*, reports on these findings. In the book, we describe how companies can establish strong linkages from strategy to operations so that employees' everyday operational activities will support strategic objectives. We introduce a new framework for management review meetings that clearly separates the operational review meetings, which solve short-term problems and monitor the improvement of key operational processes, from the meetings that review and improve strategy execution.

While we set out, in writing this book, to document the best practices for SFO Principle 5, we ended up with a self-contained and comprehensive management system that links strategy and operations. The system integrates the contributions from our four earlier books, and those of many other recent management innovations, including strategy development, operational management and improvement, activity-based costing, business intelligence, and analytics. The closed-loop management system described in this book represents the "end-state" that enterprises can aspire to reach for connecting excellence in operational execution to strategic priorities and vision.

Since the strategy execution closed-loop management system is a recent development, we would like to encourage a dialogue between us and our readers. We have established a Web site, executionpremium.org, where we will post links to surveys, assessment tools, and references to assist managers in applying the ideas in the book. Further, we hope to use the site as a bulletin board or to host blogs that facilitate an exchange of views and best practices.

NOTES

1. R. S. Kaplan and D. P. Norton, "The Balanced Scorecard: Measures that Drive Performance," *Harvard Business Review* (January–February 1992): 71–79.
2. R. S. Kaplan and D. P. Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (January–February 1996): 75–85; Part Two, "Managing Business Strategy," in R. S. Kaplan and D. P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (Boston: Harvard Business School Press, 1996).
3. R. S. Kaplan and D. P. Norton, "The Office of Strategy Management," *Harvard Business Review* (October 2005): 72–80.

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