

Creating Strategic Clarity & Engagement Guide Book



Performance Equations

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Guide Book

INTRODUCTION

Why this guide is important for you.

Helping employees achieve strategic clarity and a sense of engagement is essential in ensuring that everyone understands the key priorities in a team, a department or function, or as part of a division. It is also important in enabling them to feel connected to where the business is heading and to see how their work is making the greatest contribution to the success of the company.

Studies into employee engagement in recent years have also thrown up interesting findings. Employee engagement is not as black and white as being engaged or disengaged. The more engaged an employee feels the more likely it is they will provide discretionary effort; in other words offering more without being asked. Over the last five years companies that have achieved double digit growth have reported up to 20% more employee engagement than in slower growing ones.

Effective managers take seriously their role in providing direction and meaning for people's work and linking their activities, duties and tasks to the larger organisational purpose and strategy. The business environment in which we operate, however, makes creating strategic clarity and engagement particularly important as well as challenging. Competitive pressures force frequent changes in direction, and team and individual expectations regularly change as resources are reallocated and job requirements expand and get revised. The complexities and ambiguities of the business environment make it increasingly difficult for employees to understand how their work and daily activities are advancing the organisation's goals and producing useful results. It can be difficult for

employees to see how their piece of the jigsaw puzzle fits into the bigger picture. Communicating the big financial targets and results can sometimes feel very disconnected to the realities of their day-to-day work.

Operating in this context challenges assumptions made in the past about long term strategy being set at the top of the organisation and clear direction being cascaded down through the company. We need to deal with the reality that performance goals, once set early, now may need to change or realign on a more frequent basis. Successful managers adapt to the new context by realising that creating strategic clarity and engagement is an ongoing task. In all their interactions with employees, both formal and informal, they use the following actions:

- Providing focus
- Creating clarity
- Building engagement and commitment

Providing Focus

Focused employees are efficient; they concentrate on activities that move the organisation forward, and they do so more independently because they know where they and the company are heading. Providing focus requires managers to develop an understanding of the organisation's strategy and of the most critical issues facing the business, while incorporating new information as conditions change. It also requires them to align and mobilise their teams based on constantly changing strategies.

Creating clarity

The challenge of creating and maintaining this focus is increased by the need to ensure that employees have an understanding of the strategy and the issues involved. Sharing this strategic clarity is important because employees will only take action on what they have understood to be the most important requirements. Creating a clear line of sight between the employee and the organisation's strategy and purpose enables employees to better understand what is required of them and what options and limitations they will face in meeting their objectives. Teams and individuals who have a clear understanding of how they fit within the bigger picture are better able to synchronise their efforts and objectives in order to fully contribute to strategic goals and deliver the results that lead to the organisation's success.

Building engagement & commitment

To build team and individual engagement and commitment to the strategy, managers must collaborate and communicate with their teams and individuals regularly. Helping people to understand their contribution and recognising their efforts also engages their emotions and motivations. Creating a sense of pride, value and contribution creates psychological ownership. Employees do not always have the information or perspective to make connections independently, so managers must help build the links and create greater meaning for the work and appreciation for the effort.

A tool that enables managers to provide focus, create clarity and build engagement and commitment is Strategy Mapping.

STRATEGY MAPPING

A Strategy Map is a leadership tool to create team alignment and line-of-sight contribution. Developed by Harvard Business School Professors Robert Kaplan and David Norton, it can be utilised at any level and with any team within an organisation.

A Strategy Map is a graphic way of illustrating a business unit's strategic focus and the strategic elements identified through each of four perspectives or lenses: Financial, Customer, Business Process, and Capability. The relationships among the elements can also be represented on the map. Expanding and building on their work on balanced business scorecards, Professors Kaplan and Norton developed the Strategy Map tool as a way of providing managers with a means to clarify their own understanding of their business unit's strategy and to provide direction for their team and individual employees.¹

- To get a clear picture of the organisation's strategy
- To create a common understanding of the direction and strategic focus of the organisation
- To identify the strategic elements for each of the four perspectives
- To identify the relationships among the perspectives and strategic elements
- To help distil the essential elements of organisational strategy into simple, operational terms, thus encouraging action that supports strategic direction

Overall, the Strategy Map:

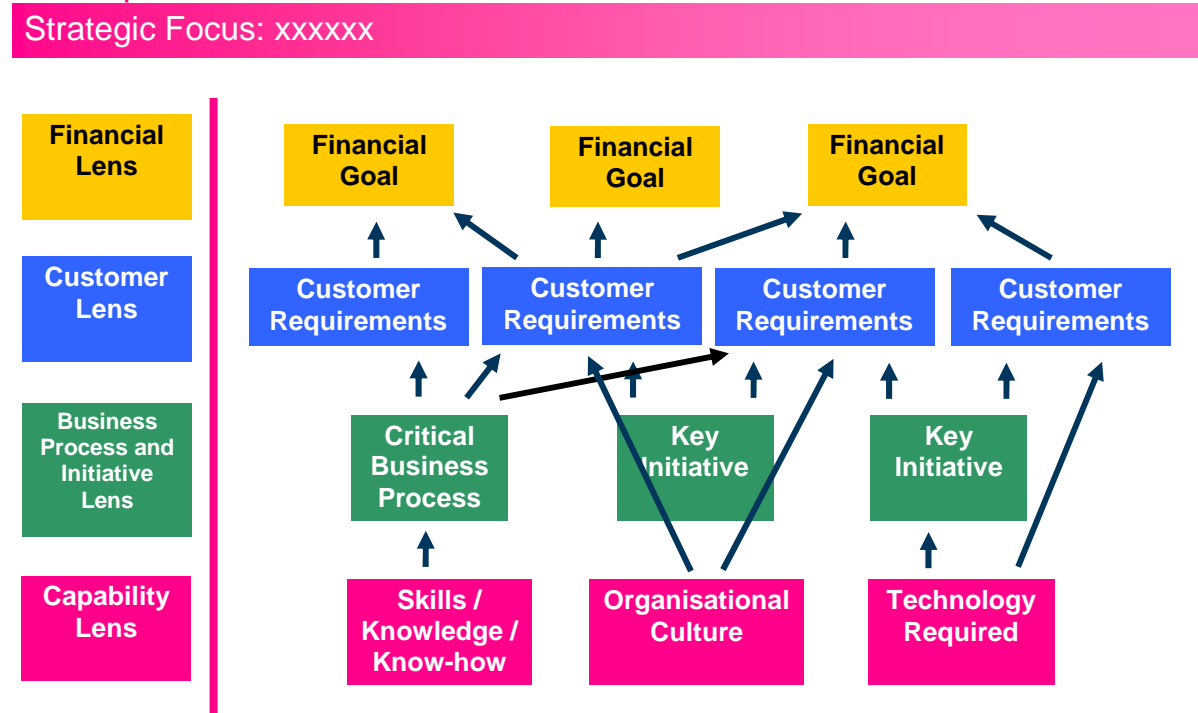
¹ Robert S. Kaplan and David P. Norton, *The Strategy Focused Organisation: How Balanced Scorecard Companies Thrive in the New Economy*. Harvard Business School Press, 2001.

- Helps to create meaning for people’s work—to let them see how their contributions have a direct impact on the strategy
- Helps leaders to take more strategic action—to use better judgment day to day to drive growth

One of the most important leadership roles managers play, and critical to performance management, is helping direct reports gain clarity about their performance expectations and how they link to the company’s strategy for success

Lenses on Strategy

Interdependence of elements



Example strategy map structure

CREATING A LINE OF SIGHT

Every employee makes decisions and choices about work activities every day. For the most part, every employee wants those decisions to be good ones that achieve results and advance organisational goals. For the most part frontline employees find it difficult to make a direct connection between their individual contributions and the financial goals the company has set itself. For example, it is difficult for them to correlate directly what they do with an x per cent increase in EBIT or ROI, etc.

Unfortunately, employees often have to make their decisions in the absence of clear guidelines or an accurate sense of the implications the decisions will have on broader organisational success. In other words, they do not have a clear line of sight from their personal work to the organisational strategy. “A clear line of sight” implies that the strategy anchoring is clear and well understood.

In today’s volatile environment, strategy changes frequently to match shifts in customer requirements, economics, and market opportunities. While communication may feel vague and less than actionable, managers can play a major role in clarifying the big picture for their employees on an ongoing basis, thus ensuring each person’s work makes a meaningful contribution to the goals of the larger strategy.

You begin the process of clarifying the big picture by learning about and communicating the strategic focus of your organisation or business unit. Strategic focus is the overall direction your organisation or business unit intends to take—a sort of guiding principle for you to successfully achieve your aims. Any statement of strategic focus should be short and

simple and should describe the primary purpose of the overall strategy or the change your organisation is trying to make.

Effective strategic focus is action oriented. It defines what needs to be done to ensure the organisation's success. It is specific enough to allow employees to test decisions and make judgments about what is most important to work on.

Once an organisation or business unit has defined its overall strategic focus, it can then determine specific outcomes and the actions required to achieve them.

Explore the four perspectives (lenses) on strategy

Traditionally, organisations have relied almost exclusively on financial results (for example, revenue, profit, cost, and return on investment) to define progress toward strategic focus and to measure success. However, strategy is more complex than revenue or profit goals alone. Many things contribute to and serve as measures of progress; an exclusive focus on financial results can actually obscure the importance of other aspects of a successful strategy. Financial targets alone offer employees few guidelines for making day-to-day choices about their work. When used as measures of performance, they actually “lag” performance, offering a view of the past rather than providing a path forward.

Instead of relying on financial targets exclusively, think about viewing strategy through four different perspectives, each of which focuses attention on a different aspect of strategy and the critical goals and elements within it. Only when all four perspectives are used does a coherent, integrated picture

emerge of how our organisation plans to achieve success. The four perspectives are:

- The *financial* perspective
- The *customer* perspective
- The *business process* perspective
- The *capability* perspective

As strategy is viewed through each perspective or lens, the strategic elements important to the organisation's success can be identified. *Strategic elements* are the specific goals, results, and targets the organisation wants to achieve, as well as the few critical initiatives and approaches it plans to take to achieve them. In combination, these elements define the unique strategy for the organisation and provide concrete ways for people to contribute to its success. They also help define the day-to-day activities of all employees and ensure the contribution of employees' activities to broader organisational results.

The Financial Perspective

Through the financial perspective, the organisation defines its revenue growth and profitability goals, and other strategic elements critical to its financial success, such as asset utilisation, ROI, market share, and profitable customer segments.

The Customer Perspective

The customer perspective focuses on what will make the organisation successful with its target customers. Since success in meeting customer requirements ultimately determines whether we grow or stagnate as a business,

consideration of target customers and what they value is an important perspective. Who are the target customers and what do the *really* want from you.

The Business Process Perspective

This perspective focuses on the few critical business processes and activities that we must implement well well to be successful: existing business processes that need to be improved, new processes that need to be created, or large-scale initiatives that need to be undertaken. While many business processes are important, those that become strategic elements in this perspective are the few that currently require the attention of the organisation, if it is to achieve its overall strategic focus.

The Capability Perspective

This perspective defines the organisational capabilities required to execute on the strategic focus. The strategic elements in this perspective may include “human capital” capabilities (the need to acquire or enhance certain skills, knowledge or experience), information capital, or changes needed in the climate or culture of the organisation to support people’s willingness or ability to execute the strategy.

Determining the elements of each perspective

As Harvard Professor, Michael Porter, puts it all strategy requires a focus on the trade-offs that inevitably have to be made in driving the business to the future. In other words, developing a strategy map requires a decision on what can and can’t be done.

In order for the Strategy Map to be highly focused in delivering your strategic goals, each of the elements included under each perspective or lens must be limited in number. There may well be a long list of factors under each lens that may need to be considered, but in the end those that will be included in the map will be those critical factors that *must* be focused on to satisfy the strategic focus of the map and that contribute most to the successful execution of your strategy.

Determining the interdependence of the elements

The focus points provided by the four perspectives are all part of a single, coherent strategy for succeeding, so one would expect to find relationships among the strategic elements. Understanding these relationships can help provide meaning to employees' daily activities and a clear line of sight from those activities to the overall strategic focus of their business unit. It is helpful to think about the four perspectives in terms of "ends" and "means." The financial and customer perspectives are the *ends* the organisation is after; they describe results and outcomes. The business process and people perspectives are the *means* by which the organisation will achieve those results and outcomes.

The process of understanding and mapping the interdependencies of the elements has two very practical payoffs:

- First, leaders at all levels can use the process to test their current "picture" of the strategy for completeness and coherence. In other words, they can ask whether there are results and outcomes for which there are no supporting means. Alternatively, they can ask whether

there are processes or capabilities identified that don't logically support results or outcomes identified. A yes answer in either case is a clue that further research and clarification is needed.

- Second, leaders at all levels can use the process to help create a clear line of sight to the strategy for team members. Team expectations may be directly linked to a single specific strategic element, but may be tracked to the achievement of broader goals and the ultimate success of the organisation.

Why having strategic focus is important

Clarifying and articulating the focus of the strategy map is the most important aspect of creating the map. All the subsequent elements that the map shows are dependent on this strategic focus.

The strategic focus is not a general description of profit and growth goals, but rather the core essence of your strategy. All the elements described through the four lenses must align with and focus on the overall strategic focus of the map. Without this focal point, any or all of the elements of your map are as legitimate as each other.

For example, an organisation may decide that a clear strategic focus for the company over the coming few years is to increase the value of high-margin customers. This strategic focus would inevitably influence greatly the priority elements seen through the four lenses. If another organisation believed that their strategic focus was to excel in delivering a wider range of products in their low to mid range price markets, this would

equally focus the priority elements under the four perspectives, but this time in a very different direction.

Since the point of the strategy map is to create alignment and a clear line of sight for all contributors to the strategy's execution, it is important that they all know and understand the priority themes of the strategy map. Changing the strategic focus of the map would have a correlated effect on the strategic elements included. As the focus changes, so too would the critical elements under the four lenses.

Below is a template for you to start working on your strategy map. Very often strategy maps are enhanced through facilitated team discussions. A facilitator can uncover many of the underlying assumption present in the strategic thinking. They can also challenge some of the conclusions drawn about markets, and customer needs and expectations. A facilitator can also challenge the thinking to create greater robustness and depth.

Whatever the method used to create a strategy map, the end result should provide a pivotal focus to align whole company contributions to the full execution of the strategy.

Creating a Strategy Map

Strategic Focus:	
Financial Lens	
Customer Lens	
Business Process Lens	
Capability Lens	

For more information on tools and methodology for making your organisation more effective and improving performance, contact us at:

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