Integrating Strategy Planning and Operational Execution: A Six-Stage System

By Robert S. Kaplan and David P. Norton

This article, their January Harvard Business Review article, and their new book mark the next milestone in the evolution of Robert Kaplan and David Norton’s strategy execution movement: a comprehensive management model that solves one of the greatest management challenges—linking strategy and operations. This powerful six-stage model incorporates the Balanced Scorecard, theme-based strategy maps, and the five Strategy-Focused Organization principles and practices. But it now also includes the most effective strategy development, planning, and management tools developed by leading experts. Collectively, these tools help companies not only plan and execute, but also monitor, learn, test, and adapt their strategic assumptions and practices to achieve sustainable success.

Experts from Michael Porter to Michael Hammer concur: without excellent operational and governance processes, strategy—even the most visionary strategy—cannot be implemented. Conversely, without strategic vision and guidance, operational excellence is not sufficient to achieve, let alone sustain, success.  

A survey we conducted in 1996 revealed that few organizations link their systems and align their employees to strategy. But a survey conducted in 2006 showed that 54% of respondents were now using a formal strategy execution management process. Of these, nearly 75% were outperforming their peer group. Conversely, among the organizations without a formal strategy execution process in place, 75% were underperforming or, at most, matching the average performance of their peers. Having a formal strategy execution system apparently makes strategic success up to three times more likely.

A Six-Stage Management System

We have now formulated the architecture for a comprehensive and integrated management system that explicitly links strategy formulation and planning with operational execution. (See Figure 1, page 3.)

Stage 1: Develop the strategy using an array of strategy tools such as mission, values, and vision (MVV) statements; external competitive, economic, and environmental analyses; methodologies such as Michael Porter’s five forces and competitive positioning framework, the resource-based view of strategy, and blue ocean strategies, as well as scenario planning, dynamic simulations, and war-gaming.

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Stage 2: Plan the Strategy

Managers plan the strategy by developing strategic objectives, measures, targets, initiatives, and budgets that guide action and resource allocation. Companies typically address five questions in this stage:

1. How do we describe our strategy?
2. What business are we in, and why?
3. How can we best compete?
4. In what niches will we compete?
5. What are the key processes that will create our differentiation?
6. What direction does the strategy require us to take in human capital?
7. What are the technology enablers of the strategy?

Stage 1: Develop the Strategy

The integrated management system begins when executives develop the strategy. In this process, described at length in the January–February and March–April issues, companies address three questions:

1. What business are we in, and why? Executives begin strategy development by affirming the organization’s purpose (mission), the internal compass that guides its actions (values), and its aspiration for future results (vision). These statements establish guidelines for formulating and executing the strategy.

2. What are the key issues we face? Managers conduct strategic analysis of their competitive and operating environments, especially major changes that have occurred since they last crafted their strategy, using input from three sources: external environment analysis (PESTEL analysis—political, economic, social, technological, environmental, and legal or regulatory factors); the internal environment (key processes, such as the state of human capital, operations, innovation, and technology deployment); and the progress of the existing strategy (from BSC metrics). This environmental assessment is summarized in a SWOT table of strengths, opportunities, weaknesses, and threats, which identifies a set of strategic issues that must be addressed by the strategy.

From the outputs from questions (1) and (2), the executive team develops and communicates a strategic change agenda that explains the need for the changes in the strategy.

3. How can we best compete? In the final step, executives formulate a strategy by addressing these issues:

• In what niches will we compete?
• What customer value proposition will differentiate us in those niches?
• What key processes will create our differentiation?
• What direction does the strategy require we take in human capital?
• What are the technology enablers of the strategy?

Stage 3: Align the organization with the strategy by cascading strategy maps and Balanced Scorecards to all organizational units, by aligning employees through a formal communications process, and by linking employees’ personal objectives and incentives to strategic objectives.

Stage 4: Plan operations using tools such as quality and process management, reengineering, process dashboards, rolling forecasts, activity-based costing, resource capacity planning, and dynamic budgeting.

Stage 5: Monitor and learn about problems, barriers, and challenges. This process integrates information about operations and strategy into a carefully designed structure of management review meetings.

Stage 6: Test and adapt the strategy, using internal operational data and new external environmental and competitive data—thus launching a new cycle of integrated strategy planning and operational execution.
dimensions of organizational change, from short-term productivity improvements to long-term innovation. Companies create a strategy map to depict all their strategic dimensions. Because of the difficulty in managing the simultaneous performance of the 15 to 25 objectives on a typical strategy map, companies now cluster related objectives into four to six strategic themes, each a set of related strategic objectives, that represent the major components of the strategy. (Example: “Improve Operational Quality and Efficiency.”) By building a strategy map around strategic themes, executives can separately plan and manage each key component of the strategy but still have it operate coherently. Themes transcend functional lines and business units, thus supporting the boundaryless approach necessary for successful strategy execution.

2. How do we measure our plan? In this step, managers convert the objectives defined in the strategy maps into a Balanced Scorecard of measures, targets, and gaps. The overall “value gap”—typically defined by the vision statement crafted during the strategy development process—is split into gaps that each strategic theme must close over three to five years.

3. What action programs does our strategy need? Managers choose strategic initiatives—action programs of finite duration aimed at achieving targeted performance for the strategy map objectives. Initiatives must be viewed as a portfolio of complementary actions with a cumulative effect, each of which must be implemented successfully if the company is to achieve its theme targets and its vision objective.

4. How do we fund our initiatives? Executing strategy requires that initiatives be executed simultaneously in a coordinated manner. This requires explicit funding for the initiative portfolios. The traditional budgeting system focuses on the resources for existing organizational functions and business units. Strategic investments for initiatives that cross functions and business units must be removed from operational budgets and managed separately by the executive team. Companies facilitate this process by creating a special budget category called STRATEX (strategic expenditures).

5. Who will lead strategy execution? Some companies are establishing theme teams, a new accountability structure for executing strategy through strategic themes. This is important, since by definition strategic themes cross unit and functional lines and typical lines of responsibility. Companies assign executives to become theme owners, provide them STRATEX funding, and support them with theme teams drawn from across the organization. The theme owners and teams provide accountability for and feedback on the execution of the strategy within each theme.² (See Case File, p. 7.)

Stage 3: Align the Organization with the Strategy

To capture the full benefits of operating a multibusiness, multi-function organization, executives must link company strategy to the strategies of their business and functional units, and must align and motivate employees. In this stage, they address three questions:

1. How do we ensure that all business units are aligned? Strategy is usually defined at the individual business-unit level. But companies typically consist of multiple business or operating units. Corporate-level strategy defines how the strategies of
individual business units can be integrated to create synergies not available to business units that operate independently from each other. Corporate strategy is described by a strategy map that identifies the specific sources of synergies. Managers then cascade this map vertically to business units, whose own strategy maps can then reflect objectives related to their local strategies as well as those objectives that integrate with the corporate strategy and the strategies of other business units.

2. How do we align support units with business-unit and corporate strategies? Executives often treat support units and corporate staff functions as discretionary expense centers, that is, as overhead departments whose goals are to minimize their operating expenses. As a result, the strategies and operations of support units do not align well with those of the company and the business units they are supposed to support. Successful strategy execution requires that support units align their strategies to the value-creating strategies of the company and its business units. Support units should negotiate service-level agreements with business units to define the set of services they will provide. Creating support-unit strategy maps and scorecards based on the service-level agreements enables each unit to define and execute a strategy that enhances the strategies being implemented by business units.

3. How do we motivate employees to help us execute the strategy? Ultimately, employees are the ones who improve the processes and run the projects, programs, and initiatives required by the strategy. They must know and understand the strategy if they are to successfully link their day-to-day work with the strategy. Formal communication programs help employees understand the strategy and motivate them to achieve it. Managers reinforce the communication program by aligning employees’ personal objectives and incentives with business-unit and company strategic objectives. Also, training and career development programs help employees gain the competencies they need for successful strategy execution.

Stage 4: Plan Operations

How do companies link long-term strategy with day-to-day operations? Through an operational plan, which addresses these two key questions:

1. Which business process improvements are most critical for executing the strategy? The objectives in a strategy map’s process perspective represent how strategy gets executed. Strategic themes originate in these key processes. For example, a strategic theme to “Grow Through Innovation” requires outstanding performance from the new product development process; a theme to “Create Heightened Loyalty Among Targeted Customers” requires greatly improved customer management processes. Some process improvements are designed to deliver the financial perspective’s cost reduction and productivity objectives, whereas others focus on excelling at regulatory and social objectives. These process improvements, distinct from the short-term strategic initiatives developed in Stage 2, represent improvements to existing, ongoing processes. Companies must focus their total quality management, Six Sigma, and reengineering programs on enhancing the performance of those processes directly related to the strategic objectives that will yield desired improvements in the strategy’s customer and financial objectives. Customized dashboards containing key indicators of local process performance provide focus and feedback to employees’ process improvement efforts.

2. How do we link strategy with operating plans and budgets? The process improvement plans and the BSC’s high-level strategic measures and targets must be converted into an annual operating plan. An operating plan has three components: a detailed sales forecast, a resource capacity plan, and budgets for operating expenses and capital expenditures.

Sales forecast: Companies need to translate their strategic plan’s revenue targets into a sales forecast. The Beyond Budgeting movement advocates that companies continually respond to their dynamic environments by reforecasting quarterly sales on a rolling basis five to six quarters into the future. Whether developed annually or quarterly, the operating plan is launched from a sales forecast, a task facilitated by analytic approaches such as driver-based planning. To provide the detail necessary for the operating plan, the sales forecast should incorporate the expected quantity, mix, and nature of individual sales orders, production runs, and transactions.

Resource capacity plan: Companies can use time-driven activity-based costing (TDABC) to translate detailed sales forecasts into estimates of the resource capacity required for the forecast periods. Activity-based costing is a tool for measuring the cost and profitability of processes, products,
customers, channels, regions, and business units. But its “killer app” is for resource planning and budgeting. TDABC uses capacity drivers (typically time) to map resource expenses to the transactions, products, and customers handled by each process. It can easily map forecast sales and process improvements to the quantity of resources—people, equipment, and facilities—required to fulfill the plan.

**Dynamic operating and capital budgets:** Once managers have agreed on the quantity and mix of resources for a future period, they can easily calculate the financial implications of these resource commitments. The company knows the cost of supplying each unit of resource. It multiplies the cost of each resource type by the quantity of resources it has authorized, thereby obtaining the budgeted cost of supplying the resource capacity for the sales forecast and operating plan. Most of the resource capacity represents personnel costs and would be included in the operating expense (OPEX) budget. Increases in equipment resource capacity would be reflected in the capital budget (CAPEX). The outputs from this process are dynamic operating and capital budgets that have been derived quickly and analytically from the sales and operating plans.

Because the company starts with detailed revenue forecasts and now has the resource costs associated with delivering these forecasts, simple subtraction yields a forecast and detailed profit-and-loss statement for each product, customer, channel, and region. Companies that shift from an annual to a quarterly (rolling) budget process can follow this process to get resource capacity plans for every period in which they have a sales forecast. Discretionary spending—such as promotional and advertising costs, process improvement initiatives, and training—cannot yet be automated through a model. Planning for such costs is the last step in budgeting.

**Stage 5: Monitor and Learn**

Once the strategy has been determined, planned, and linked to a comprehensive operational plan, the company begins to execute its strategic and operational plans (represented by the oval between stages 4 and 5 in Figure 1), monitor the performance results, and act to improve operations and strategy based on new information and learning.

At operational review meetings, companies examine departmental and functional performance and address new or persistent problems. They conduct strategy review meetings to discuss the indicators and initiatives from the unit’s BSC and assess the progress of and barriers to strategy execution. By holding separate operational and strategy review meetings, companies avoid having short-term operational and tactical issues displace discussions of strategy implementation and adaptation. The two meetings address different questions:

1. **Are our operations under control?** At operational review meetings companies examine short-term performance and respond to newly identified problems that need immediate attention. Operational review meetings should correspond to the frequency with which operational data are generated and the speed at which management wants to respond to sales and operating data and the myriad other tactical issues that continually emerge. Many companies have weekly, twice-weekly, or even daily meetings to review operating dashboards of sales, bookings, and shipments and to solve such short-term problems as complaints from important customers, late deliveries, a near-term cash shortfall, or a new sales opportunity. Operational review meetings are typically departmental and function-based, bringing together the expertise and experience of employees to solve day-to-day issues in such areas as sales, purchasing, logistics, finance, and operations. These meetings should be short, highly focused, data-driven, and action-oriented.

2. **Are we executing our strategy well?** Typically, companies schedule strategy review meetings once a month to bring together the CEO and executive committee members to review the progress of the strategy. The leadership team discusses whether strategy execution is on track, tracks the source and causes of implementation problems, recommends corrective actions, and assigns responsibility for achieving the targeted performance. If one thinks of strategy and problem-solving through the lens of the plan-do-check-act (PDCA) cycle, strategy review meetings are the “check” and “act” portions of strategy execution. If some of the same people attend both review meetings, meetings should be held at different times and have different agendas.

Because in-depth discussion of every BSC objective, measure, and initiative would require too much time at each monthly meeting, many companies now organize their strategy review meetings by strategic themes, covering one or two in depth at each meeting. Theme owners circulate BSC report data on measures and initiatives in advance of the meeting so executives can come prepared with ideas and solutions. The meeting time focuses on devising action plans for new issues. (Meetings should also allow time for urgent “off theme” issues that cannot wait for the next meeting to be dealt with.)
Each theme and objective is thus examined carefully at least once per quarter.

Stage 6: Test and Adapt the Strategy

A separate meeting is needed to test whether fundamental strategic assumptions remain valid. Since the previous major strategy review and update, the company has collected additional data from its dashboards and monthly BSC metrics, information on changes in the competitive and regulatory environment, and new ideas (including new opportunities). The strategy testing and adapting meeting addresses the fundamental question: Do we have the right strategy?

In this meeting, the executive team assesses the performance of its strategy and considers the consequences of recent changes in the external environment. Testing and adapting the existing strategy should be part of the strategic analysis done as part of the first management system stage. We treat it separately because this process is designed for modifying an existing strategy rather than for introducing a new, transformational strategy. As the executive team updates its strategy, it also modifies the organization’s strategy map and BSC and starts another cycle of strategy planning and operational execution: new targets, new initiatives, the next period’s sales forecasts and operating plan, process improvement priorities, resource capacity requirements, and an updated financial plan. The strategic and operational plans set the stage and establish the information requirements for next period’s schedule of operational review, strategy review, and strategy testing and adapting meetings.

Balancing the demands of near-term operations with long-term strategic goals and priorities has always been a major management challenge—and will remain so. But doing so is critical to successful strategy execution. This closed-loop system, which incorporates time-tested approaches, not only helps companies manage the two, but enables them to validate—and challenge—their strategic hypotheses, and, if necessary, modify and change in a timely, proactive way.

Activity-based profitability reports summarize profit-and-loss data by product line, customer, market segment, channel, and region. A second set of reports shows statistical analyses—summaries of the links among strategic metrics—that validate and quantify the hypothesized links on the company’s strategy map and strategic themes; for example, the connection between employee training initiatives and customer loyalty and financial performance. When the correlations are zero or opposite expectations, the executive team questions or rejects components of the existing strategy. Incremental improvements may be needed, or perhaps it’s time for a new, transformational strategy.


1. Porter has said, “Operational effectiveness and strategy are both essential to superior performance…but they work in very different ways.”
Luxfer Gas Cylinders: Mastering the Strategy–Operations Linkage

By Randall H. Russell, VP and Director of Research, Palladium Group; and Janice Koch, Editor, Balanced Scorecard Report; with Jeff J. Riddell, Innovation and New Business Coordinator, Luxfer Gas Cylinders

Luxfer Gas Cylinders, a leading global producer and distributor of gas cylinders, used the Balanced Scorecard to transform itself from a high-volume, low-margin commodity provider to an innovator of high-tech, high-profit offerings that are more closely targeted to customer needs. To do so, the company carried out an ambitious strategy management program that centered around moving from a functionally managed organization to a cross-functionally managed one: that of managing by strategic theme. It was a move that not only revitalized the company but also yielded solid financial results, and helped secure Luxfer a place in the 2006 BSC Hall of Fame for Executing Strategy.

With its all-encompassing focus on strategy management and execution, Luxfer has also made strides in linking strategy and operations management, providing an interesting case for illustrating the management model put forth by Kaplan and Norton and described in this month’s On Balance article. Space constraints prevent us from exploring all six stages, so we will focus on the most noteworthy ones: Plan the Strategy, Align the Organization with the Strategy, and Plan Operations.

In 2001, Luxfer Gas Cylinders was by all appearances a successful, if decentralized, company. But CEO John Rhodes realized operational excellence alone couldn’t sustain the company in an ostensible commodity market. He feared an inward focus would stifle competitiveness, and was concerned about creeping “regionalism” throughout Luxfer’s European, Asia-Pacific, and North American operations. Rhodes thus decided to develop a new, transformational strategy and adopt a strategic framework that would galvanize employees and help implement the strategy. The Balanced Scorecard is today the central mechanism guiding Luxfer’s strategy management and execution, from initiative and resource allocation decisions to strategy reporting and review. Let’s look at key management stages at Luxfer and how the BSC relates to them.

Planning the Strategy (Stage 2)

In 2002, 20 key managers convened at a weeklong offsite, where they forged a new strategy of customer focus and market leadership. They developed the company’s “strategic road map” (its name for its Balanced Scorecard), established targets, and prioritized initiatives and determined their funding. Leaders solicited manager feedback—now a regular practice before any changes are made to the strategy map.

An Architecture for Managing by Theme

Luxfer’s strategy map reflects an innovative architecture: vertical themes that run throughout the perspectives, representing the company’s “management by theme” approach. To break away from a siloed, functional approach to managing and the unwanted regionalism, Rhodes and his team identified key strategic themes—such as “Product Leadership,” “[Being] Market-led,” and “Customer Focus”—and assigned one of the seven divisional heads (the company’s top executives) ownership of each. Each theme has a team with representatives drawn from different functional areas and from all levels throughout Luxfer’s global operations.

This theme approach, conceived at the beginning, prevails today in the third iteration of the strategy map. As Jeff Riddell, theme team “coach” and reporting coordinator, explains, a theme “divides up the objective among all the areas”—internal processes, people, customer—that will be involved in its execution. The learning and growth perspective is simultaneously a perspective and a theme—the foundational theme of the company. The perspective “Market-led Organization” is also a foundational theme. These then feed into other themes: Product Leadership, Customer Focus, and Operational Excellence. Each theme permeates the internal process, customer, and financial perspectives. For example, in “internal process,” Product Leadership includes the objective “Deliver innovative SCBA products” and in the customer perspective, it includes the objective “Provide me a medical product that enhances my profitability.” In the financial perspective, it includes the objective “Grow our Global SCBA business to $x a year.”

Devising Measures and Targets

Choosing the right measures has been a long, ongoing, iterative—and arduous—process. Creating the right mix of lagging and leading indicators “that show you what makes a difference in performance...[is] a challenge for a company like ours with a lot of analytically minded people,” notes Riddell.
Luxfer has been refining its measures for the past several years. Theme teams come up with measures and initiatives, write them up, and present them to the seven-person executive (divisional) team for approval. Lead indicators are critical, but as Riddell points out, “They’re hard to define. It’s difficult to put your trust in them. But lagging indicators just report on current thinking. Just counting sales, for example, won’t make a change in the way we run our business.” The company has learned that less is more; that it’s important to focus on the critical few measures and manage what is vital to their success.

Targets are linked across each theme (that is, through the relevant perspectives the theme permeates) and add up to an overall financial objective of targeted sales revenue with specific minimum return on sales by a given year. In other words, the overall target is decomposed into subtargets that are cascaded throughout the organization. Stretch targets, developed through a rigorous process, provide clarity about what drives and influences performance and about what is expected of each team and individual.

Selecting and Funding Initiatives

Pre-BSC, Luxfer had dozens of initiatives—so many that the company was failing to deliver on most of them. Luxfer is not a large company, and many of the same faces, Riddell notes, were on different initiative teams. “They were overwhelmed.”

Clearly, initiatives needed to be streamlined, and more resources and attention needed to shift to the new growth strategy and the customer focus and product leadership themes. Objectives in learning and growth that would enable strategic success needed funding, such as building project and initiative management skills—skills then widely lacking throughout the company. “It wasn’t until we identified that there are indeed right and wrong ways to manage a theme, an initiative, and a project that performance began to improve,” Riddell says. To cultivate these competencies, the company put about 75 project managers and project sponsors through a two-day course. It periodically offers such training for new managers.

Divisional leaders assembled an initiative portfolio and cascaded initiatives throughout the regions. Today, ongoing initiatives are assessed every quarter at the divisional level, and new initiatives are rationalized on a yearly basis. Luxfer also raised the bar in terms of asking hard questions about initiative progress, demanding that initiatives yield fruit and remain strategically relevant and worthy of resources. A checklist of higher-level issues related to themes and objectives helps theme owners assess progress and the relevance of proposed initiatives.

To ensure strategic initiatives are included in the budget process, an initiative was assigned to the Learning and Growth theme team back in 2002, after the first map was developed. It is part of the objective “Provide the resources and structure necessary to implement the divisional strategic priorities.” As the theme management system has evolved, theme owners are now responsible for ensuring that budgeting is provided for strategic initiatives. In the Initiative Definition form, a project charter for each new initiative, managers must specify under which operational budget the initiative falls. Funding then occurs through the annual budgeting process. If a problem arises, the theme owner is responsible for bringing it to the attention of the divisional leaders.

The Luxfer Innovation Management System (LIMS), developed in 2005, is an example of an initiative designed not only to help innovate new products (in support of the Market-Led Organization objective “Provide profitable solutions on time”) but also to build product development capabilities. Mirroring the theme management approach, LIMS involves a cross-functional team to manage the innovation portfolio, from concept development through launch, coordinating all the functional, managerial, and administrative activities within a global team—and developing the necessary competencies to produce and launch each product that is deemed commercially viable. Every member of the LIMS team manages at least one project team, and emphasis is placed on project management, timely execution, and product development disciplines. Each new initiative is now aligned to the strategy map and has a clear role and outcome in driving the strategy.

Who Will Lead Strategy Execution?

Luxfer pioneered the concept of management by theme, a whole new way of managing that the company considers integral to its success. Theme “owners” drive divisional strategic priorities throughout the company’s regions. Each one of the seven divisional leaders is assigned ownership of a strategy map theme, although the theme owner isn’t necessarily the seniormost functional executive. Themes
today include Product Leadership, Market-led Organization, Customer Focus, Operational Excellence, and Learning and Growth. Each theme has a team—an oversight committee that ensures execution of the theme throughout all of Luxfer. Each theme team—the people who make strategy operational—reviews objectives, measures, and initiatives and offers feedback before actual implementation begins, through a process known as “cold toweling.” (The term refers to a common treatment for migraines and hangovers, in which the person lies down in a dark, quiet room with a cold towel to the forehead.) So while upper management creates strategy, managers provide further input. This fosters their buy-in—crucial since they are the ones who will ultimately effect the necessary changes and must communicate them with conviction to their people.

The theme owner handpicks team members, and it’s considered an honor to serve. The roster is given to Riddell, who, in his role as theme team coach, reviews it with each candidate’s functional head to ensure the added responsibility will not overload the candidate. If it appears it will, a different candidate is invited.

Themes are cross-functional; they are linked by core competencies and activities, not by function. Themes span departments, facilities, and regions; so do their team members. Theme teams are global and nonhierarchical. They do not supersede departmental authority; they use influence and persuasion. Indeed, members are chosen in part for having those very skills.

Theme teams work within existing processes and the organizational structure, leading change from within.

Theme teams provide multiple benefits: they inject multiple perspectives, strengths, and talents into decision making and execution; they ensure buy-in and active communication; they help avoid power struggles; and they provide a healthy degree of diversity, which spurs creative thinking, challenges conventional thinking, and fortifies team-building.

“It’s important to not load theme teams with functional managers,” says Riddell. “While leaders are managers, managers are not always leaders.” In the early days, a functional person might stop the conversation to check with his or her department, “as though they were representing a constituency.” Functional areas are not constituencies, Riddell emphasizes. The team members’ job is to help make decisions for the company based on their knowledge and experience, not to represent their functional area or power base.

“Strategy is about change, while departmental/functional thinking [tends to be] about control,” Riddell says. Strategic objectives must outweigh the concerns of current processes; otherwise, change will not take place. “That does not mean we’re free to rampage like a bull in a china shop, but if we’re going to make an omelet, then eggs will be broken,” he adds.

Getting this idea across, and achieving the right team mix, took some time. It’s human nature for functional managers to feel protective about their area. Cross-functional thinking and new relationship building is not natural to many people; hierarchy is. Siloed behavior exists because it is powerful and ingrained. And behavior is harder to change if the organization is successful with the status quo. Despite being flatter than most organizations, Luxfer nonetheless struggled to an extent with promoting cross-functional behavior. “It’s also against our nature as a manufacturer,” Riddell observes. “We’re all about squeezing efficiency. Strategy involves the opposite approach—you need to involve more people to make change happen.”

The new management approach also required new ways to handle many activities and procedures, from initiative sponsorship (for example, who will now ensure that resources are in place and provide executive oversight?) to reporting (a new mechanism for information flow had to be established), to coordinating and oversight (“How do I coordinate with people who don’t report to me?”). Not all the right people were in place, and some house-cleaning took place. Still, even with the right people, this new way of managing isn’t achieved easily. It’s an ongoing challenge—“part of the journey,” Riddell notes.

**Aligning the Organization (Stage 3)**

The corporate strategy map is the cornerstone of organizational alignment at Luxfer. After developing the corporate map in 2002, each business unit in the U.S. went through a similar process to create its own strategy map. This multimap approach ultimately proved unwieldy to manage, and Luxfer abandoned it, relying instead on just one map. But, leaders say, the exercise was invaluable in communicating the BSC. In going through the process, people saw how objectives were formed and understood the cause-

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Balanced Scorecard Report

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have become well aligned with and effective theme management.

Thus, through sharp strategic focus, proper rollout, judicious selection of theme team members, and effective theme management, Luxfer business units have become well aligned with enterprise strategy.

But the real mechanism for alignment is theme management. Besides holding theme team meetings to review progress and facilitate execution, theme team members serve as liaisons between their teams and their business units. Each team works differently. For example, because of variations in local labor laws and culture, the Learning and Growth team ensures that objectives, measures, and initiatives are written broadly to allow for regional flexibility and discretion. The Operational Excellence (OpEx) theme is functional by nature, and each business unit’s plant managers report on initiatives and measures directly to the OpEx team. Because all Luxfer manufacturing facilities are similar in nature and have extensive training in manufacturing via the Luxfer Production System (LPS), this highly structured team takes a straightforward approach to implementing and executing the strategy. Less flexibility and discretion are needed, so quicker alignment and implementation are possible.

Do conflicts ever arise between theme owners or teams and functional leaders? Of course, says Riddell. But team owners and functional-area heads must work out their differences. Strategy, he adds, is about change, and change equals conflict. “People have different expectations and aspirations.” When you speak of making major changes in your company, “you must reassure your people that you believe in sharing information—that you may not have all the answers, but you can tell them what the rules will be and say ‘we’re going to work together to achieve them.’”

To align employees, Luxfer uses a variety of communication tools and incentives ranging from quarterly updates and CEO letters to interviews of divisional members circulated via email. An employee newsletter provides strategic updates, and the company also has a communication network, established through its Business Focus Team implementation. Although Luxfer doesn’t tie compensation to strategic performance, some awards are tied to customer service performance or to solving an important problem, and the company highlights significant employee accomplishments in its internal communications. Luxfer believes its vision for the future, expressed through its strategy map, goes a long way toward fostering workforce morale and unity of purpose, even amid temporary setbacks.

Supplier Alignment

Aligning with suppliers is critical, particularly in supply chain management. For example, Luxfer executives targeted composite products as a significant contributor to revenue growth. Producing composites requires a dependable supply of carbon fiber, but just as the new revenue-growth offensive was being launched, a global carbon fiber shortage hit. Securing a supply was critical not only to the success of the new plan, but also to Luxfer’s overall business. Despite intense competition, Luxfer was able to secure a new supply from its vendor. This vendor chose to supply Luxfer over other manufacturers because Luxfer was the only new customer that could clearly articulate its long-term strategy and show the importance of carbon fiber to it. (Luxfer showed the vendor its strategy map.) The vendor saw how well the two organizations could fit as partners.

Planning Operations (Stage 4)

At Luxfer, linking strategy and operations is enabled largely through theme management. Strategic efforts are pushed down through the organization to become integral parts of operations. Through regular strategy meetings, team accountability,
and adherence to project management principles, the execution of strategic initiatives has become embedded within day-to-day operations.

According to Kaplan and Norton, this management stage—the nexus of linking strategy and operations—involves two key issues: improving key processes that are critical for strategy execution, and linking strategy with the operating plan and budgets. The operating plan includes a detailed sales forecast, budgets for operating expenses and capital expenditures, and a resource capacity plan.

**Key Process Improvement**

Two process improvement initiatives, integrated with the Operational Excellence theme objectives, support a key element of the strategy, “[Achieve] world-class manufacturing through the implementation of the Luxfer Production System.” LPS is Luxfer’s proprietary manufacturing management system, which consists of elements of Oliver Wight’s performance improvement principles, along with those of lean manufacturing, Toyota, Six Sigma, and other methodologies. The first strategy map at Luxfer was developed for the company’s Sydney, Australia, plant in 2000. To align this initiative with the strategy, the Asia-Pacific management team carefully mapped elements of the Wight system to the Balanced Scorecard. Thus, the team knew that when it was managing to a BSC objective, it was also delivering on the Oliver Wight initiative targets. Today, the LPS initiative is embedded in the strategy map as a universal goal of all of Luxfer’s plants.

In addition, within the effort to reduce cost of quality, Luxfer has an initiative to obtain ISO 14001 certification at all its facilities (all Luxfer facilities are ISO-certified). Process improvements in this area result from the linkage to strategic initiatives and have already yielded tangible financial results.

**The Operating Plan**

Long before adopting the BSC and theme management, Luxfer had a well-ingrained planning process. (See Figure 1, next page.) At its heart is Sales and Operations Planning (S&OP, known as Integrated Business Management or IBM in Luxfer’s European operations), which involves the monthly forecasting and planning of sales and operations (e.g., new products, inventory) all the way through to pro forma financials (financial statements accompanying the forecasts). The S&OP cycle runs monthly and extends out 18 months. S&OP provides a tactical, near-term reading of performance, much as the instrument panel of a car provides an along-the-way view of a journey. In addition, it provides a link between the strategy planning and management system, which runs on a yearly and three-year basis, and the operational management system, which is reviewed and monitored daily, weekly, monthly, and quarterly. Inputs (i.e., actual performance results) from the shorter review cycles are fed into the longer-horizon plans to update them dynamically.

The S&OP system begins with a review of current demand, and then incorporates information on sales and long-term demand, by product, over an 18-month rolling forecast. This information is fed to operations to address capacity planning, helping answer the question, “How will we make these volumes in the time periods when they are needed?” In the third week of each month, the production team reviews the supply/demand situation and provides an update of product development for new products in the pipeline. Analysis is performed to ensure goals are being hit for overall production (and for each product line), as well as for new product development, operational performance, and ultimately product profitability.

The strategic plan provides a five-year view that serves as a reference point for the S&OP’s 18-month cycle. Updated every three years, the plan serves as the overall framework, but because it is constantly being reviewed and revised with actual results, Luxfer never gets beyond the first year; at the end of each 12-month period, a new five-year plan is created. Strategy guides the S&OP plans via the annual budget cycle. The theme teams also provide input to make sure the theme-based objectives are accounted for. Specifically, the product leadership theme team, working with regional management, disseminates divisional targets to regions to build out the local S&OP plans. Thus, the two strategic inputs to the S&OP process are the theme teams and the budget.

The business plan, written yearly, has a three-year horizon. It reflects initiatives and goals laid out in the strategy, and is used for comparison with strategic objectives. Around June each year, this plan

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**Luxfer managers constantly compare the most recent 18-month S&OP with performance against the budget, as a kind of early warning system.**

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is “frozen” to become next year’s operating budget and year one of the next business plan. Figure 2 (next page) shows key inputs to the plans and their relationships.
Luxfer managers constantly compare the most recent 18-month S&OP with performance against the budget, as a kind of early warning system. A few years ago, for example, the estimated price of raw aluminum was set at a particular level based on macroeconomic assumptions, but the actual price nearly doubled over a nine-month period, which was disruptive to the budget. Thus, observed changes in S&OP provide a mechanism for forcing decisions about whether to pass along new costs to the customer or to find another way to adjust to them.

Budgeting is an extension of the S&OP process. The budget is now a key part of the weeklong quarterly divisional meetings, taking most of the first day. Budgetary decisions are always made by looking back at strategic priorities. In addition, as theme management evolved, it became incumbent on each theme owner to ensure funding is allocated in the operational budget for the strategic initiatives in his or her purview. If a theme team finds itself with insufficient resources to execute its initiatives, the theme owner must speak up quickly, says Riddell, or come under fire for the oversight.

In resource capacity planning, Luxfer uses its corporate purchasing power to reduce material costs.
costs. In the past, plants procured materials independently; since the 2005 strategy map revision, managers and purchasing departments across regions collaborate to consolidate purchases and, wherever possible, negotiate with suppliers to lower prices.

**A System with Results**

Luxfer’s strategy transformation—a combination of rewriting the strategy and implementing a whole new mechanism for managing it—has yielded powerful results. Before 2002, Luxfer was chiefly a low-margin, high-volume enterprise, with 60% of its business driven by the operational excellence strategy. By 2005, more than 60% of the business was driven by the company’s new customer-focus strategy, underpinned by its emphasis on innovation and market leadership. Profits have increased year over year, and the product portfolio is now predominantly high-tech and high-margin. The restructuring around theme ownership and value creation has put strategy and strategy execution front and center.

The transformation has also fostered employee and unit alignment and created a common language throughout this global company. The workforce reflects renewed optimism and higher morale. And suppliers and strategic customers have shown greater respect and cooperation.

Luxfer’s leaders acknowledge that implementing the strategy—indeed, getting people to accept all the new ways of doing business—has not happened overnight. Moreover, differences of opinion will always exist; but such tension, they say, is natural and healthy, leading to constant improvement. At review meetings, for example, vigorous discussion is common, and divisional team members frequently challenge the conclusions of theme owners. Change isn’t always comfortable or pretty, but it is integral to evolution—and continual strategy success.

Besides serving as Luxfer’s Innovation and Business Coordinator, Jeff Riddell is responsible for assembling all data, reports, and presentations for strategy reviews. We thank Jeff for providing invaluable information and insights, and John Rhodes, CEO, for his support in publishing this Case File.

1. Self-Contained Breathing Apparatus, which supplies breathing air to firefighters.
3. Oliver Wight is a consulting firm that specializes in manufacturing management and process improvement.

**TO LEARN MORE**

Luxfer Gas Cylinders, a 2006 BSC Hall of Fame winner, is profiled in the 2007 BSC Hall of Fame Report, available at www.bsrhof.org. Also see “Managing by Theme,” an interview with Luxfer’s CEO John Rhodes, BSR November–December 2005 (Reprint #0511D); and “Managing by Strategic Themes,” by Robert S. Kaplan and Catherine (Kit) Jackson, BSR September–October 2007 (Reprint #B0709A).

Reprint #B0805B
Maximize Your “Return on Initiatives” with the Initiative Portfolio Review Process

By Keith Katz, Consultant, and Travis Manzione, former Senior Consultant, Palladium Group, Inc.

More and more organizations are instituting a formal initiative management process. Such a process ensures that new and ongoing initiatives are aligned with strategic goals and that the value of each initiative is maximized. It also ensures that organizational resources are being properly allocated. Yet many of these organizations do not manage all four steps of the initiative management process with equal rigor, putting the entire management process at risk. One step that is still woefully lacking is reporting and managing the total initiative portfolio. Katz and Manzione offer guidelines to help you sharpen this critical step and ensure your organization’s “Return on Initiatives.”

In “Initiative Management: Putting Strategy into Action (BSR November–December 2007) Peter LaCasoe and Travis Manzione outlined a comprehensive, four-step process for managing initiatives: (1) identifying and collecting initiative ideas; (2) evaluating and prioritizing ideas; (3) planning and approving implementation; and (4) instituting project management and portfolio management practices. Each step is equally important; one weak link can undermine the entire process. While we’ve seen widespread improvement in prioritizing and selecting initiatives, organizations still have a long way to go in reporting and managing them. This ongoing step is not only critical for assessing the progress of each initiative, but also for demonstrating the return each initiative is yielding (“ROI,” or Return on Initiative). It ensures the initiative’s ongoing value relative to the organization’s aggregate initiatives, providing a dynamic cost/benefit assessment that tracks each initiative’s impact on funding and resources.

Take a Portfolio View

Initiatives have “standalone” value—their inherent value—as well as their value as a component of a larger portfolio supporting a strategic theme. Managing initiatives within portfolios provides accretive value; it recognizes that the sum of a cluster of initiatives is more than the sum of individual initiatives.
Initiative Portfolio Management consists of four steps. In information collection, the organization gathers essential information about the initiative’s performance, including progress against milestones, variance from anticipated budget, and projected deviations from Return on Initiative. This information is entered into a standardized reporting template that includes space for a high-level, qualitative analysis of performance as well as for recommendations. The information on each individual initiative is consolidated into a master report. A summary review is added, to create the Initiative Portfolio Analysis. This document (step two) is the primary document supporting the Initiative Portfolio Review (step three). In step four, leaders communicate their decisions about ongoing, as well as funded but not yet launched, initiatives to all affected parties. These include initiative sponsors and project teams, as well as those who would use the initiative’s deliverables—for example, customer service reps awaiting a new CRM software implementation.

The Initiative Portfolio Analysis Document

The Initiative Portfolio Analysis (IPA) document provides a status report on initiatives that becomes the basis for the Initiative Performance Review (IPR). It is created and revised regularly, according to the review meeting schedule. (See Figure 1.) The document is divided into two sections, a summary and detail. In the summary section, initiatives are organized by theme, in this example, “Realize Operational Efficiencies.” Alongside each initiative we see its progress (% completion) and whether it is being managed cost effectively (budget, variance from budget) and generating the expected return (expected and actual financial impact)—the latter two being critical risk factors for initiative success. Some reports include a column for “lifetime return.” “Financial impact” covers the period of initiative implementation. Some initiatives, like Project Zebra, generate benefits even before they are completed. Also included is an overall status indicator (green, yellow, or red) that is derived from the Balanced Scorecard review; it is based on timing vs. plan, budget vs. plan, and benefits realized vs. plan.

Project Zebra is aimed at reducing shrink—the amount of a retailer’s net margin that is eroded by waste, theft, and product spoilage. This initiative was expected to reduce shrink by 3%, ultimately contributing to a $3 million cost savings. It was expected to cost $300,000, take three months to implement, and generate $1 million of immediate cost relief. The detail view (Figure 2, next page), assesses Project Zebra just after completion. It came in on budget and delivered an immediate benefit of $1.05 million—$50,000 more than projected.

Each initiative within the theme portfolio has its own detailed page in the IPA, which includes all of the summary-level information for that initiative, along with qualitative analysis, recommendations, and milestone progress. In the analysis section, the initiative owner explains whether the initiative is performing as expected, addressing time, budget, and return parameters. If the initiative is off track, the owner offers recommendations or else proposes terminating the initiative altogether, if it appears unsalvageable. A milestone section allows the owner to track progress by phase; for example, Project Zebra’s milestone number one was “assess current inventory tracking system.”

The Initiative Performance Review

In a BSC strategy review meeting, objectives are the primary focus; generally, initiatives are only discussed in the context of how they support an objective. In the IPR, initiatives are the sole topic, discussed in the context of their organizational benefits. At this half-day working session, managers review each initiative portfolio in detail, deciding what to do with poorly performing initiatives and evaluating proposed initiatives. The fundamental purpose of the IPR is to maintain the optimal total initiative portfolio, allocating resources accordingly. Usually, only executive team members attend, but if a significant issue arises regarding a given initiative, the initiative sponsor might also attend.

<table>
<thead>
<tr>
<th>Initiative Name</th>
<th>Status</th>
<th>Percent Completed</th>
<th>Budget</th>
<th>Variance From Budget</th>
<th>Financial Impact (Expected)</th>
<th>Financial Impact (Realized)</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Zebra</td>
<td>G</td>
<td>100%</td>
<td>$300K</td>
<td>$0K</td>
<td>$1,000K</td>
<td>$1,050K</td>
<td>Jennifer Smith</td>
</tr>
<tr>
<td>Project Lion</td>
<td>Y</td>
<td>90%</td>
<td>$250K</td>
<td>$20K</td>
<td>$365K</td>
<td>$365K</td>
<td>John Opal</td>
</tr>
<tr>
<td>Project Penguin</td>
<td>R</td>
<td>20%</td>
<td>$800K</td>
<td>$200K</td>
<td>$2,400K</td>
<td>$2,400K</td>
<td>Mike Faith</td>
</tr>
</tbody>
</table>

This summary is for our hypothetical company’s strategic theme “Realize Operational Efficiencies.” Among other things, summaries illustrate that different initiatives return at different rates and time periods.

<table>
<thead>
<tr>
<th>2006 Business Impact (Budgeted)</th>
<th>$1,350K</th>
<th>$0K</th>
<th>$3,765K</th>
<th>Executive Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 Business Impact (Actual)</td>
<td>$1,335K</td>
<td>$220K</td>
<td>$3,815K</td>
<td>Executive Team</td>
</tr>
</tbody>
</table>

Figure 1. Initiative Performance Analysis (IPA) Document—Summary

Theme: Realize Operational Efficiencies
Each initiative is discussed in detail. If necessary, resources are reallocated. Leaders then turn to proposed initiatives. If a proposed initiative appears likely to generate greater return than an existing initiative that is underperforming, leaders decide to terminate the existing one and launch the new project.

The IPR also provides the opportunity to discuss changes in organizational strategy that might affect any initiatives and dynamically reallocate budgeting toward projects that support the new strategy. Similarly, if the overall budget for an initiative portfolio changes, the IPR is the venue for reallocating funding to those initiatives that are generating the greatest results per invested dollar.

Finally, because the context of this meeting is analytical, it is largely free of the "pet project" or "pride of ownership" issues that can plague a strategy review meeting (BSC review). The numbers are the focus of the meeting, and participants understand the purpose is to cut dead-weight initiatives and substitute alternate projects when appropriate.

**Frequency and Scheduling**

Frequency and scheduling are critical to ensuring IPR success. Frequency implies not just how regularly a review takes place, but the duration between meetings. There must be enough time to allow an informed decision to be made about the course of action for any underperforming initiatives, as well as to allow sufficient time for corrective action to yield results. If too much time elapses, however, an organization might lose opportunities to shift resources to initiatives with potentially greater impact. Best practice organizations find that quarterly IPR meetings are optimal—two of them more formal meetings, allowing for readjustments (e.g., adding or cancelling initiatives).

When should meetings be scheduled? If the organization follows a traditional budgeting cycle, the date for budget approval becomes the anchor for the IPR calendar. Organizations that have adopted rolling forecasts use major milestones—such as the dates they file financial reports to the market or board members—to establish an optimal schedule.

**Roles**

Establishing clear roles and responsibilities is critical to conducting reviews that lead to effective decision making about limited resources. Executive team members serve as the ultimate governing body, making final decisions based on the facts presented. Theme owners, some of whom are also executive team members, lead discussions about the performance of their initiative portfolio, and suggest ways to optimize the portfolio. Theme owners generally prepare for meetings with initiative sponsors, who oversee the day-to-day execution of individual initiatives. Since they coordinate with milestone owners and provide critical input regarding initiative performance, sponsors often play a vital role in developing reports. Finally, in those organizations that have an Office of Strategy Management, the Strategy Management Officer provides the performance status of objectives and measures within each of the strategic themes. The SMO may also provide insights on proposed or in-process strategic shifts that could have implications for initiative portfolios.

The advantages of the initiative reporting and management process are similar to those of the rolling forecast. Rather than wait on a once-per-year budgetary cycle to propose and allocate discretionary funding, organizations have the information at their disposal to continually adjust their focus and resources to maximize the impact of each discretionary dollar they invest.

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**Figure 2. IPA—Detail for Project Zebra**

<table>
<thead>
<tr>
<th>Project Zebra</th>
<th>Initiative Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 01, 2006</td>
<td>Jennifer Smith</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Objectives Impacted</th>
<th>Description</th>
<th>Initiative Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Process Objective</td>
<td></td>
<td>Jennifer Smith</td>
</tr>
<tr>
<td>Internal Process Objective</td>
<td></td>
<td>Jennifer Smith</td>
</tr>
<tr>
<td>Internal Process Objective</td>
<td></td>
<td>Jennifer Smith</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Objective</th>
<th>Budget</th>
<th>Variance From Budget</th>
<th>Financial Impact (Budgeted)</th>
<th>Financial Impact (Realized)</th>
<th>Percent Complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Process Objective</td>
<td>$100K</td>
<td>$0K</td>
<td>$100K</td>
<td>$100K</td>
<td>100%</td>
</tr>
<tr>
<td>Internal Process Objective</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Process Objective</td>
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<table>
<thead>
<tr>
<th>Start Date</th>
<th>End Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 21, 2006</td>
<td>April 23, 2006</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Status</th>
<th>Milestone / Task</th>
<th>% Complete</th>
<th>Start</th>
<th>End</th>
<th>Responsible</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

The detail report provides further data on each individual initiative, including qualitative analysis of results and benefits realized. For example, it would explain that new inventory tracking systems reduced theft by 90% and spoilage by 35%. This detail was the last one written for Project Zebra, at its successful conclusion.

Reprint #B0805C