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Creating the Office of Strategy Management

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Organizations often fail at strategy execution. Various sources have reported implementation failure rates at between 60 and 90 percent. A Bain Consulting study of large companies in eight industrialized countries found that seven out of eight companies failed to achieve profitable growth between 1988-1998, defined, rather modestly, as 5.5% annual real growth in revenues and earnings, with returns that exceeded their cost of capital. Interestingly, 90% of companies in the Bain study had strategic plans with targets exceeding these growth targets; few achieved them.[1]

For the past 15 years, we have studied companies that achieved performance breakthroughs by placing the Balanced Scorecard as the centerpiece of a new strategy management system. The successful companies align their key management processes for effective strategy execution. Many of these companies have now sustained their focus on strategy execution by establishing a new corporate-level unit, an *Office of Strategy Management* (OSM). Not all organizations, however, have understood the need for a corporate-level office to align existing management processes to strategy. Companies, after developing Balanced Scorecards, often make a major error by continuing to plan, allocate resources, budget, report, communicate, and review performance as they had in the past.

Fragmented Management Processes

Consider the management calendar shown in **Figure 1**, with diverse management processes done by different units at different times of year without the guidance from an integrated, consistent view of strategy. The process starts sometime in the middle of the fiscal year, when the strategic planning department organizes a multi-day offsite meeting for the executive leadership team to update strategy based on a review of the company's strengths, weaknesses, opportunities, and threats, and in light of changing circumstances and the new knowledge gained since the last strategy meeting, a year ago. As valuable as these planning sessions are, executives lack a simple framework for communicating the updated strategy to others.

Subsequently, individual business units and shared service units, such as human resources and information technology, do their own annual strategic planning updates. The strategies of these units are typically not informed by the corporate strategy and therefore they do not reflect how the units must work together to achieve integration and synergy. Our research reveals that 67 percent of HR and IT organizations are not aligned

[1] Chris Zook, with James Allen, *Profit from the Core* (Boston, MA: Harvard Business School Press, 2001).

with business unit and corporate strategies, and their departmental plans do not support corporate or business unit strategic initiatives.

During the third and fourth quarters, the finance department runs the annual budgeting process that authorizes next year’s spending on operations, discretionary programs, and capital investments, and establishes next year’s targets for financial metrics, such as revenues, expenses, operating margins, and profits. Again this process is typically uninformed by the strategic plan; sixty percent of organizations do not link their financial budgets to strategic priorities.

At the end of the year, the human resources department runs annual performance reviews for all employees, determines their bonus and incentive awards, and has all employees update their objectives and plans for the subsequent year. But 70 percent of middle managers and more than 90 percent of front line employees do not have incentive compensation tied to successful strategy implementation.

Throughout the subsequent year, senior executives meet at least monthly to review progress against the budget, and initiate actions to meet short-term targeted performance. Such discussions invariably focus on short-term operations, fire-fighting, and tactics. Eighty-five percent of executive leadership teams report that they spend less than one hour per month discussing their unit’s strategy and 50 percent indicate they spend zero time on strategy discussions.

Meanwhile, the internal communications group sends continual messages to employees about the company. But these messages have little to do with business unit and corporate strategy. Ninety-five percent of employees claim they are not aware of or do not understand the strategy. If employees who are closest to the customers and who operate the processes that create value for customers and shareholders are unaware of the strategy, they cannot help the organization implement it.

Finally, corporate knowledge sharing typically focuses on process improvement opportunities. Little systematic attention and resources are devoted to capturing knowledge and best-practices that might support effective strategy implementation.

With responsibilities for strategy management so diffuse and uncoordinated, the high failure rate for strategy execution is not a surprise.

The Emerging Office of Strategy Management

Most companies initially view the Balanced Scorecard as a project, to be led by a multi-functional project team. At the end of creating scorecards for the company and various business units, the project team leader becomes the custodian of the scorecard, with a title such as Vice President, Balanced Scorecard or Director, Global Reporting. This scorecard manager oversees the valid, timely reporting of scorecard measures and serves as the corporate consultant for questions about the scorecard. But for many companies, this is the end of their Balanced Scorecard project. They have a new measurement system, but they have not changed any management processes to capitalize on it.

The successful companies, in contrast, transform key management processes to focus on strategy execution. They sustain the focus by elevating their Balanced Scorecard project team into a new corporate-level office, which we call the Office of Strategy Management (OSM). The emergence of this new office made us aware of a gap in most organizations' management structures. All organizations have offices that manage finances, human resources, information technology, marketing, strategic planning, and quality. But few have an office or department with prime responsibility for managing *strategy*. While ultimately strategy execution is the responsibility of line managers and employees, the evidence illustrated in **Figure 1** reveals that without central guidance and coordination, strategy is either omitted from key management processes or management processes are uncoordinated across functions and business units, leading to poor strategy execution.

Organizations rarely get started with a fully-functioning Office of Strategy Management (the experience of Canadian Blood Services, reported at the end of this article, is an exception). Take the example of Chrysler Group. After a string of successes in the 1990s, Chrysler hit an innovation dry spell. The economic down-turn, rising costs and encroaching imports led to a forecasted CY2001 deficit of more than $5 billion. A new CEO, Dr. Dieter Zetsche, took charge. He worked with Bill Russo, vice president of business strategy, and the executive team, to craft a new strategy that featured both sharp cost cutting in the short-term (reducing the actual CY2001 deficit by $3 billion) and substantial investments to create great new products. Russo's strategy group worked with the executive team to translate the strategy into a Balanced Scorecard. The group then served as trainer and consultant to help Chrysler's business and support units create local scorecards, aligned with corporate objectives, and customized to their local operations. Once this initial phase of design and cascading had been completed, Russo's group maintained responsibility for the data collection and reporting processes for the scorecard. This was a typical evolution for a Balanced Scorecard project.

The strategy group, however, also took on the responsibility for preparing the materials to communicate the new Chrysler strategy and scorecard to all employees. And soon Dr. Zetsche began to ask Russo, before each management meeting, to brief him about issues revealed by the scorecard that required attention and action. Russo, as a member of executive team, followed up after the meeting to ensure that the required actions were communicated and acted upon. Over this two year period, the role of the business strategy function had expanded to incorporate many new cross-enterprise strategy execution processes. The success of this effort came to fruition in CY2004, when Chrysler launched a series of exciting new cars, and earned $1.2 billion despite a weak domestic automobile market.

A similar evolution occurred for the US Army Balanced Scorecard project. A central project team at the Pentagon headquarters, under the leadership of the Army Chief of Staff, developed the initial scorecard, called the Strategic Readiness System. The project team also selected the software system to be used for scorecard reporting, and established the systems and processes so that the scorecard would be regularly populated with valid, timely data. In the next phase, the team helped to cascade scorecards to 13 major sub-commands and subsequently to more than 300 subsidiary commands throughout the world. The centralized project team provided training, consulting, software, and on-line support for the dispersed project teams. The central team also reviewed the scorecards produced by local project teams to ensure that the local goals were aligned with those articulated on the Chief of Staff scorecard.

In addition to these now traditional roles as custodians and consultants for the Strategic Readiness System (SRS), the US Army project team, like Chrysler's, took on ownership for a strategy communications program. The team deployed a web page, accessible from around the world in both classified and unclassified versions, developed a portal library of information about the SRS, wrote articles about it, published a bi-monthly SRS newsletter, conducted an annual SRS conference, led periodic conference calls with SRS leaders at each command level, and conducted scorecard training, both in person and on the web. The extensive strategy communications process was critical for educating and gaining the support of all soldiers and civilian employees for the new strategy. And the US Army project team, like its counterpart at Chrysler, began to facilitate the monthly discussions at Pentagon headquarters about the readiness status of units around the world.

At both Chrysler and the US Army, the group of individuals, initially formed to implement a Balanced Scorecard project, was now managing an on-going set of processes for strategy execution. The Balanced Scorecard had provided the previously missing link between enterprise strategy and management processes and systems.

Roles of the Office of Strategy Management

Our research into the best practices of successful BSC users has identified nine cross-functional processes that should be managed or integrated by an Office of Strategy Management (see **Figure 2**). Three of these processes –scorecard management, organization alignment, and strategy reviews – are the natural turf of the OSM. The processes did not exist prior to the BSC so they can be introduced without infringing on other departments' work. Three other critical processes – strategic planning, communications and initiative management – are already being performed by existing organizational units. We believe that these processes should eventually be incorporated into a central organization with strategic focus. The three remaining processes – planning and budgeting, workforce alignment, and best practice sharing – are in the natural domain and responsibility of other functions. In these cases, the OSM plays a coordinating role, ensuring that the processes are tightly integrated with the enterprise strategy. By having the OSM either lead or coordinate the nine strategy execution processes, as shown in **Figure 3**, previously disparate, unaligned, or missing management processes are performed in an integrated manner to deliver tangible results. We describe the nine processes below.

The Core Processes

The OSM core processes, described below, are the responsibility of most Balanced Scorecard project teams:

1. *Scorecard Management*

   The OSM is the natural organizational owner for the Balanced Scorecard. This entails several responsibilities. At the annual strategy meeting, the OSM facilitates the process of translating the updated strategy into the scorecard map and objectives. Even without any change in strategic objectives, the OSM leads a discussion about whether the executive team wants to change any BSC measures. Once the executive team has approved the objectives and measures for the subsequent year, the OSM coaches the executive team in selecting targets and identifying the strategic initiatives required to achieve targeted performance on the BSC measures.

   During the year, the OSM conducts training and education courses on the Balanced Scorecard management system, and serves as the central organizational resource to coach, educate, train, and assist local project leaders about the BSC methodology and tools. The OSM need not be the primary data collector for the scorecard – often it selects the metric owners, the people or departments that collect and report the data with the desired frequency – but it should oversee the process by which data are collected and reported. Typically, the OSM decides on the BSC software system, which can range from desktop spreadsheet and presentation programs through enterprise software applications that draw information automatically from data warehouses. The OSM standardizes Balanced Scorecard terminology and measurement definitions across the organization. And the OSM has primary responsibility for the integrity of the reported BSC data. Operating managers occasionally tilt data in predictable directions to report a somewhat better picture of the effectiveness of their short-term actions and outcomes. The OSM coordinates with the enterprise's internal audit department to assure that data reporting processes are valid, reliable, and auditable.

2. *Organization Alignment*

   The OSM helps the entire enterprise have a consistent view of strategy, including the identification and realization of corporate synergies. Achieving organizational alignment is a primary differentiator between successful and unsuccessful adopters of the Balanced Scorecard. Alignment creates focus and coordination across even the most complex organizations. Unfortunately, many organizations do not manage alignment as a process. The Office of Strategy Management facilitates the development and cascading of Balanced Scorecards at different hierarchical levels of the organization. Its responsibilities for the alignment process include the following:

   - Defining, on the corporate scorecard, the synergies to be created through cross-business behavior at lower organization levels
   - Linking business unit strategies and scorecards to corporate strategy
   - Linking support unit strategies and scorecards to business unit and corporate strategic objectives.

- Linking external partners, such as customers, suppliers, joint ventures, and the board of directors, to the organization's strategy
- Organizing the executive leadership team's review and approval process of the scorecards produced by the business units, support units, and external partners.

3. *Strategy Reviews*

The monthly management meeting is the cornerstone of the control process. It provides the opportunity to review BSC performance and to make strategic adjustments. The underlying hypotheses of the strategy are tested, learning takes place, and new actions initiated.

The Office of Strategy Management briefs the CEO, in advance of the management meeting, about strategic issues identified in the most recent BSC. The briefing shapes the agenda of the meeting so that it focuses on strategy review and learning, rather than just short-term financial performance and fire fighting plans. The OSM monitors the meeting to determine action plans, and follows up after the meeting, to assure that the action plans are carried out. Since the Board of Directors also plays an important role in reviewing and guiding the strategy, the OSM helps the chief financial officer prepare the board packet and agenda for board meetings.

Desirable OSM Processes

Strategic planning, communication, and initiative management are existing processes already being performed in organizations. By increasing the role of the OSM for these three processes, they can become more tightly linked to strategy execution.

4. *Strategy Planning*

Strategy formulation and strategy execution are inextricably linked in a closed-loop process. The strategic planning function performs external and internal competitive analysis, conducts scenario planning, organizes and runs the annual strategy meeting, and coaches the executive team on strategic options.

But strategy should not be a one-time annual event. Even the best formulated strategy must be communicated, resourced, tested and modified to reflect real-world feedback. The planning office should receive and filter strategies that emerge from within the organization during the year so that the executive team can consider adopting innovative ideas suggested by employees.[2] The executive team should review the existing strategy periodically throughout the year. After all, strategy consists of hypotheses about cause-and-effect relationships between internal actions and their expected impact on external constituents, such as customers and shareholders. The BSC measures provide continual evidence about the validity of these strategic hypotheses. These data should be discussed routinely at management

[2] See D. Campbell, S. Datar, S. Kulp, and V.G. Narayanan, "The Strategic Information Content of Non-financial Performance Measures," HBS Working Paper (November 2004) for an example of statistical testing of strategic hypotheses using BSC data.

meetings, with the strategy updated if the hypotheses are found to be invalid in some respect.[3] For example, the merger integration strategy of two major retail banks called for "100% customer account retention." As the strategy unfolded, many unprofitable customer relationships became revealed. The bank quickly modified its strategy to retaining 100% of profitable customers' assets, allowing many small, unprofitable customers to defect voluntarily. The strategy shift added over $50 million annually to the bank's bottom line.

Chrysler's Balanced Scorecard project originated in its strategic planning office; the new strategy execution processes were a natural extension and complement to its planning processes. In many organizations, however, the Balanced Scorecard project originates outside the strategic planning office. As the project team assumes the broader responsibilities to sustain the process, it operates separately from the planning office. To avoid organizational barriers between planning and execution, we believe that such separation should be temporary, and that eventually companies should integrate the two functions within a single office.

5. Strategy Communication

Effective communication to employees about strategy and the Balanced Scorecard measures, targets, and initiatives is vital if employees are to contribute to the strategy. Canon, USA describes its internal communication process as "democratizing strategy." As a Japanese company, with decision-making decentralized, Canon's OSM communicates the BSC to all employees to promote widespread and deep understanding of the company's strategy in all business units and support functions.

The primary responsibility for this process varies across organizations. In some, the corporate communications department designs and delivers the messages in multiple ways through multiple media. For these organizations, the OSM serves in a coordinating role, reviewing the content and frequency of messages to ensure these correctly communicate the strategy.

In other organizations, such as Chrysler, Canon, and the US Army, the corporate communications group had little knowledge or focus on strategy, especially in the early stages of the BSC project. In these cases, the OSM took primary responsibility for communicating strategy to employees.

The OSM, on an ongoing basis, must also ensure that training and education programs about the BSC are included in employee education programs, such as those run by the corporate university, and in new employee training and orientation programs. And since one of the most effective communications channels is having each employee hear about the strategy directly from the CEO, the OSM should assist in crafting the strategy message delivered by the CEO.

[3] H. Mintzberg, "Crafting Strategy," *Harvard Business Review* (July–August 1987).

6. *Initiative Management*

Strategic initiatives are discretionary programs, typically cross-functional and inter-organizational, that help accomplish strategic objectives. The screening, selection, and management of strategic initiatives drives change – and produces results. Our experience shows that strategic initiatives should be managed separately from routine operations.

The executive team typically identifies strategic initiatives as part of its annual planning process. These initiatives could include total quality management programs and major technology investments to enhance operations and customer management processes. New initiatives may also arise throughout the year and the entire portfolio of strategic initiatives should be continually assessed and re-prioritized.

The OSM, during the year, monitors all strategic initiatives to ensure that they are being actively managed, with an eye to consolidating or eliminating those not delivering strategic benefits. It reports on initiative progress at periodic management meetings. The OSM often actively manages strategic initiatives to ensure that they have sufficient resources, priority, and focus. This is especially important for cross-functional and cross-departmental strategic initiatives that do not have a natural home in a single business or functional unit.

For strategic initiatives that fall within the responsibility of an existing organizational unit, the OSM plays a coordination role. In this case, the OSM, other than reporting periodically to the executive team on initiative status and progress, intervenes only when an initiative falls behind schedule, is over budget, or is not delivering expected results.

Integrative Processes

Existing staff departments should retain prime responsibility for processes – planning and budgeting, workforce alignment, and best practice sharing – that benefit from the discipline knowledge and professional expertise contained within the department. The OSM ensures the alignment of these critical processes with the strategy.

7. *Planning and Budgeting*

Budgets, human resources planning, information technology investments, and marketing programs must be linked to strategy. Without an explicit OSM role, functional plans may be too narrow and tactical, making it difficult for an integrated strategy to be executed.

The OSM coordinates with the *finance* department to ensure that budget targets are consistent with those established in the strategic planning process. Additionally, the OSM ensures that financial plans and budgets incorporate funding and personnel resources for strategic initiatives. Many strategic initiatives, as already mentioned, are cross-functional and cannot be financed through the budgets of operating or functional departments.

The OSM coordinates with the *human resources* office to ensure that hiring, training, and leadership development programs are aligned with the skill requirements, particularly for strategic job families.[4] The OSM assists the *information technology* department in identifying and selecting those data bases, infrastructure investments, and application programs that will have the highest payoff for BSC strategic objectives. And the OSM ensures that the *marketing* department's plans are consistent with the strategy's customer value proposition and targeted market segments.

8. *Workforce Alignment*

Goal-setting, compensation, and personal and leadership development are all employee-focused processes that fall within the domain of the human resources organization. Our experience indicates that human capital is greatly enhanced when these processes align employees and their development to the strategy.[5] Linking employee-focused processes to strategy should be a shared agenda between the human resources executive and the OSM. In this way, employee goals and objectives, compensation, development plans, and compensation become aligned to make strategy everyone's job.

9. *Best Practice Sharing*

Ideas for improving strategic outcomes can arise anywhere in the organization. Many of these ideas can be applied in different units and functions. The OSM should facilitate the identification and transfer of best practices throughout the organization, helping ideas to cross departmental, functional, and business unit boundaries. In organizations with a strong and active chief knowledge or learning officer, the OSM plays a coordination role in this process. If a designated chief knowledge or learning officer does not exist, then the OSM plays the leadership role in transferring ideas and best practices throughout the organization.

Positioning the Office of Strategy Management

Executing strategy requires ongoing organization changes that only the CEO can empower. The OSM, the organizational unit created to manage strategy execution will be most effective when it has direct access to that CEO. Panels A and B of **Figure 4** illustrate the two configurations generally found in successful OSM implementations. Panel A shows the OSM reporting directly to the CEO, in parallel with other important corporate functions such as finance, I/T, human resources and operations.

Panel B shows a dotted line relationship to the CEO, with a solid line to another executive such as the CFO or COO. This configuration arises when the OSM is positioned within the strategic planning or finance department. At the Mexican insurance company, Grupo Nacional Provincial (GNP), the OSM reports both to the CEO and to the CFO. The OSM sets the agenda for a weekly meeting with the CEO and CFO, and for a

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[4] Strategic job families are described in R.S. Kaplan and D.P. Norton, "Measuring the Strategic Readiness of Intangible Assets," *Harvard Business Review* (February 2004): 52–63.
[5] *Ibid*.

broader weekly meeting of the top six company executives. The OSM at GNP has a matrixed relationship with 20 BSC managers in the two major business units and nine support units, and with the owners of the major strategic initiatives so that it can coordinate the strategic planning done in the nine business and support units.

A less-desirable variant of this case, shown in Panel C, has the OSM two levels below the CEO and with no direct access. In this case, all OSM tasks and processes must be filtered through the CFO or COO before reaching the attention of the CEO. Panel D of **Figure 4**, where the OSM is three levels below the CEO is even less desirable and unsustainable. Such a configuration arises when the Balanced Scorecard is viewed solely as a performance measurement system that drives operational improvements but is not positioned as the core of a strategy management system.

Some managers resist having to align their previously autonomous activities to corporate priorities. Barbara Bossin, the Director of Strategic Alignment at St. Mary's Duluth Clinics, reported that she overcame resistance because managers knew that she had a direct reporting line to the company's chief operating and chief executive officers. An OSM buried deep in a finance or planning department may find it difficult to command similar respect and attention from senior executives for strategy management priorities.

Figure 5 summarizes the resources normally assigned to an OSM. An OSM managing all nine processes typically has between 6 and 8 full-time equivalent (FTE) staff. The most labor demanding processes are *scorecard management* (typically a full-time person), *organization alignment* (1.5 FTEs used to plan and help cascade scorecards to different levels of the organization), and *initiative management* (1 to 1.5 FTE). Each of the other processes requires less than a full-time person, on average. Chrysler's OSM resources, described below, are somewhat larger since the OSM also assists senior executives in their product development strategies.

- **Scorecard Management**. One manager and one Chrysler IT analyst (assigned part-time to the OSM) develop scorecard metrics and targets with the Executive Committee. They facilitate monthly scorecard reporting and maintain the reporting system.

- **Organizational Alignment**. One manager coordinates with HR to advance the organization's alignment with the strategy, including linking the Performance Management System to corporate and functional-level BSCs.

- **Reviews**. Three senior managers and seven managers handle the agendas and minutes and coordinate briefing binders for meetings of the seven executive committees. The OSM head ensures that review meetings focus on performance gaps highlighted by the scorecard.

- **Strategic Planning**. One senior manager and three managers provide the framework for strategic discussion by doing scenario planning and identifying core challenges – the company's term for the key strategic initiatives selected during the annual strategic planning process.

- **Strategy Communication**. One senior manager and three managers coordinate with the company's corporate communications team to develop BSC and strategy-related materials, including presentations, print media, electronic media, customized training classes, and specialized programs for the Daimler Chrysler Television Network. The OSM views itself as the content experts for the strategy communications at the quarterly meetings of directors and senior executives, the monthly strategy awareness forums for managers and their superiors, and other public gatherings.

- **Initiative Management**. Two senior managers, three managers, and two analysts identify relevant strategic initiatives as part of an annual strategic planning process. They track the progress of initiatives and direct the progress of the OSM staffers who are involved in the initiatives of the brands or functional areas they support. The company's operational groups execute their own initiatives.

- **Planning and Budgeting**. Chrysler Group has two types of business plans: a detailed three-year operating business plan and a ten-year high-level strategic plan. The OSM participates in the former, which includes annual budget-setting, as well as near-term strategic planning. It facilitates the process of linking strategic planning to budgeting, though the CFO does the actual work.

- **Workforce Alignment**. Chrysler's OSM is charged with aligning compensation and personal goals and development to strategy. The human resources department executes and administers programs for individual employees, using Chrysler's proprietary performance appraisal systems for executives and salaried employees that link personal goals to corporate strategy.

- **Best Practices Sharing**. Although an explicit formal process or infrastructure exists for disseminating strategic best practices, the BSC helps make best practices visible (through its objectives-setting and measures-reporting processes, for example.) The process hasn't yet been fully developed across all three areas of OSM responsibility. But because of the longstanding relationship between product development and strategic planning, product development best practices have been documented and circulated among the company's product development teams.

Most organizations have 10 or fewer people working in their OSM. The goal is not to build a large new corporate bureaucracy. But strategy management has become a key corporate priority, and this cannot be accomplished by asking busy people to add the work onto their already busy calendars and responsibilities. Several organizations have reported that the number of people assigned to the OSM do not represent a net additional head count to the organization; the streamlining and focusing of management processes enabled the organization to eliminate or reduce considerably people assigned to other reporting and data analysis tasks. For example, at Canon USA, the strategic planning department had been an ivory tower within the company, spending much money on memberships but not having much influence within the company. In evolving to its new OSM role, several people left or were transferred and new people were brought in to lead the BSC process. The department remained at the same size and resource level as before, but with a different mix of talent and a new mission, to “ensure corporate longevity by helping our customers drive change by working with them to design, implement, and manage their strategies.” The Canon OSM is now positioned to have a major impact on the company.

Summary

Many organizations have achieved dramatic performance improvements by making the Balanced Scorecard the cornerstone of their strategy management system. We have captured and codified a body of knowledge from these successful organizations to provide the foundation for an emerging profession of strategy management. In order to realize the benefits from this body of knowledge, however, we believe that every organization must answer this simple question for themselves: “What am I doing to make strategy management a core competency of my organization?” We believe the answer to this question should be to build an Office of Strategy Management, position it at the level of other senior corporate staff offices, and give it responsibility and authority for the nine key strategy management processes.

Instituting an OSM at the Canadian Blood Service:

Graham Sher, CEO

I joined Canadian Blood Service (CBS), upon its founding in 1998, initially as Vice President of Medical, Scientific, and Clinical Affairs, and subsequently became CEO in 2001. CBS is an organization that was born out of a major corporate crisis of sorts: it was created specifically as the successor organization to replace the agency that had operated Canada's national blood program for over 50 years, following Canada's "tainted blood scandal". In this scandal, multiple failures in governance, management and decision making resulted in thousands of Canadians becoming infected due to contaminated blood, and ultimately to irreparable loss of trust in the system as a whole. The mandate given to CBS on its creation was to repair the system, rebuild the trust, and create a state of the art, effective and efficient national blood program for Canada. My predecessor as CEO described the experience as flying a Boeing 747 jumbo jet at 40,000 feet, with all four engines broken, and having to fix them while continuing to fly at 600 miles an hour. We had no opportunity to land the plane since CBS was, and is, the monopoly provider of blood services in Canada (outside the province of Quebec). Landing the plane for controlled repairs was simply not an option.

In the initial years we concentrated on fixing the system. And to all intents and purposes we succeeded. The blood supply system in Canada is now secure, with adequate amounts of safe, high quality blood products meeting clinical needs when and as required. The crisis is certainly over. CBS recruits blood donors, and collects, manufactures, tests and distributes about 900,000 units (pints) of blood each year to over 750 health care institutions in the country. We also run the nation's bone marrow donation registry, a growing research and development program, and are responsible for procuring plasma protein pharmaceuticals for the country. As part of its overall risk management program, CBS also owns and operates its own captive insurance company. The annual budget for CBS is about CDN$900 million, we have more than 4,000 employees and 17,000 volunteers.

In our early years, with the burning platform of change driving us, we had a very large number of initiatives going on, related to safety, adequacy of supply, infrastructure renewal and governance stabilization, each often competing with the other for the same limited resources, all going on somewhat chaotically, and not as well planned as they should be. After a few years of this *modus operandi*, it became apparent that if we were to succeed at implementing the necessary change agenda, we would need to be far more disciplined in strategy formulation and execution, and we would need to ensure alignment across all our functions and operating divisions.

In addition to creating a modern and robust blood system, as good as any worldwide, I want CBS to become the pre-eminent model for health care delivery in Canada. This necessitates that strategy management become an embedded core competency throughout our organization, just as safety, security, and trust had been during our crisis management phase

As CEO, I face several major challenges in trying to implement my ambitious strategic agenda. First, I need to balance the time I spend dealing with external demands and constituents with the ability to focus and lead change internally. Like all CEOs, I report to a Board of Directors. However, as a publicly funded agency (funded by 12 Provincial and Territorial Governments in Canada), I need to ensure that adequate attention is paid to the "Corporate Shareholders" of CBS, the Ministers of Health in each of these jurisdictions, and the government bureaucracies they lead. Furthermore, an agency with a high public profile such as ours, and one that is premised on retaining public trust, demands that I stay externally focused on stakeholder requirements too.

Many people believe that CEOs wield direct and easy influence over their organizations. The reality is that any CEO has a difficult time directly influencing his organization. Attempting to command and control may only serve to undermine the authority of one's senior executives. To be most effective, I as CEO must exert my influence indirectly and in a way that empowers and creates an environment for my executives to lead and manage their parts of the organization. I should set the tone for the organization, define the strategic agenda, communicate it, and ensure that it gets undertaken, but not actually direct any parts of it.

A further challenge typical to most CEOs is that information, particularly bad news, tends to be filtered before it gets to me. I often do not see the most timely, valid information about the current performance of CBS, particularly when operating at a constant and unrelenting pace of change. Many of our early management meetings were spent debating the quality of the information, as opposed to the analysis and interpretation of it, obviously an unwieldy way of executing strategy and a very time-intensive way of conducting management meetings. Michael Porter and colleagues describe in an excellent article in *HBR*, the seven surprises for new CEOs.[6] I was very easily able to identify with these "surprises" on assuming my role as CEO at CBS.

I became very excited at the potential for the Balanced Scorecard, managed by an Office of Strategy Management, and saw its value in helping to overcome these challenges. The Balanced Scorecard empowers executives as opposed to invading in their territory and undermining them. It gives me performance management information that is aligned at all executive levels and appropriately validated prior to coming to my attention. Much of management is a search for the truth. The Balanced Scorecard provides me with easy and direct access to timely, unfiltered information about the implementation of our new strategy.

Because of the urgency with which I want to accomplish change, I am following a less conventional path by establishing an Office of Strategy Management at the outset of our Balanced Scorecard project. The OSM is a critical resource to me and the executive team to ensure successful implementation of my change agenda across the organization.

[6] Harvard Business Review, October 2004, pp 62-72.

Because of its potential value in helping me accomplish a high priority task, the OSM reports directly to me. But if it reported only to me, and didn't have any other clearly defined linkages or relationships, it wouldn't be quite as effective. Recall the point I made earlier that the CEO's influence is far more powerful and effective when he exerts influence indirectly. I have therefore created a dotted-line special reporting relationship between the OSM and two other key executives at CBS, the CFO and the COO, who ultimately are going to help me execute the change agenda.

Since strategy management involves cycling through three high-level processes: strategy formulation, strategy execution, and strategy learning that cycles back into strategy formulation, we have intentionally ascribed certain responsibilities to the OSM at CBS. The table below shows the individual processes within these three high-level processes. The OSM has primary responsibility for most of these individual processes but not all. For example, in 2004, the OSM led the project team that developed the strategy maps and scorecards for the enterprise, our three operating divisions, and two support units, human resources and information technology. For some processes, however, shown shaded in the table, the OSM's role is more integrative and facilitative rather than direct. For example, in budgeting, the CFO has primary responsibility, with the OSM playing a coordinating role.

Strategy Formulation	Strategy Execution	Strategic Learning
• Environmental Assessments • Strategic Planning • Budgeting	• Balanced Scorecard Performance Reporting • Initiative Management • Strategic Communications • Personal Scorecards	• Benchmarking • Best Practice Sharing • Internal Coaching and Change Management

The OSM provides continued training and education, enhances strategic communications to all employees and volunteers, develops an integrated initiative management program, links corporate planning and budgeting processes to the strategy, and is supporting the introduction of scorecards for the Board of Directors and the CEO. In midyear, it will facilitate the update of the enterprise, operating division, and support unit scorecards.

We launched the OSM with three full-time individuals. The OSM leader is a vice president and a member of the executive management team, consistent with the importance we place on this function. She leads and facilitates the integration of strategy into all our core processes. In addition, we have two (and will have three) individuals reporting to the OSM leader to provide day to day management of the office, manage the multiple work streams and cross functional teams, lead and facilitate meetings, educate others on Balanced Scorecard and strategy-focused organization practices and tools, and perform analysis of problems, performance, and metrics. This should be the right complement of individuals to help support the OSM leader and ultimately the rest of the executive team in undertaking our ambitious change agenda for the next few years.

Health care is generally in a state of crisis in many countries around the world, no matter the funding and governance approaches to health care delivery. Health care organizations that apply good management principles can leapfrog ahead of others in the sector. At CBS, I believe that the Balanced Scorecard program is necessary to help us execute our strategy, but on its own, the Balanced Scorecard is not sufficient. The OSM provides the sufficiency. It is the critical, complementary piece in the chain to help us successfully execute our change agenda for the next few years. The OSM at CBS is *not* just a change in the organizational structure. I see it as a structure that helps us fundamentally change the way we think, change the way we plan, and change the way we do business and manage performance. Without the OSM at CBS, I would be less certain that I could deliver on the ambitious, but necessary change agenda on which we are currently embarked. With the OSM, I believe we can continue flying the Boeing 747 that is called Canadian Blood Services, and flying it very well.

Figure 1: Uncoordinated management processes by different executive groups leads to ineffective strategy execution.

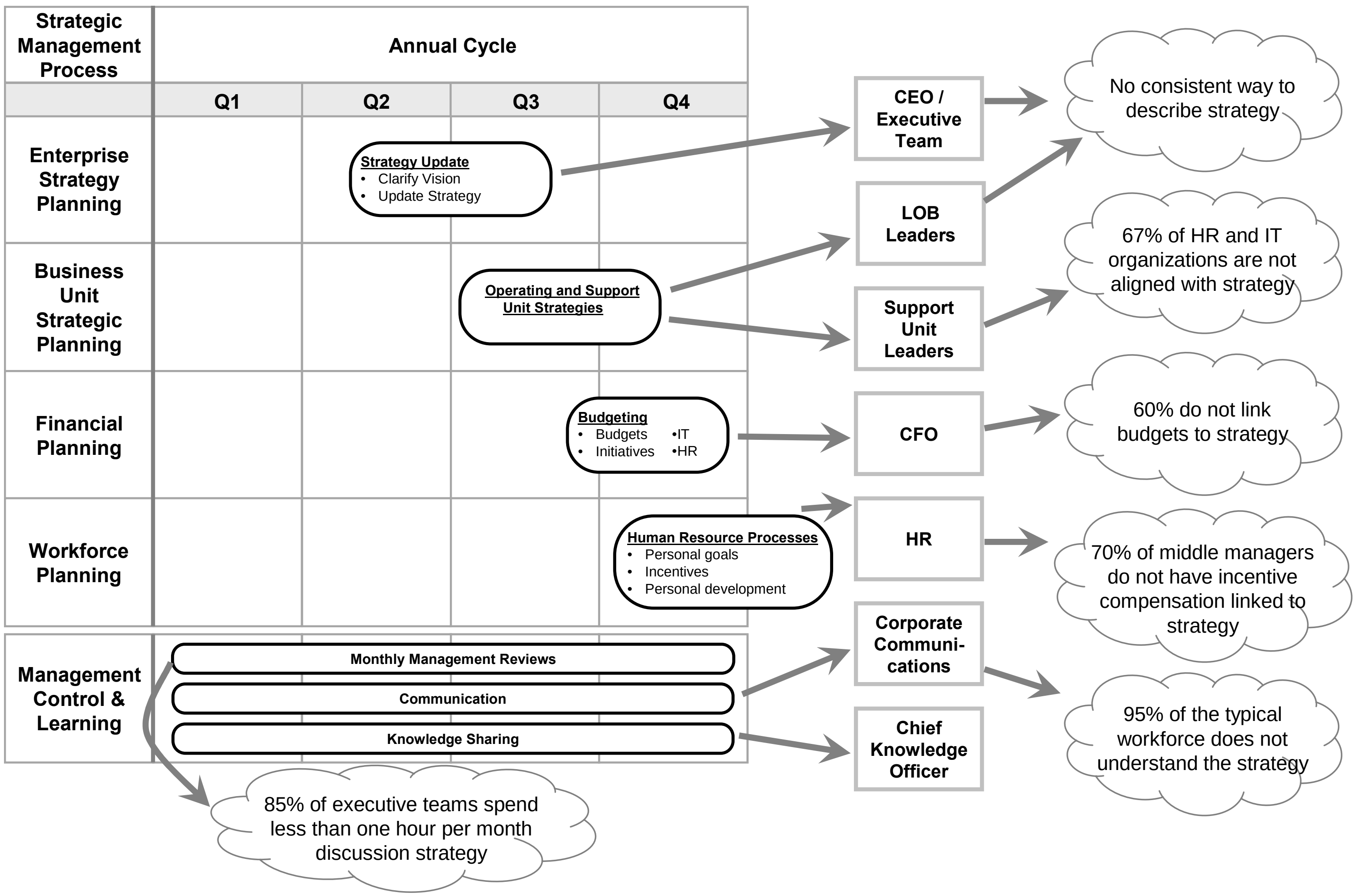

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Figure 2: The Office of Strategy Management – Roles & Responsibilities

	STRATEGY MANGEMENT PROCESS	OSM Role
Core Roles	1 **Scorecard Management –** *Design and report on the BSC measures*	
	2 **Organization Alignment –** *Ensure all business and support units are aligned with the strategy*	
	3 **Strategy Reviews –** *Shape the agenda for management strategy review and learning meetings*	
Desirable Roles	4 **Strategic Planning –** *Help the CEO and executive team formulate and adapt the strategy*	
	5 **Strategy Communication –** *Communicate and educate employees about the strategy*	
	6 **Initiative Management –** *Identify and oversee management of strategic initiatives*	
Integrative Roles	7 **Planning/Budgeting –** *Link financial, human resources, information technology, and marketing to strategy*	CFO, HRO, CIO, CMO
	8 **Workforce Alignment –** *Ensure all employee's goals, incentives and development plans link to strategy*	HRO
	9 **Best Practice Sharing –** *Facilitate a process to identify and share best practices*	CKO

KEY

- OSM must run the process
- OSM should run the process
- X OSM integrates strategy to a process run by someone else (X)

CFO: Chief Financial Officer
HRO: Human Resource Officer
CIO: Chief Information Officer
CMO: Chief Marketing Officer
CKO: Chief Knowledge Officer

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Figure 3: An Office of Strategy Management assures that management processes are integrated and aligned with the strategy.

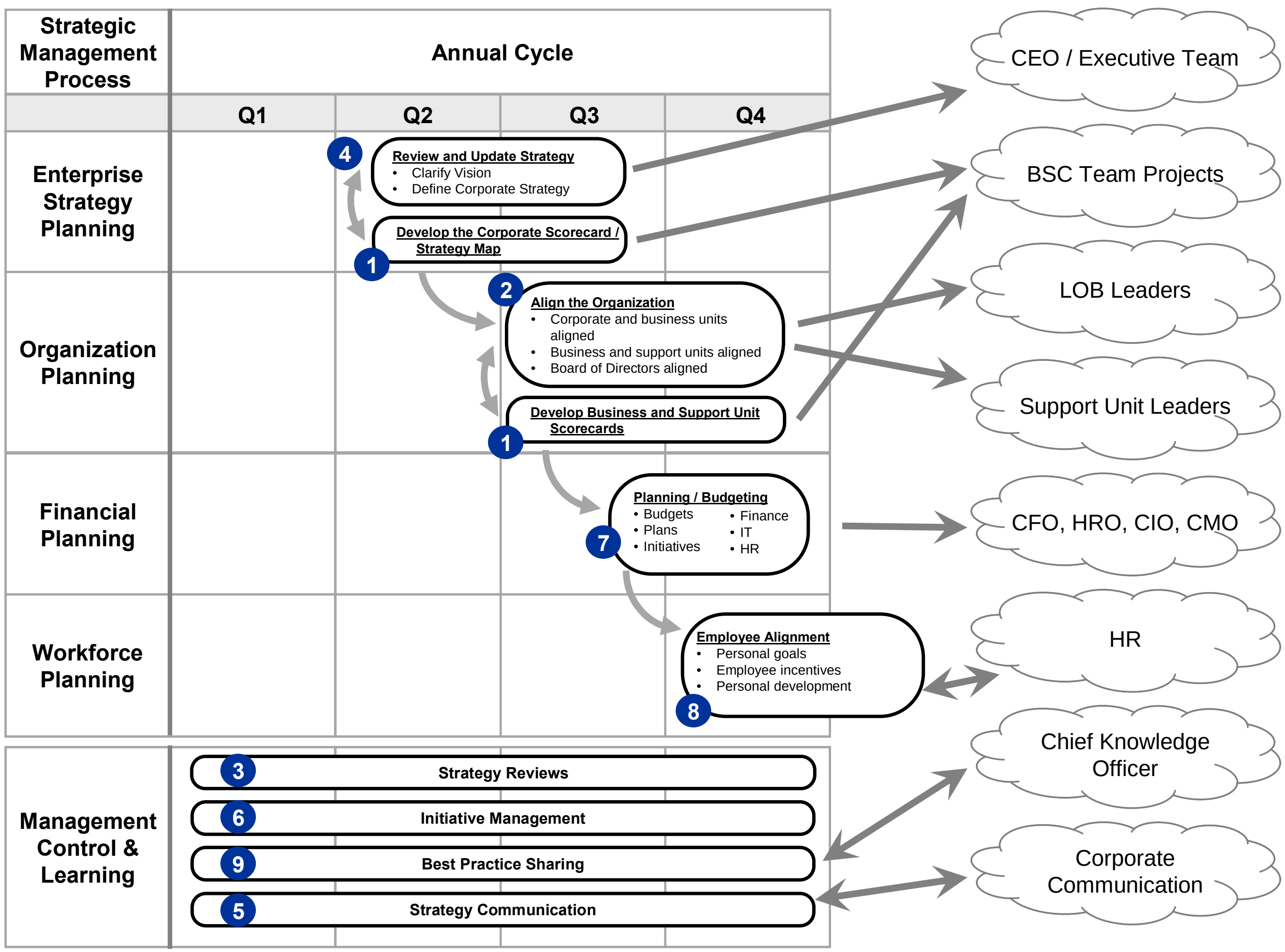

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Figure 4: Where should the OSM report?

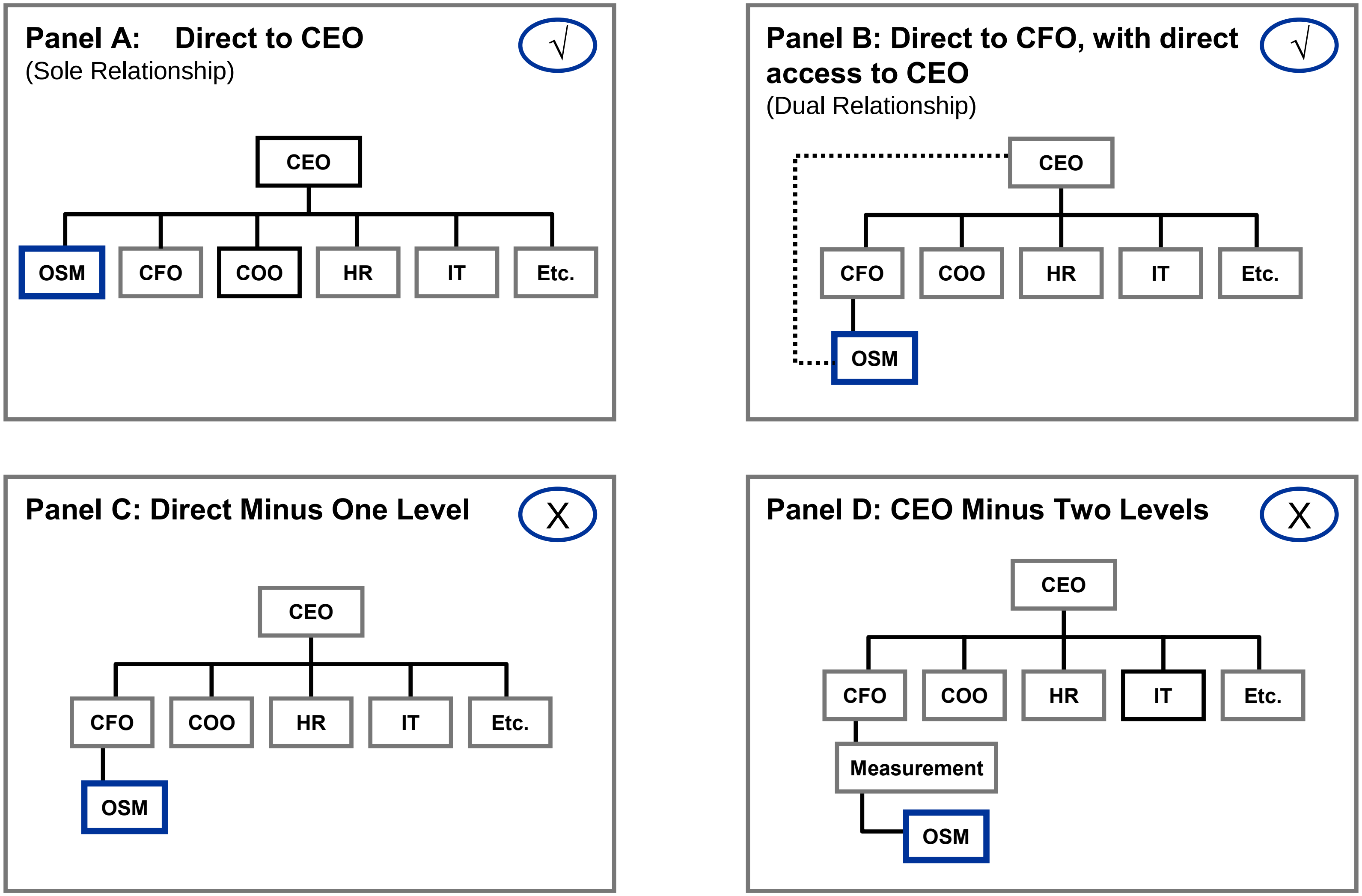

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Figure 5: The OSM Model – How Many People? What Do They Do?

	STRATEGY MANGEMENT PROCESS	OSM Role	Typical Staffing (FTE)
Core Roles	1 Scorecard Management		1.0
	2 Organization Alignment		1.0 – 1.5
	3 Strategy Reviews		0.5 – 1.0
Desirable Roles	4 Strategic Planning		0.5
	5 Strategy Communication		0.5 – 1.0
	6 Initiative Management		1.0 – 1.5
Integrative Roles	7 Planning/Budgeting	CFO, HRO, CIO, CMO	0.5
	8 Workforce Alignment	HRO	0.5
	9 Best Practice Sharing	CKO	0.5 – 1.0
		TOTAL FTE:	6 - 8

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