

4. Strategic planning process

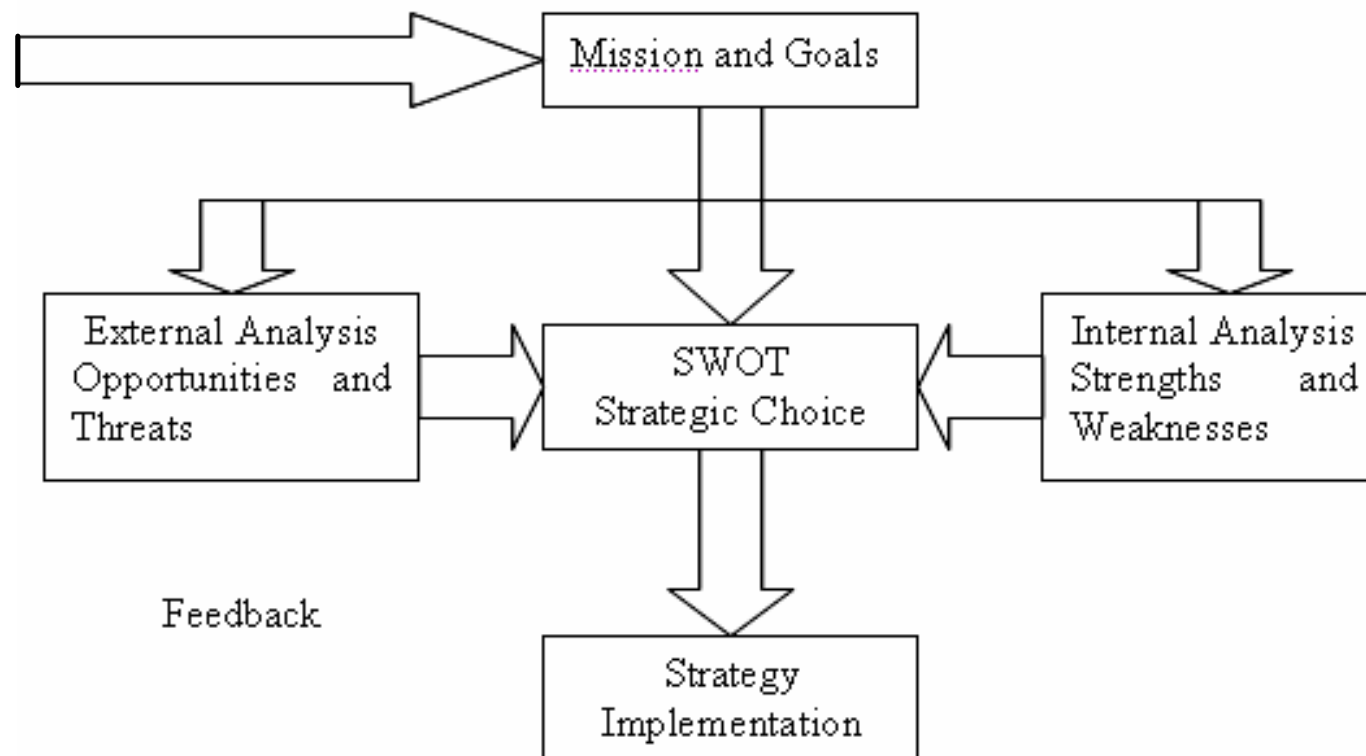
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Strategic planning process

Strategic planning process includes five steps

1. Selection of the corporate mission and major corporate goals;
2. Analysis of the organization's external competitive environment to identify opportunities and threats;
3. Analysis of the organization's internal operating environment to identify the organization's strengths and weaknesses;
4. Selection of strategies that build on the organization's strengths and correct its weaknesses in order to take advantage of external opportunities and counter external threats (SWOT);
5. Strategy implementation.

Strategic planning process



Situation Analysis

Situation Analysis			
/		\	
Internal Analysis		External Analysis	
/\		/\	
Strengths	Weaknesses	Opportunities	Threats
SWOT Profile			

SWOT Analysis

- The SWOT analysis
 - (strengths,
 - weaknesses,
 - opportunities, and
 - threats)

examines the company's internal strengths and weaknesses with respect to the environment and the competition and looks at external opportunities and threats.

- Opportunities may help to define a target market or identify new product opportunities, while threats are areas of exposure.
- A SWOT analysis should be to build on a company's strengths in order to exploit opportunities, counter threats, and correct weaknesses.

SWOT

- **Strengths** - Think about what your company does well. Some questions to help you get started are: What makes you stand out from your competitors? What advantages do you have over other businesses?
- **Weaknesses** - List the areas that are a struggle for your company. Some questions to help you get started are: What do your customers complain about? What are the unmet needs of your sales force?
- **Opportunities** - Traditionally, a SWOT looks only at the external environment for opportunities. I suggest you look externally for areas your competitors are not fully covering, then go a step further and think how to match these to your internal strengths.
- **Threats** - As with opportunities, threats in a traditional SWOT analysis are considered an external force. By looking both inside and outside of your company for things that could damage your business, however, you may be better able to see the big picture.

Internal Analysis

Factors should be evaluated across the organization in areas such as:

- Company culture
 - Company image
 - Organizational structure
 - Key staff
 - Access to natural resources
 - Position on the experience curve
 - Operational efficiency
 - Operational capacity
 - Brand awareness
 - Market share
 - Financial resources
 - Exclusive contracts
 - Patents and trade secrets
- The SWOT analysis summarizes the internal factors of the firm as a list of strengths and weaknesses.

External Analysis

- An opportunity is the chance to introduce a new product or service that can generate superior returns.
- Opportunities can arise when changes occur in the external environment.
- Many of these changes can be perceived as threats to the market position of existing products and may necessitate a change in product specifications or the development of new products in order for the firm to remain competitive.

Changes in the external environment may be related to:

- Customers
- Competitors
- Market trends
- Suppliers
- Partners
- Social changes
- New technology
- Economic environment
- Political and regulatory environment

The SWOT analysis summarizes the external environmental factors as a list of opportunities and threats.

SWOT Profile

Strengths	Weaknesses
1.	1.
2.	2.
3.	3.
.	.
.	.
.	.
Opportunities	Threats
1.	1.
2.	2.
3.	3.
.	.
.	.
.	.

Mission and Major Goals (Strategic Objectives)

- Using the results of the SWOT analysis, the firm can set objectives in high-level areas.

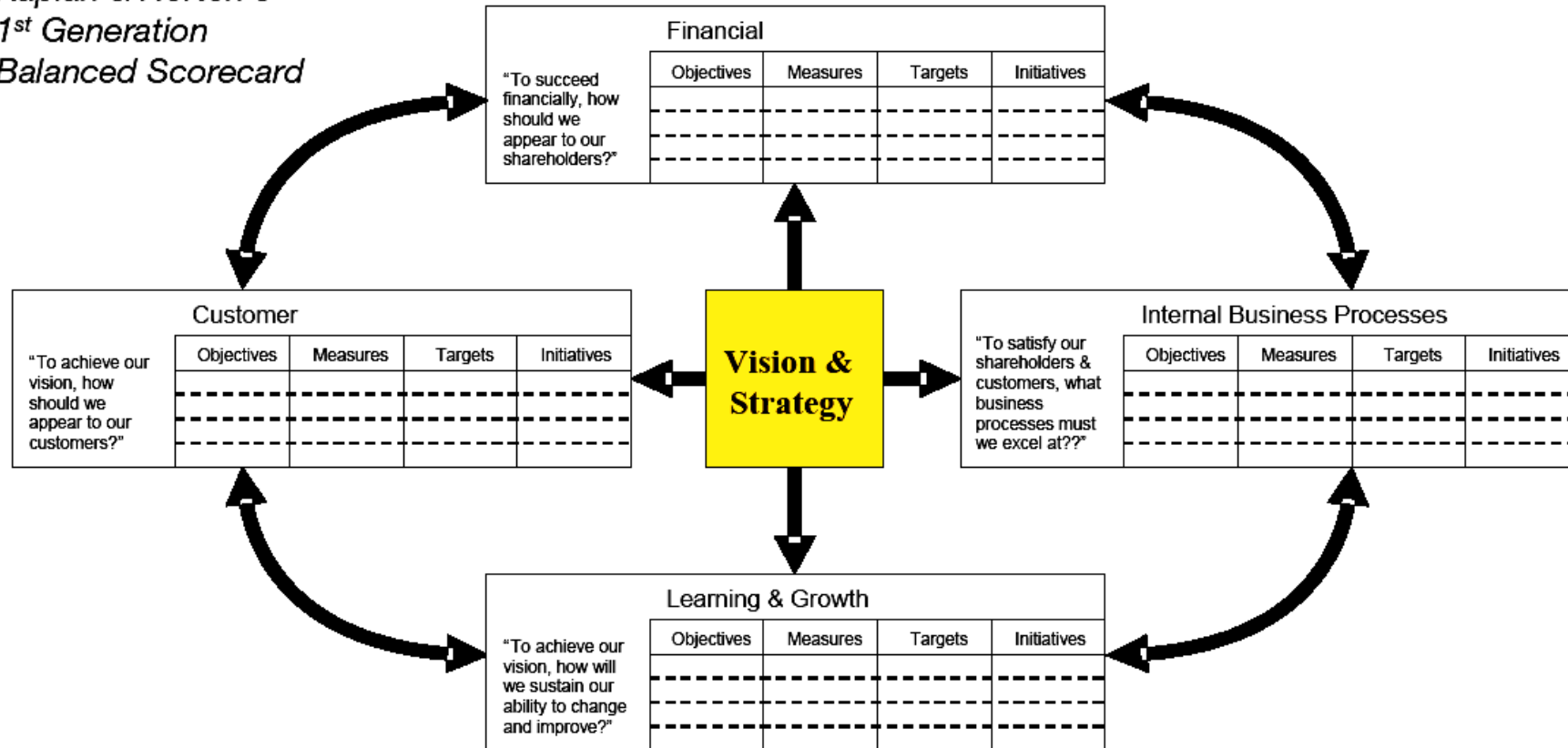
Summary of BSC

- The original Balanced Scorecard concepts were developed in the late 1980s – and were publicised by Kaplan & Norton in a 1992 Harvard Business Review paper
- Early Balanced Scorecard focused on strategy and vision, but said little about how to design or use effectively
- Over last decade the understanding of Balanced Scorecard has improved – Balanced Scorecard design and design methods have evolved to address the shortfalls inherent in the original approach
- The latest version of Balanced Scorecard is “3rd Generation” – it offers major benefits to users and developers over prior versions
 - Quicker to develop, more reliable, easier to use, set targets for, and to cascade within organisation

What is Balanced Scorecard?

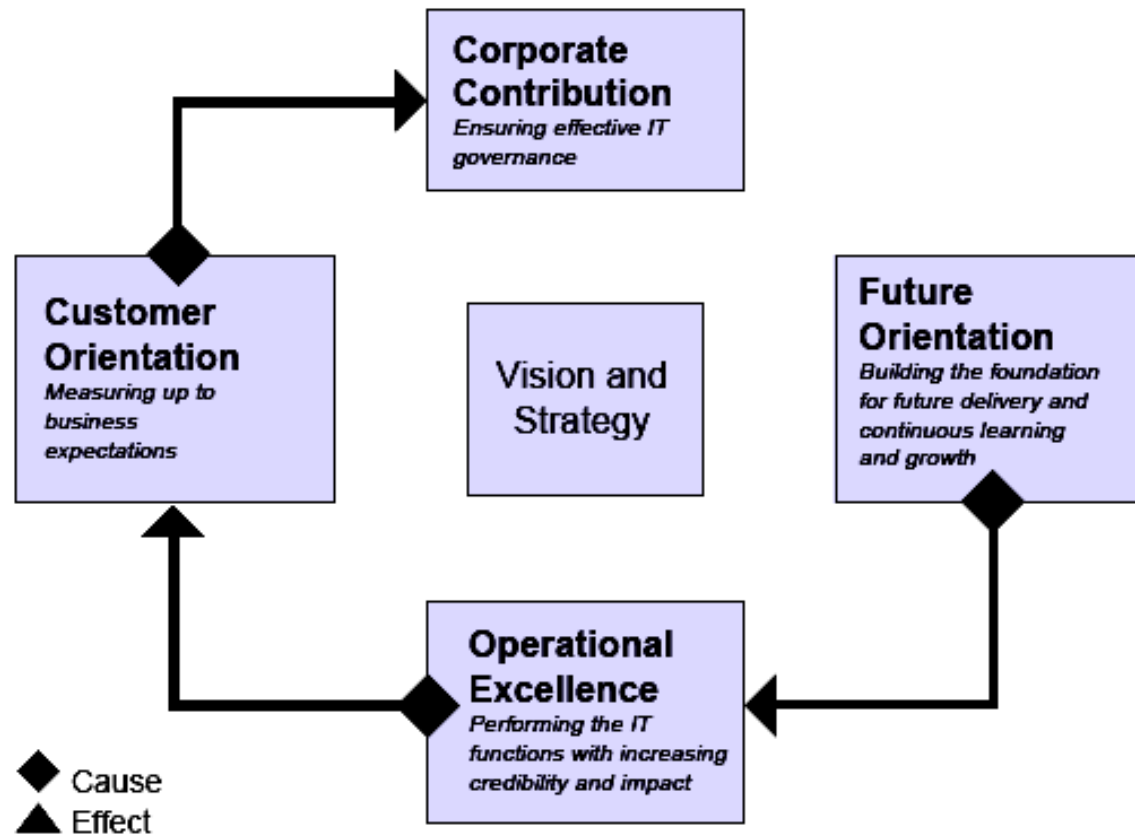
BSC First Appeared in 1992

*Kaplan & Norton's
1st Generation
Balanced Scorecard*

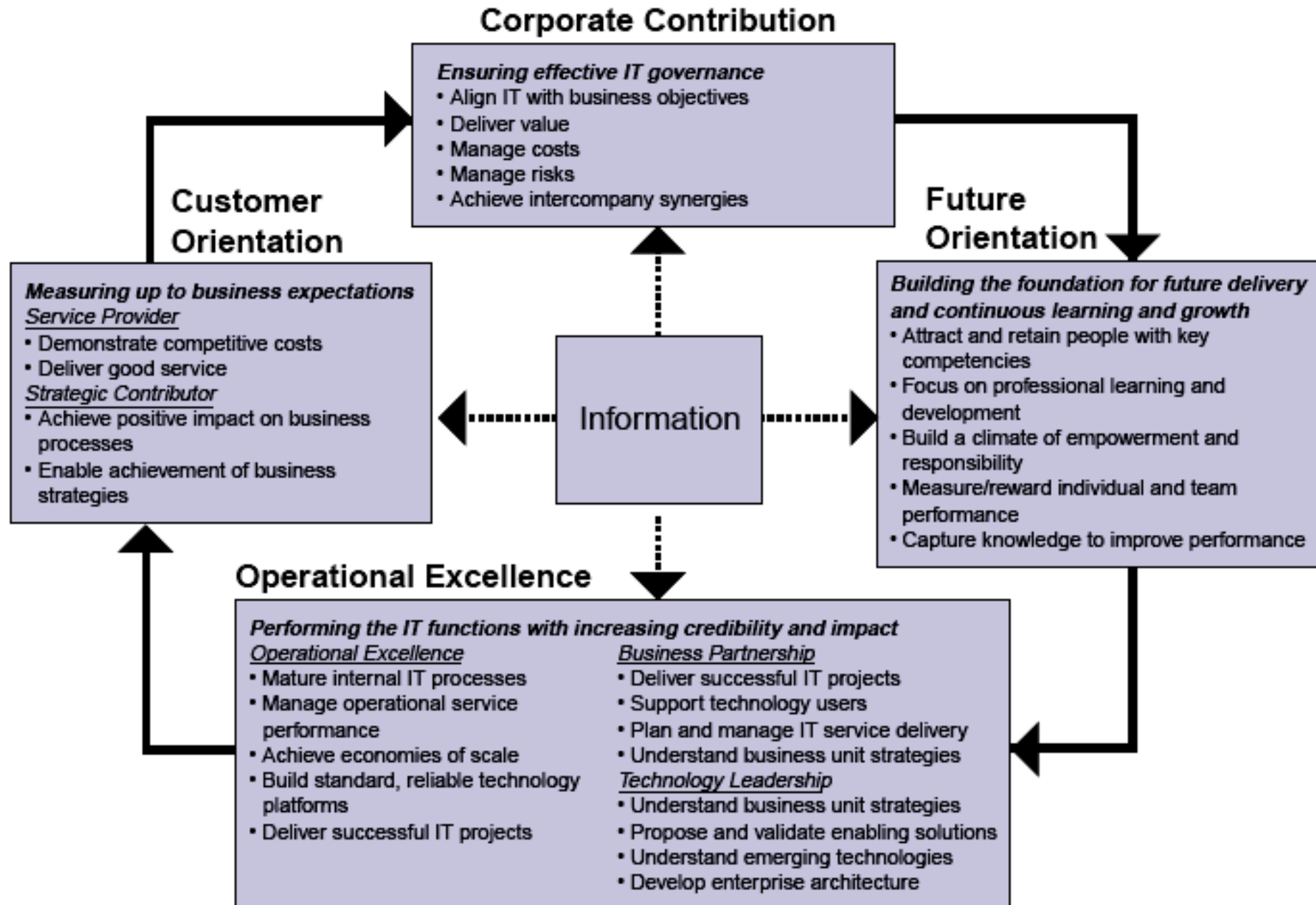


But 10 years have seen some major improvements to this framework

Cause and Effect Relationships Between Scorecard Dimensions



Sample IT BSC Measures



IT Balanced Scorecard

<p>USER ORIENTATION How so users view the IT department?</p> <p><u>Mission</u> To be the preferred supplier of information systems</p> <p>Strategies</p> <ul style="list-style-type: none"> • Preferred supplier of applications • Preferred supplier of operations • Vs. propose of the best solution, from whatever source • Partnership with users • User satisfaction 	<p>BUSINESS CONTRIBUTION How does management view the IT department?</p> <p><u>Mission</u> To obtain a reasonable business contribution of IT investments</p> <p>Strategies</p> <ul style="list-style-type: none"> • Control of IT expenses • Business value of IT projects • Provide new business capabilities
<p>OPERATIONAL EXCELLENCE How effective and efficient are the IT processes?</p> <p><u>Mission</u> To deliver effective and efficient IT applications and services</p> <p>Strategies</p> <ul style="list-style-type: none"> • Efficient and effective developments • Efficient and effective operations 	<p>FUTURE ORIENTATION How well is IT positioned to meet future needs?</p> <p><u>Mission</u> To develop opportunities to answer future challenges</p> <p>Strategies</p> <ul style="list-style-type: none"> • Training and education of IT staff • Expertise of IT staff • Research into emerging technologies • Age of application portfolio

“Big-company” Response to increased Complexity

Origins

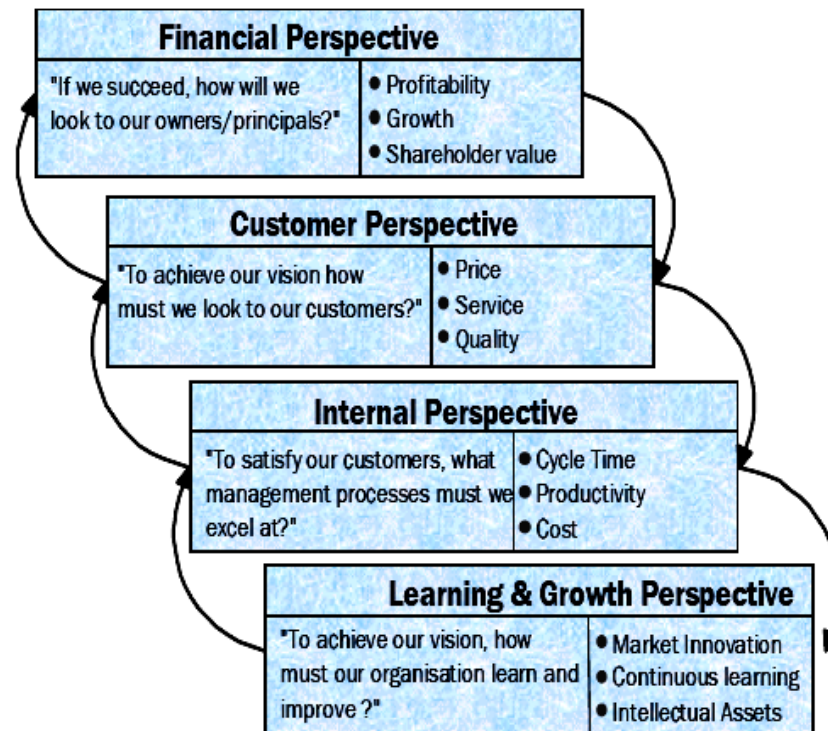
- Multi-company research from 1990's undertaken by R. Kaplan & D. Norton aimed at developing alternatives to purely financially based performance management tools (e.g. budgets)
- Early Scorecard experimentation at Analog Devices Inc. documented from 1987

Purpose

- Originally a performance measurement tool
- Now a strategic communication and performance measurement framework

Underlying philosophy includes:

- The importance of clear communication of goals and priorities
- The benefits of learning & team-working



From Management Control to Strategic Control tool

Since its introduction two distinct applications have emerged:

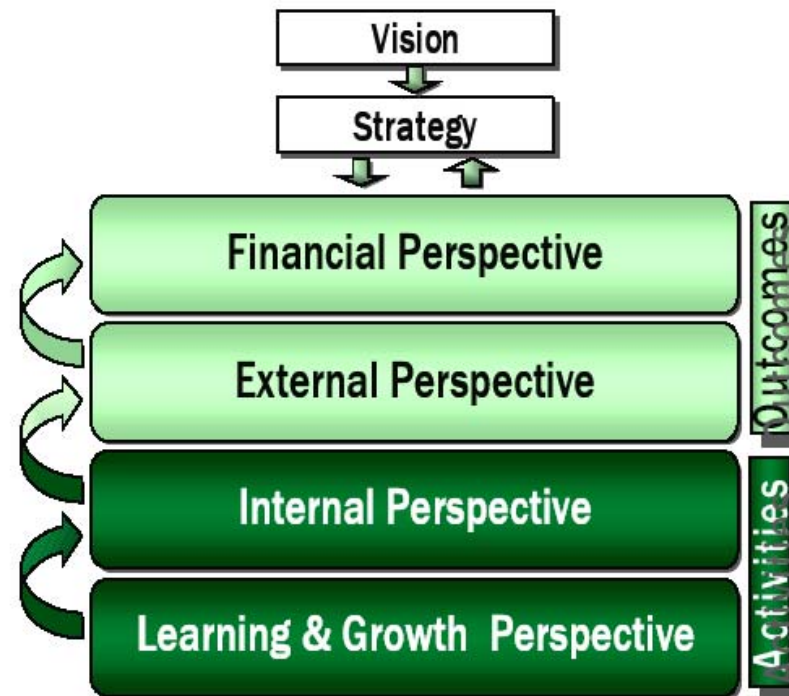
- **Strategic Balanced Scorecards;**
 - Focus on what the organisation is trying to achieve
 - Work out what needs to happen to achieve it
 - Monitor whether it is achieved
- **Operational Scorecards;**
 - Identify the most important processes to be monitored
 - Define which aspects of the process to monitor
 - Agree on what is considered best practice

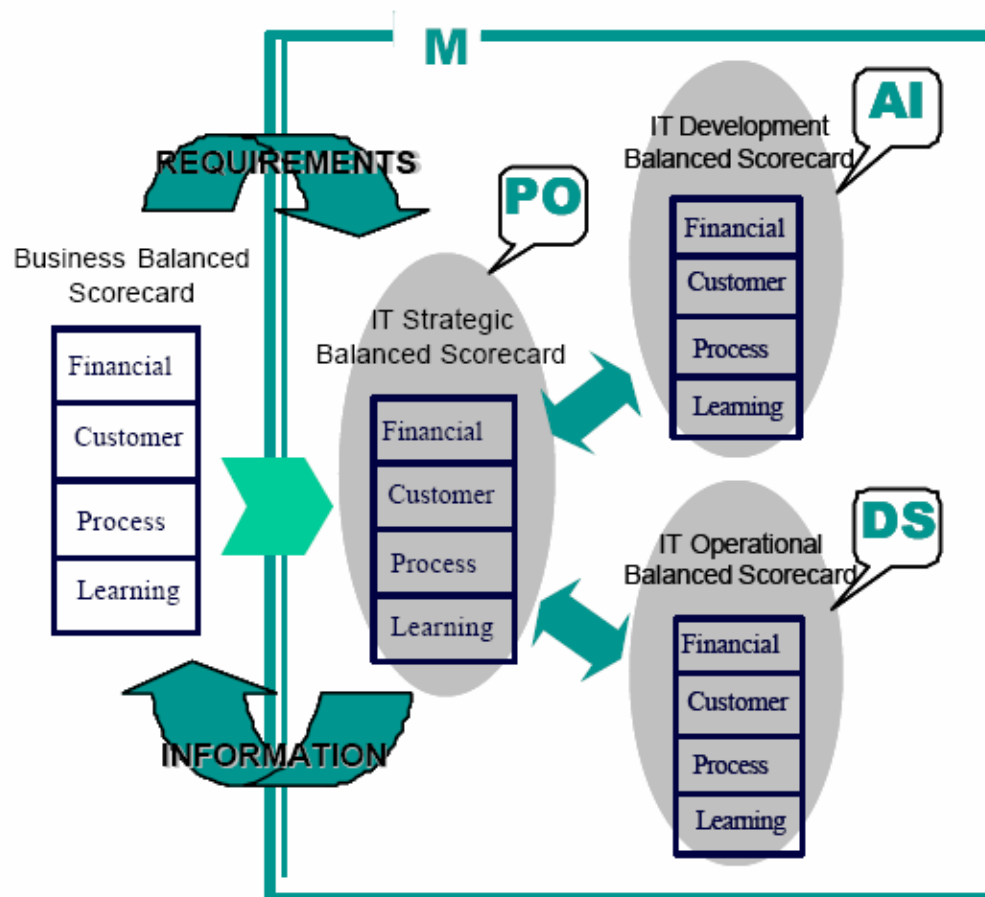


All Organisations need to do what needs to get done ...

This development of Balanced Scorecard for strategic control and the management processes underlying it, has made the Scorecard an increasingly useful tool for organisations of all kinds and sizes.

It helps them successfully identify, pursue and achieve strategic goals

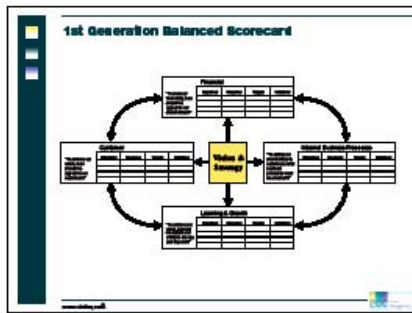




Best Practice

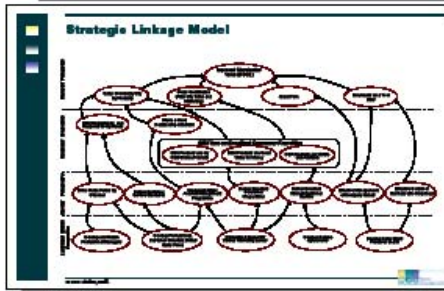
Best Practice BSC has Evolved

1st



First Generation Balanced Scorecards broke new ground by combining financial and non-financial performance measures grouped into four perspectives

2nd



Second Generation Balanced Scorecards defined strategic objectives, linked together using a causal 'strategy map' to help identify the activities and results that needed to be measured

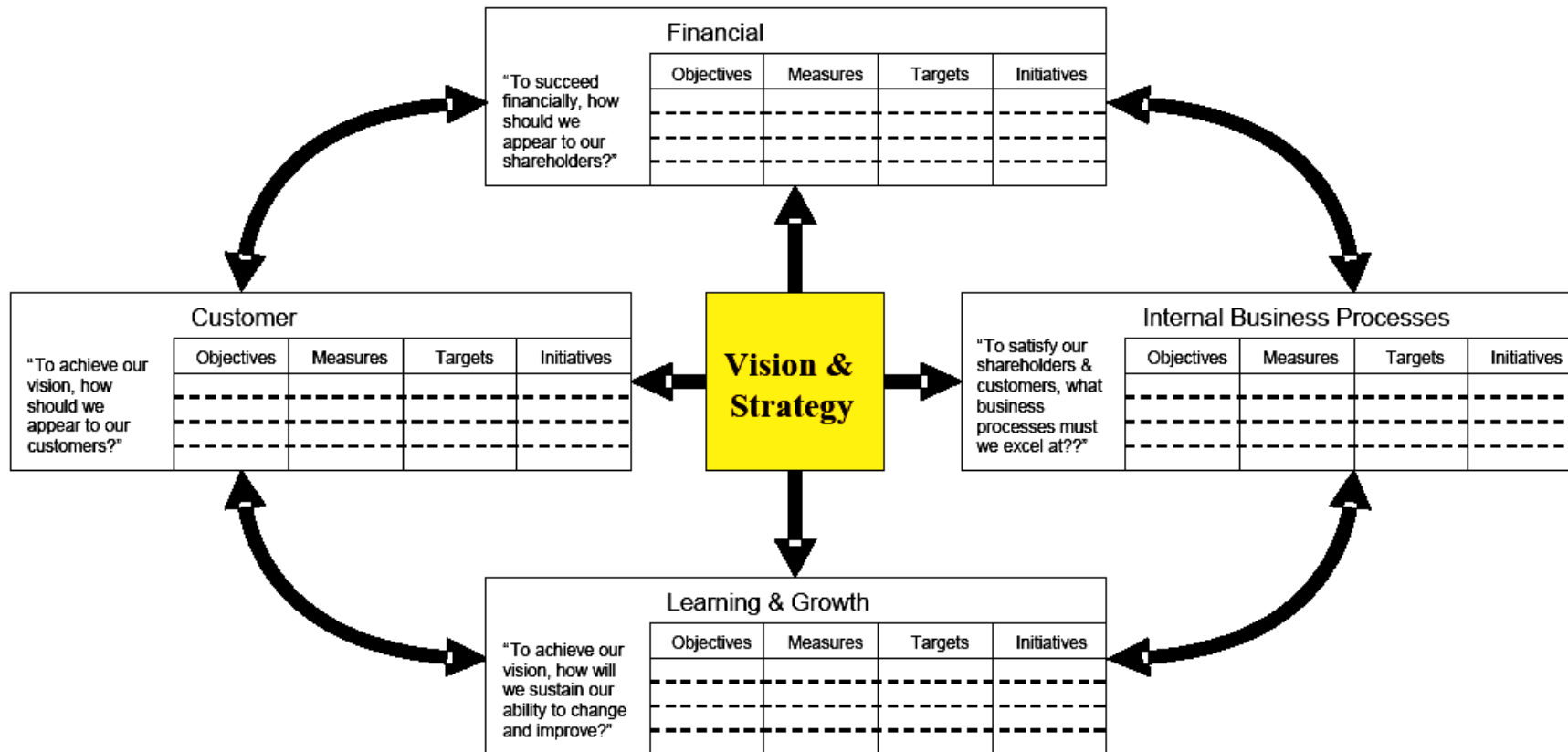
3rd



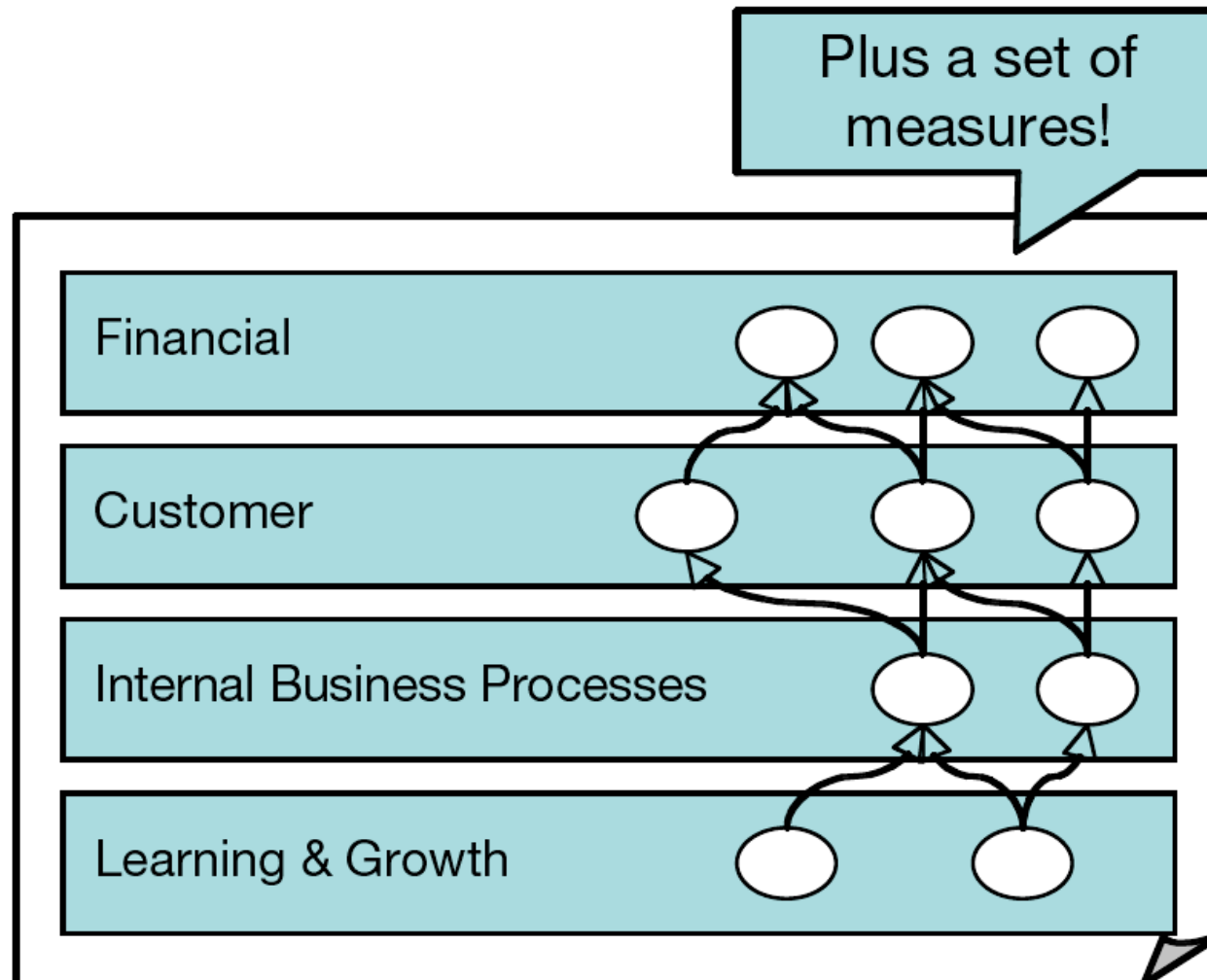
Third Generation Balanced Scorecards use the creation of a "Destination Statement" as the starting point for choosing Strategic Objectives, selecting measures and setting targets

Building a modern Balanced Scorecard requires a good design process

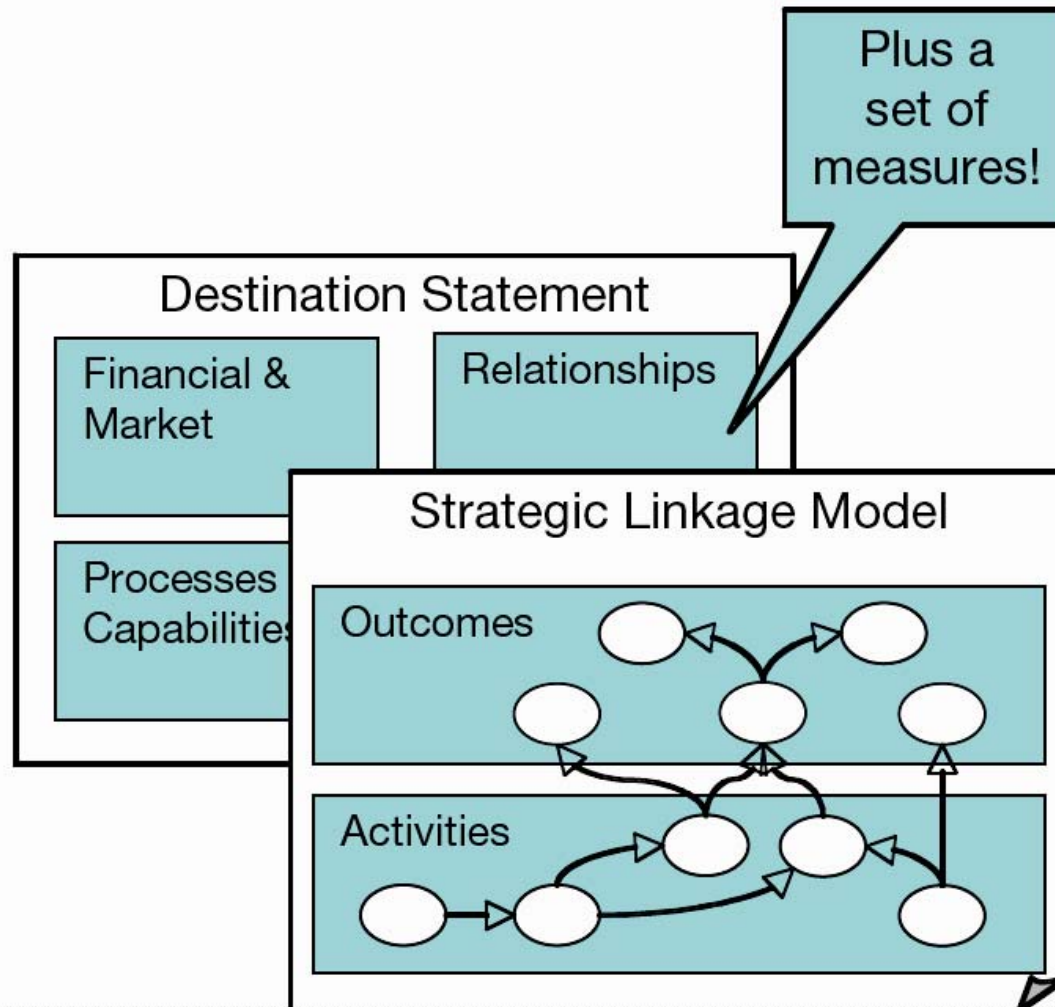
1st Generation Balanced Scorecard



2nd Generation Balanced Scorecard



3rd Generation Balanced Scorecard



Key Components

Destination Statement

- To build management consensus
- To articulate the intended results of implementing the chosen strategy

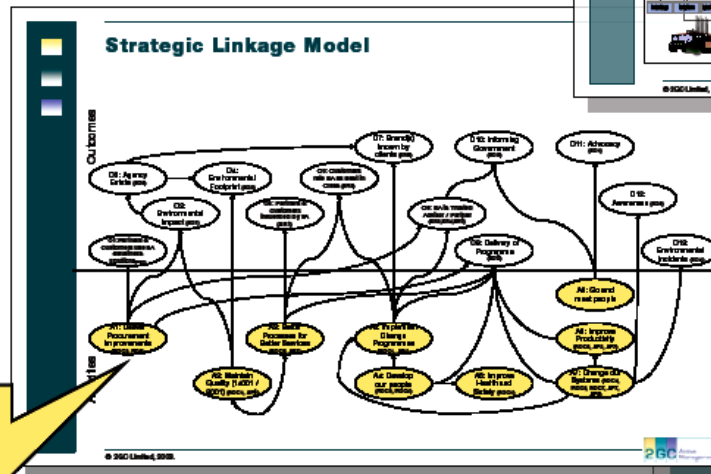
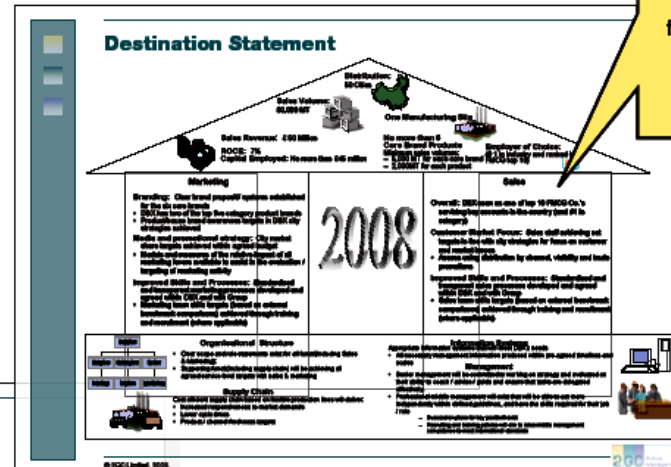
Strategic Linkage Model

- To identify what actions must be taken, and what interim outcomes are required, to deliver the strategy

Measures & Targets

- To track whether objectives are being achieved
- To drive the right management actions

Strategic Objectives developed directly from a detailed "vision" of the organisation at a future date called a Destination Statement



Causality is shown by linkages between the objectives selected

Balanced Scorecard Measures & Targets

Objective	Measure	Value	Target	Performance comments for objectives	Objective Owner
Customer Satisfaction	CSAT	48%	50%	Delivered against target of 48% for whole year. At end of year 48% around 1,000 points leading to low CSAT compared with other years previous years.	NG
Operational Efficiency	FEI	28%	30%	Increasing cost before tax in dollars. A and C had levels of breakeven rate in Q1 and Q2 and the group cost ratio fell for at least another 10 months.	NG
Productivity	FEI	1,000	1,400	Delivered 1,000 for last target. C completed, but below target. A on target for last target. L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z.	NG
Financial Performance	FEI	17	24	No major M&A targets. A up to get Pipeline score - 80% of us to aggressive growth targets continued with severe severity of targets. Performance is not growth related. Business not available yet.	NG
Operational Excellence	FEI	7,000	7,400	Close to a average 100% - Category 1 competitors. C's health care pay 5 core pillars.	NG
Risk Management	Risk 1	88%	74%	More a headroom every about on future world ago potential to drop in 100% and a small negative price. All is close to a small negative event and likely to occur in 2008 and 2009.	CR

Best Practice & Development

Key learnings

Realisation of organisational strategy requires that managers have access to appropriate information and to the interventions needed to control organisational activity

3rd Generation Balanced Scorecard gives management this ability

Control is greatly enabled when the following elements are in place:

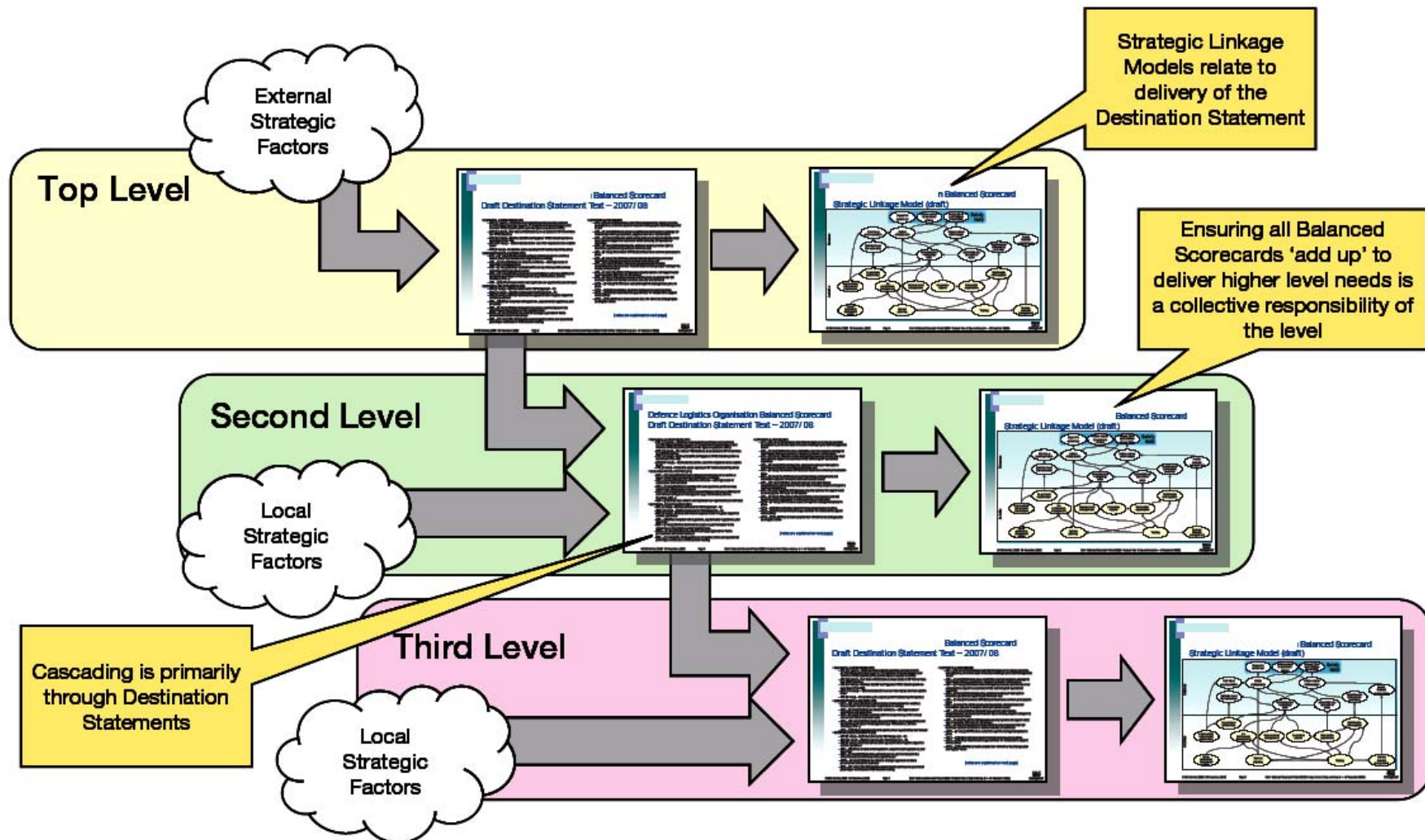
- Clarity of direction (Destination Statement)
- Agreement on how to achieve the strategy (Strategic Objectives)
- Understanding of causal relationships between Objectives (Strategic Linkage Model)
- A well considered set of Performance Measures

An effective design process is a pre-requisite to building a modern Balanced Scorecard

The design process can be straight-forward, but requires genuine management involvement

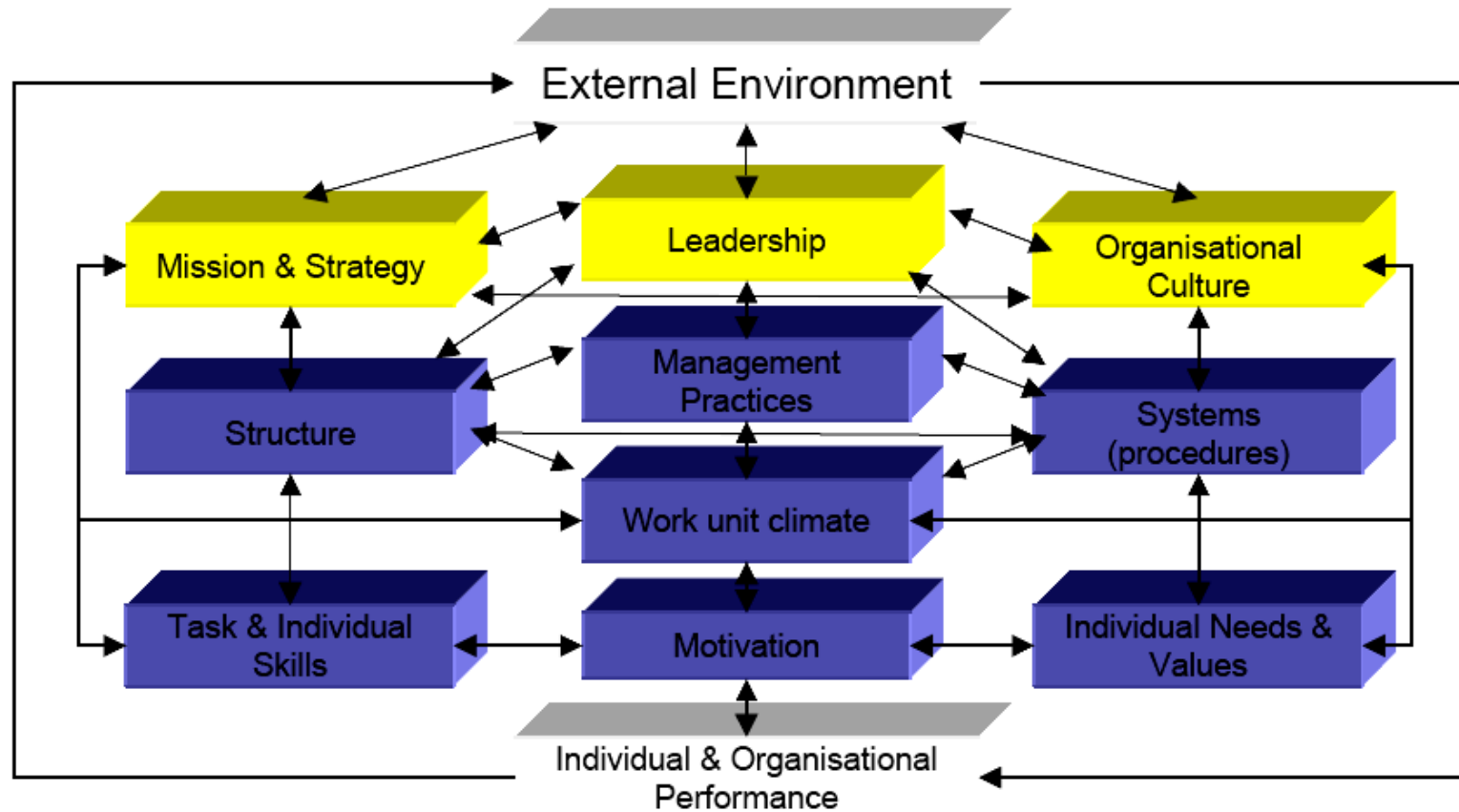
Design can be completed in about 3 months; embedding the Balanced Scorecard typically requires another 3 months

Use Multiple BSCs to Align the Organisation



Supporting Causal Thinking

A change management framework



7 Causes of Strategic Implementation Failure

- Adopting Unrealistic Strategic Visions
- Not Identifying the right Strategic Goals
- Lack of top team consensus on or ownership of Strategic Vision and Goals
- Poor Communication of Strategic Plans
- Weak or Irrelevant Performance Feedback
- Management Processes that fail to support strategic implementation activities
- Inadequate or Inappropriate Resource Allocation



1. Adoption of unrealistic Strategic Visions
7. Inadequate or inappropriate resource allocation

2. Not Identifying the right Strategic Goals
3. Lack of Consensus or ownership of Strategic Vision
4. Poor Communication of Strategic Plans
5. Weak or irrelevant Performance Feedback

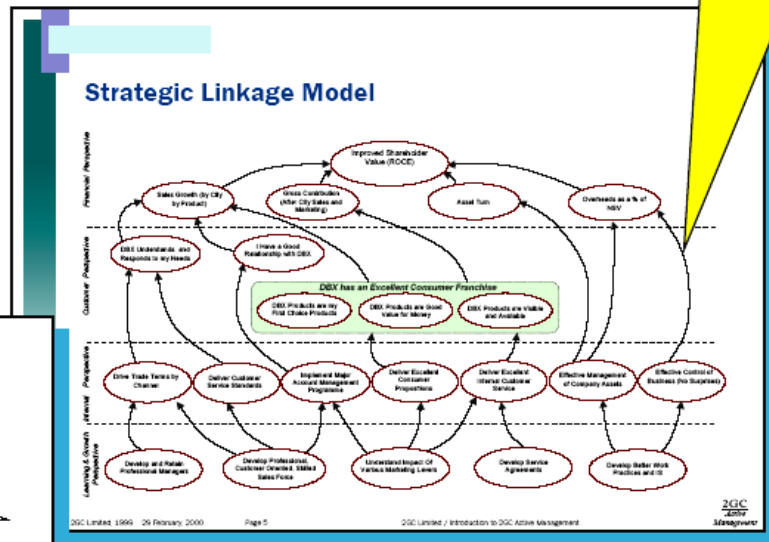
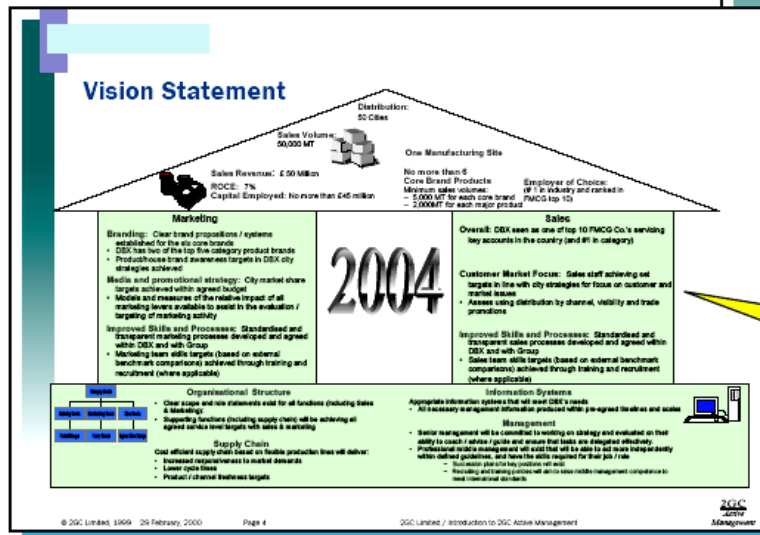
6. Management Processes failing to support strategic activities

Practical Approaches

Improving Articulation of Strategy

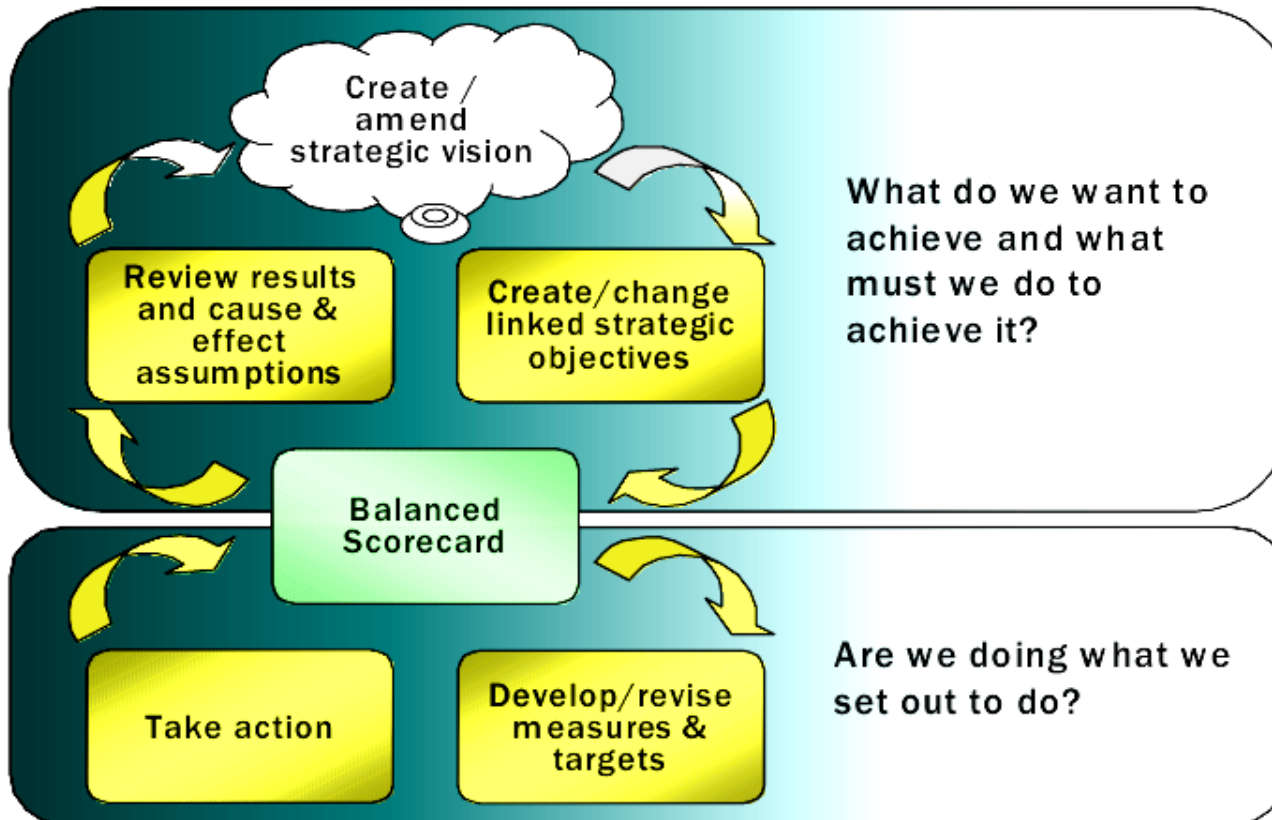
- The “objective driven” Balanced Scorecard has emerged as best practice from years of development around the world
 - They are more flexible, and easier to develop, communicate, maintain, and “cascade”
 - They have been proven across a wide range of industries and functions

Causality is shown by linkages between the objectives selected



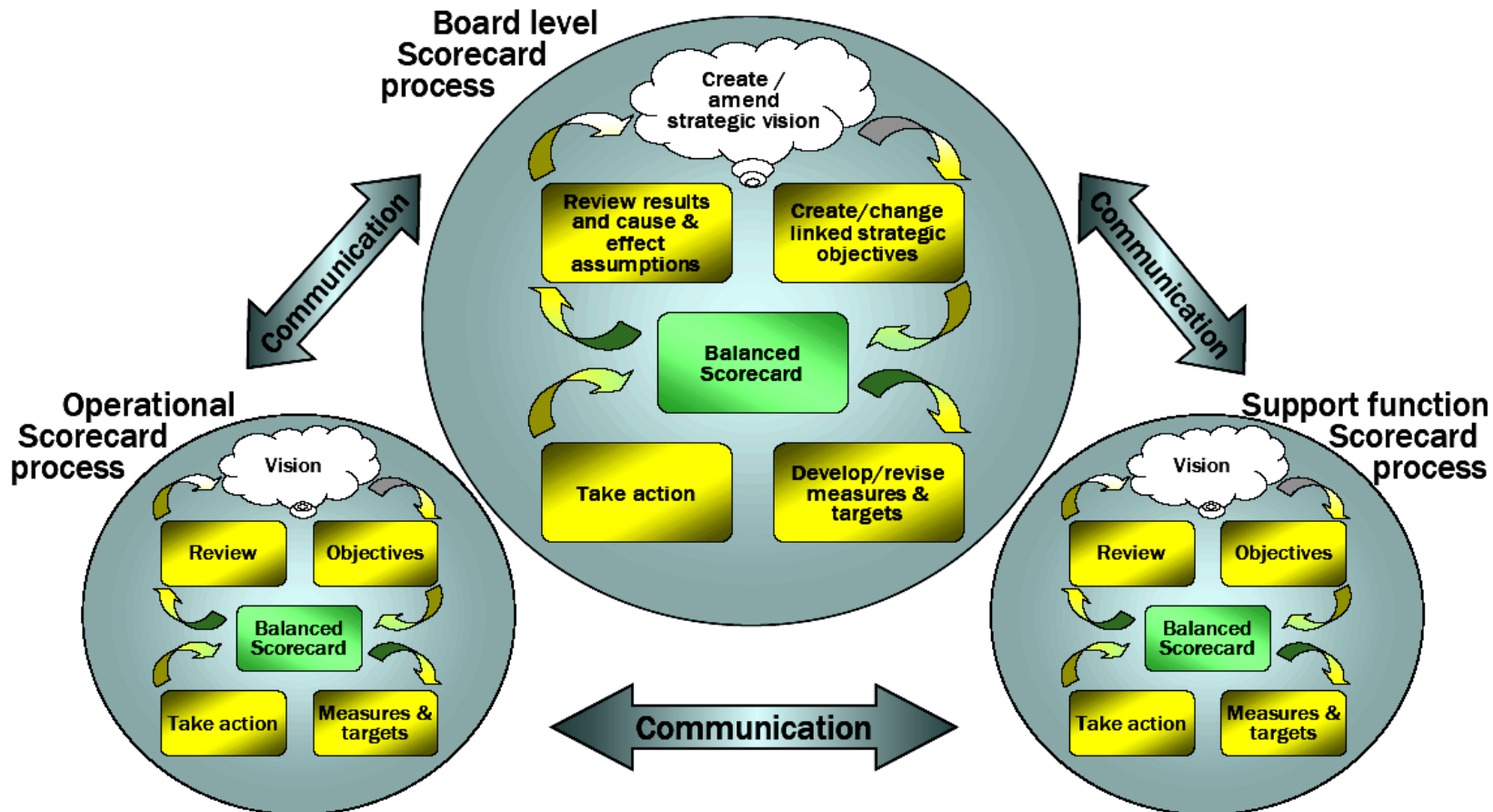
Strategic Objectives developed directly from a detailed “vision” of the organisation at a future date

Enhanced Communication and Feedback Tools



Enhanced Communication and Feedback Tools

08.12



How Successfully Identify and Achieve Strategic Goals?

Clear sense of direction:

- Where is the organisation headed?

Profound understanding of the business model:

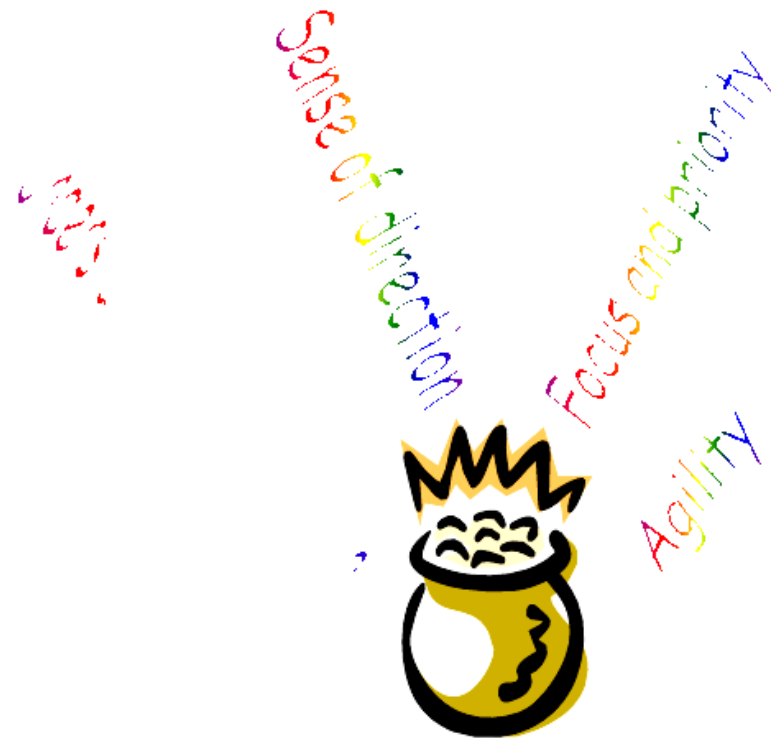
- Is the organisation doing all the things it needs to be doing?

Ability to focus and prioritise:

- Striking the balance between long-term development and short-term operational pressures

Agility: flexibility driven by learning:

- Incorporating new knowledge in the strategic and operational planning processes



Balanced Scorecard Design for SME

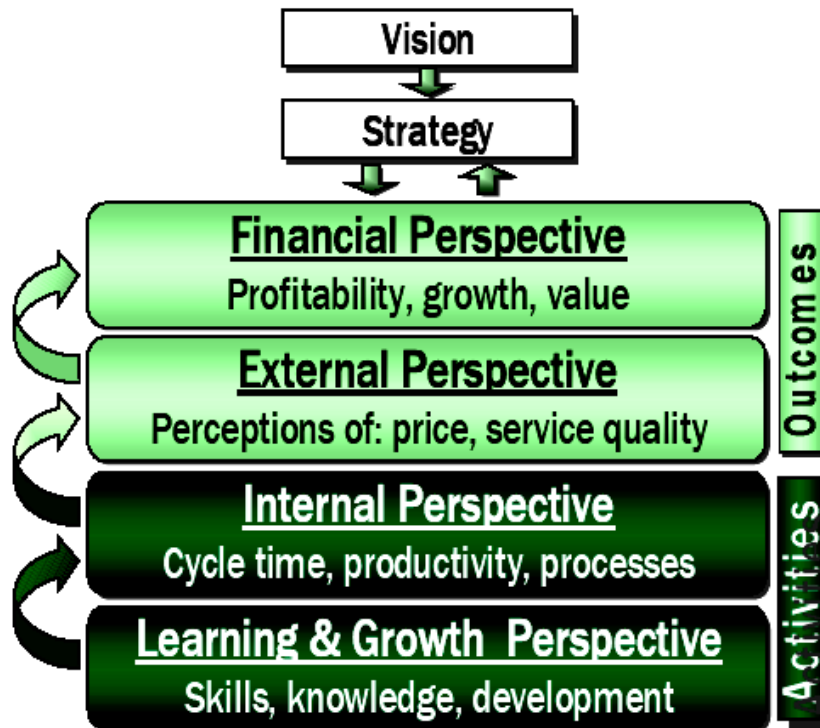
Articulation of where to go and how to get there

Similar process steps to design in large organisations

- Less complexity and fewer people generally speeds up the process in SMEs

Best practice design of Strategic Control Scorecards:

- Is a team effort involving future users – this approach secures understanding and ownership of the Scorecard while securing that the logic of the Scorecard builds on the operational insights of its users
- Is based on a jointly held strategic vision - a clearly articulated and detailed description of success at some specified time in the future – the Destination Statement
- Identifies key strategic activities and outcomes - “What do we have to do in order to realise our vision for the future and what results do we expect to see from our actions?”



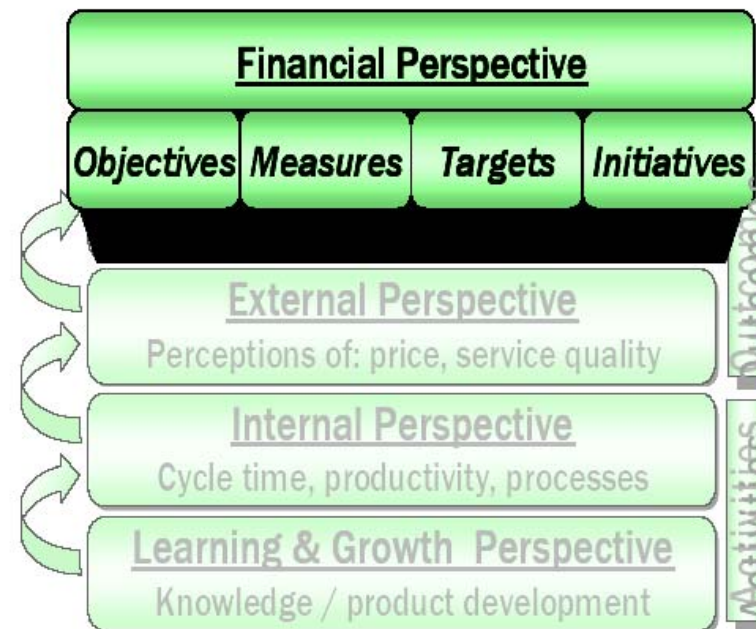
Development of Relevant Measures and Targets

Development of measures follows clarification and agreement of strategic objectives, because measures track progress in achieving those objectives against agreed targets

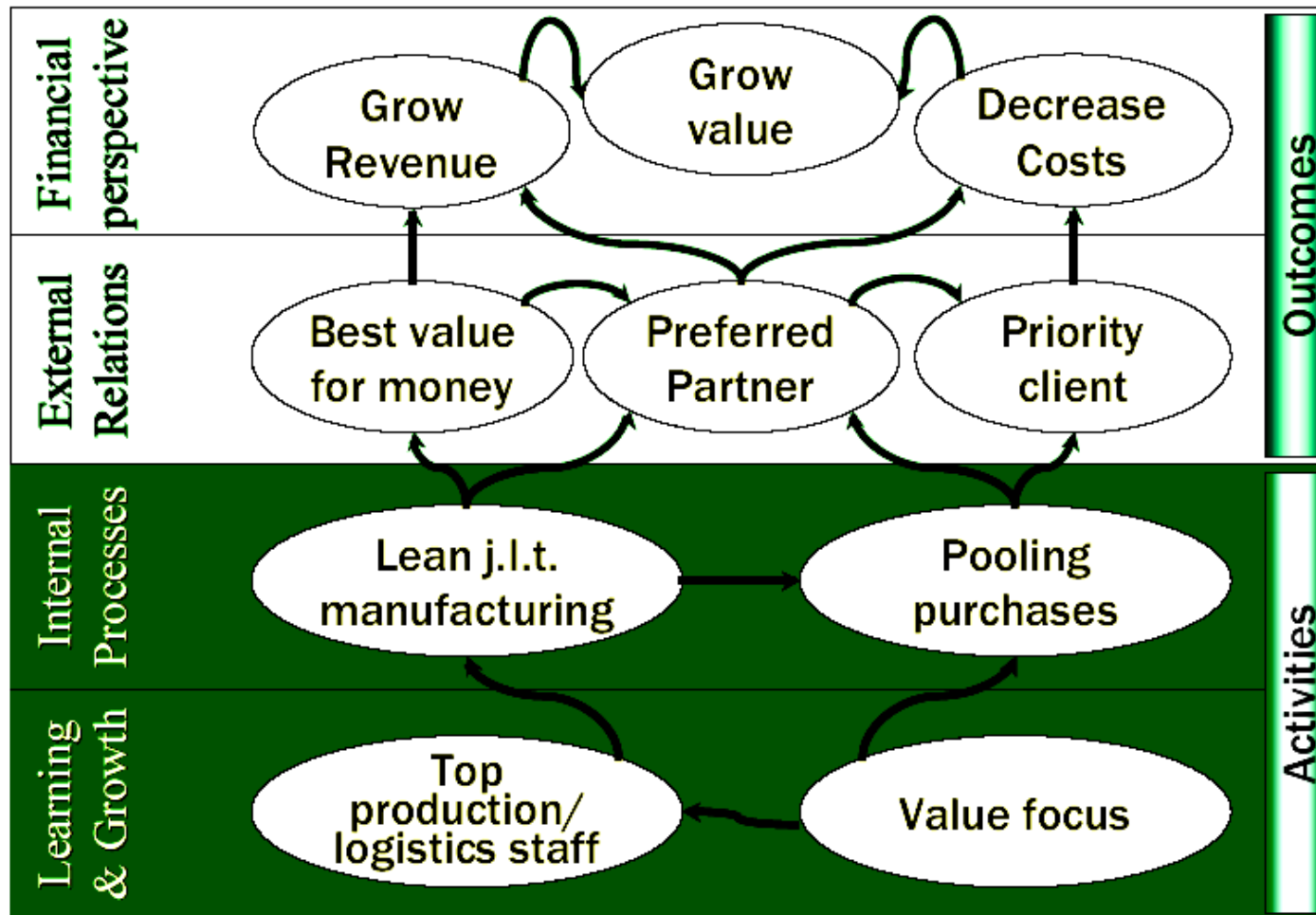
- They are the warning lights signalling whether the agreed activities are being undertaken and whether they produce the expected outcomes
- Targets are derived from the Destination Statement
- In SMEs, measures and targets often function more as mental and verbal checks rather than informing rigorous and formal procedures

Extraordinary activities and projects (initiatives) furthering achievement of objectives need to be identified and prioritised

- This may be new or ongoing projects, but they are prioritised based on their importance in relation to the achievement of strategic objectives



Strategic Linkage Model – *Example*



Focus and Prioritisation

Management attention needs to remain focused on execution of what is always top priority activities and results

- The degree of formality needed to monitor and evaluate measures and targets, amend the Destination Statement, and strategy as well as monitor and re-prioritise implementation of strategic initiatives depends on culture and organisational complexity
- No expensive administrative procedures are required if discussion and mental checks work

Coordinating SME activity through clearly understood strategic direction frees up valuable management time from detailed management control allowing for increased focus on organisational development

Successful organisational alignment towards achievement of an overall vision requires budgets, operational plans and tools to reflect the priorities of the Balanced Scorecard



Understanding the Business Model

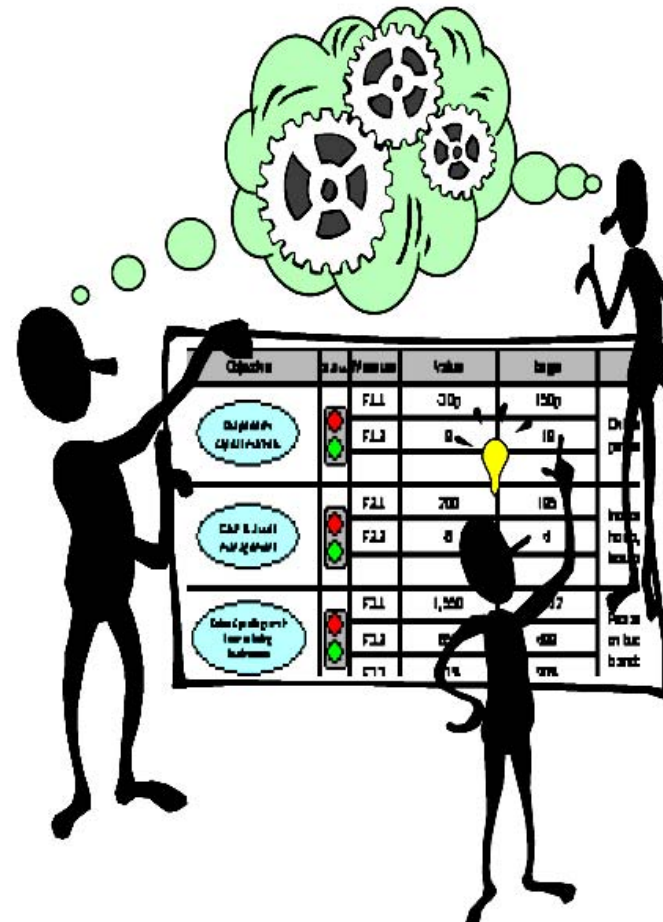
Not only established SMEs can benefit from using the holistic planning framework of the Balanced Scorecard

The approach can be applied successfully to planning of new ventures as it;

- Furthers clear articulation of goals and how to achieve them
- Helps identify risks and weaknesses in the plan

Communication of a clearly articulated and logically constructed plan supported by an efficient approach for monitoring its implementation supports backing by external stakeholders

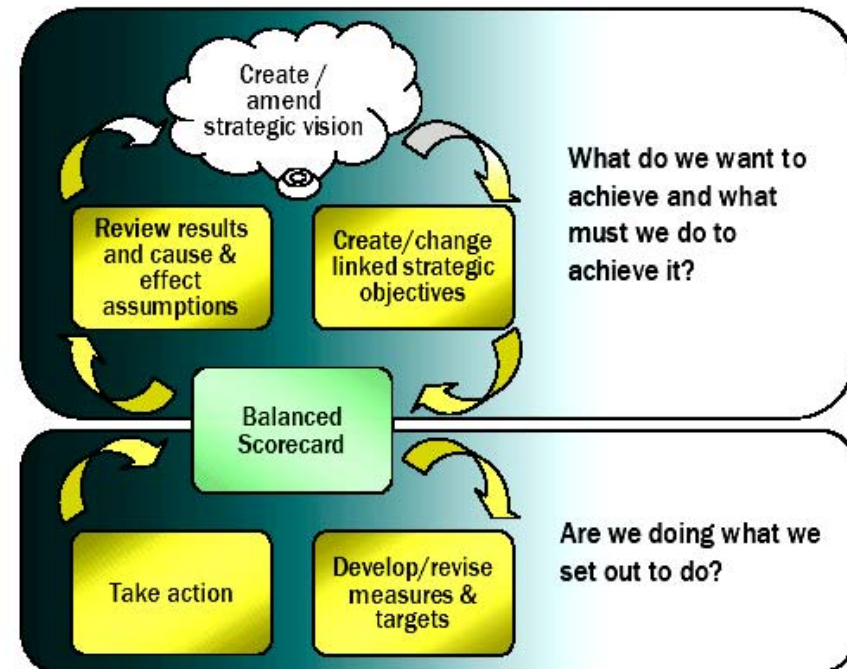
- Recent Ernst & Young research shows that 35 % of investor decisions are influenced by non-financial issues



Increasing Flexibility and Learning

The Balanced Scorecard process combines a double control and learning “loop”

- It helps control achievement of long-term goals, the vision, as well as controlling the undertaking of activities deemed most important for succeeding
- In addition, effective Scorecard measures enable an inclusive approach to structured learning about management teams’ theories about which activities produce which results (cause-and-effect relationships) – a discussion based on facts rather than hearsay
- Combined with observations about changes in the external environment this experience informs the ongoing evaluation of what needs to change – “our behaviour or our goals?”



BSC Helps Teams Achieve their Goals

Balanced Scorecards used at the centre of the strategic management process effectively address the key challenge of most organisations – the need to identify, pursue and achieve strategic goals

They support

- A clear sense of direction
- A profound understanding of the business model
- An ability to focus and prioritise
- Organisational agility



BSC is a Top-down Methodology

- The BSC is a top-down methodology that examines organizations from
 - internal and external,
 - financial and non-financial, and
 - short- and long-term perspectives.
- The philosophy of the BSC is that organizations are more effective when guided and aligned by their mission and vision and when focused on multiple perspectives.
- A good balanced scorecard is a mirror of an organization's strategy.
- The performance measures translate the strategy into action.
- The term “balance” comes from an examination of multiple perspectives instead of a single financial perspective.
- It is not “balanced” in a mathematical sense where perspectives are assigned weights to calculate a final score.

“A good scorecard is more than a collection of metrics. It tells the organization's strategy.”

Debra Whitaker
BSC for Government, Inc.

Example

		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB			
1		zzz Group Goals																														
2																																
3		Financials					Customers & Market					Corporate Culture / HR					Operational Excellence															
4		Profit					Private					Human Resources					Efficiency / Processes															
5		Measurement	Financial Plan				Measurement	Plan				Measurement	Plan				Measurement	Plan														
6			2005	2006	2007	2008		2005	2006	2007	2008		2005	2006	2007	2008		2005	2006	2007	2008		2005	2006	2007	2008						
7		Operating profit (SEK bn)					Customer Satisfaction Index (KND)					Motivation Index					Increasing operating profit															
8		RoE (RoE in divisions)					Product penetration					Leadership Index					Improve front-to-back ratio															
9		C / I Ratio					Client Acquisition (net)					Gender Equality					Employees in group common improvement programs (OpEx toolbox method)															
10		Earnings per share (% growth)										TMR process																				
11	GOALS 2005	Rating																														
12																																
13																																
14							Corporations and Institutions					XXXX																				
15							Measurement	Plan				Measurement	Plan																			
16				2005	2006	2007	2008		2005	2006	2007	2008		2005	2006	2007	2008		2005	2006	2007	2008										
17			Customer Satisfaction Index (KND)					Customer Satisfaction Index (KND)					Cross Sales					Participation in SEB License														
18			Greenwich Quality Index (Nordic Large Corp)					Product penetration					Core Values					One SEB Index - Employees														
19								Client Acquisition (net)																								
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	A	B	C	D	E	F	G	H	I	J	K	L	M	N
1	... Goals													
2														
3	Customers & Market					Corporate Culture / HR								
4	Private / Corporate / Institutions					Human Resources & one SEB								
5														
6														
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10														
11														
12														
13	Operational Excellence					Financials								
14	Efficiency / Processes					Profit & Growth								
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