The Office of Strategy Management: Emerging Roles and Responsibilities

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Four years ago, Kaplan and Norton introduced the concept of a new enterprise function—the Office of Strategy Management (OSM)—to coordinate and integrate all strategy management processes. Since then, their research of high-performing organizations has yielded new insights about the three primary roles this office plays.

In 2004, we and our colleagues at the Balanced Scorecard Collaborative commenced a research project to improve our understanding of the long-term evolution of the Balanced Scorecard (BSC) management system. Through our Balanced Scorecard Hall of Fame for Executing Strategy program, we had identified many companies that had achieved dramatic results with their BSC programs. Yet each of them was uncertain about its ability to sustain such performance in the future. “The BSC is like a project,” observed one manager. “Once we complete the design, everyone goes back to their old jobs.” Another told us, “The use of the BSC was mandated by our CEO. What will happen to the program when he leaves?”

Our research project attracted, among others, 15 BSC Hall of Fame organizations, including Hilton Hotels, Motorola, Ricoh, Serono, KeyCorp, Canon USA, and the U.S. Army. We learned from them that sustaining a performance management system like the BSC requires two components:

1. Having a clearly defined process that fits comfortably into the governance cycle of the organization
2. Establishing an entity (a department or organization) that is responsible for its management and its success

Among the most significant outcomes of the research project was that it ultimately helped us define a six-stage management process that integrates strategy with operations. (This holistic system was described in our cover story in the last issue.) But early on, it led to a different discovery: that many of the participating companies had introduced a new office or function to prevent the fragmentation of strategy management processes and to better integrate strategic activities and operations. We introduced the concept of this new office back in 2004, in “Strategic Management: An Emerging Profession,” and since then have done extensive work on the roles and responsibilities of the function and its leaders.

While the organizations gave this important new office a variety of titles (such as Organizational Transformation, Performance Management, or Business Excellence), we came up with a simple descriptive title—the Office of Strategy Management (OSM). In high-performing organizations, the OSM integrates and coordinates activities across functions and business units to align strategy and operations. The OSM is like the designer of an intricate watch who keeps the various mechanisms synchronized despite their running at different speeds. For the OSM, these mechanisms are the organization’s planning and control processes. They include maintaining dashboards and holding daily and weekly operational control meetings; updating information on strategic measures and initiatives and preparing the executive team for monthly strategy management review meetings; and continually scanning the external environment and performing analysis to prepare for quarterly or annual strategy assessment meetings to test and adapt the strategy. The OSM is also like an orchestra leader. It does not create the strategic “music” being played, but it keeps the diverse organizational players—executive team, business units, regional units, support units (finance, human resources, information technology), theme teams, departments, and, ultimately, employees—aligned with each other. In this way, they can create beautiful music together, executing the enterprise’s strategy in unison, with each group playing its distinctive role.

In fact, the Office of Strategy Management plays three basic roles: (1) that of the architect responsible for the overall design and execution of the performance management process; (2) that of the process custodian of the integrated planning and control system; and (3) that of the integrator responsible for interfacing with and coordinating all other strategy-related systems and activities. (See Figure 1.)

The OSM as Architect

We introduced the concept of the OSM as a means of creating and aligning new cross-business integrated strategy management...
Roles and Responsibilities of the Office of Strategy Management (continued)

processes. Typically, many processes that are central to strategy execution—including budgeting, employee performance management, and strategic planning—are run by different areas of the organization at different times of the year using different frameworks, languages, and conventions. The isolation of these processes from one another is a major barrier to effective strategy execution. Moreover, some important strategy execution processes may not be carried out at all, such as developing theme-based strategy maps, establishing a systematic approach to funding strategic initiatives and assigning accountability for them, linking strategic plans to operational budgets, or preparing for and running strategy management review meetings.

The OSM ensures that any missing strategy execution processes are put in place, while bringing order to an otherwise incomplete and fragmented collection of management processes. The OSM designs the framework and processes for a single, integrated, closed-loop strategy planning and operational execution system. This is its "watchmaker" role: ensuring that all the requisite components are in place and working synchronously, without friction.

Ensuring synchronicity means that the proper sequence and linkage of strategy execution processes shown in Figure 2 (next page) are in place. Typically, the strategy cycle recommences at the beginning of the second quarter. That is when the planning group begins to research and prepare for the annual strategy development meeting at which the senior executive team updates the enterprise strategy, strategy map, and scorecard. After this meeting, the OSM starts the process of aligning all business and support unit strategies with each other as well as with the enterprise strategy. It also ensures that priorities have been established to achieve targeted improvements in the BSC’s process metrics. During the third quarter, the OSM sees to it that the finance department’s resource planning and budgeting process produces business- and support-unit plans as well as operating and capital budgets that can deliver the strategy and are consistent with forecasted process improvements. In the fourth quarter, the OSM works with human resources (HR) to help align competency development efforts and employee incentive programs with scorecard objectives.

While these annual planning processes occur at specific periods and in sequence, the enterprise continually conducts several control and learning processes: communicating strategy, reviewing operations and strategy, managing strategic initiatives, and sharing best practices. The OSM ensures that all these processes are in place, introducing any missing ones and establishing the linkages that must exist between them.

The OSM as Process Custodian

Besides integrating existing management processes, strategy execution also calls for some new ones. To ensure effective coordination and accountability organization-wide, the OSM should have primary ownership of the following strategy execution processes.

Develop the strategy. Typically, strategy development is the responsibility of an existing strategic planning unit. But developing strategy should not be just an annual event. After all, performance measures, such as those supplied by the Balanced Scorecard, provide a steady stream of evidence about the validity of the assumptions underlying a company’s strategy. Strategy development and strategy execution should therefore not be carried out in isolation. We recommend that the processes for developing, as well as those for executing, strategy be overseen by one group—the Office of Strategy Management. In effect, we advocate that the traditional strategic planning department be expanded into the more comprehensive OSM, where the OSM assumes responsibility for facilitating both strategy development and its execution.

Plan the strategy (create and manage the scorecard). As the owner of the scorecard process,
the OSM ensures that any changes made at the annual strategy-planning meeting are translated into the company’s strategy map and Balanced Scorecard. Once the executive team has approved objectives and measures for the following year, the OSM coaches the team in selecting performance targets for scorecard measures and identifying the strategic initiatives required to achieve them. As guardian of the scorecard, the OSM also standardizes the terminology and measurement definitions across the organization, selects and manages the scorecard reporting system, and ensures the integrity of the scorecard data. The OSM need not be the primary collector of BSC data, but it should oversee the processes by which data are collected, reported, and validated. Finally, the OSM serves as the central scorecard resource, consulting with units on their scorecard development projects and conducting training and education.

**Align the organization.** A company can execute its strategy only if it aligns the strategies of its business units, support functions, and external partners with its enterprise strategy. Alignment creates focus and coordination across even the most complex organizations, making it easier to identify and realize synergies. Few companies today actively manage the alignment process; in many cases, unit strategies are only nominally linked to corporate strategy. The OSM provides a mechanism for ensuring a consistent view of strategy throughout the entire enterprise to systematically manage the processes for achieving organizational alignment. The OSM oversees the cascading of scorecards vertically and horizontally throughout the organization. It defines the synergies to be created through cross-business behavior at lower organizational levels. Finally, it validates that the strategies and scorecards proposed by business and support units are linked to each other and to corporate strategy.

**Review the strategy.** Managing the meetings at which the executive team reviews strategic performance and makes adjustments to the strategy is a core function of the OSM. The OSM...
briefs the CEO in advance on the strategic issues raised by the most recent scorecard results. This way, the agenda can focus on strategy review and learning, rather than just on short-term financial performance and crisis management. The OSM works with the strategic theme owners to get their color-coded performance results and qualitative assessments of their theme's strategic objectives and strategic initiatives. The OSM prepares the briefing booklet for the executive team to review before each meeting. At the beginning of the meeting, the OSM presents a brief progress report on each action plan recommended at earlier meetings, records all new recommended action plans, and follows up with the assigned manager or department to ensure that the actions are carried out.

**Test and adapt the strategy.**

Each year, as the planning and budgeting process begins anew, the organization has a new input to consider—reviewing current strategy through its Balanced Scorecard. The BSC is based on a set of hypotheses about the impact of certain drivers on desired performance outcomes. Using the time-trend data from the BSC and appropriate analytic techniques, organizations can learn and react to change more rapidly. Several organizations have reported that the insights gained from such annual statistical reviews have accelerated their response time by as much as one year.

The sophisticated analytics needed to statistically estimate and test strategic linkages may require a new capability for the organization. The OSM is the natural place to build a corporate capability for analyzing data generated by the organization's BSCs. As part of the annual strategy refresh, the OSM can provide the outputs from the detailed P&L calculations and the analytic studies conducted on the strategy's performance.

**The OSM as Integrator**

A variety of existing management processes must be informed by and aligned to the strategy. The OSM is responsible for coordinating the strategic linkages of these processes.

**Link strategy to financial resource management (planning and budgeting).** At most corporations, finance oversees budgeting and cash allocation. It makes recommendations about investments in databases, infrastructure, and applications. And HR formulates plans for hiring, training, and leadership development. For a strategy to be effective, all functional plans must be aligned with the strategy. To ensure this alignment, the OSM must work closely with finance and the other functional units to align their near-term performance targets and budgets with strategic objectives.

**Link strategy to key operating processes.** Strategy is executed through business processes. The strategic themes identify the processes that are most crucial to the strategy. These processes must be analyzed, redesigned, and managed. The OSM should work with the theme teams or local line managers to see that the necessary resources and organizational support are provided. The OSM should also ensure that teams and managers provide status reports to the executive team.

**Align the plans and resources of human capital and other important functional support departments.** Besides coordinating the linkage between strategy planning and finance, the OSM ensures that the plans for other functional departments are consistent with executing the strategy. Particularly important are the HR and IT departments, but, in principle, all functional units—such as research and development, real estate, purchasing, logistics, marketing, and sales—contribute to successful strategy execution, and their plans must reflect their contributions. The OSM plays a consulting and integrating role with these functional departments to help them align their strategies and plans with enterprise and business unit strategy.

Consider the HR department, which has primary responsibility for employee motivation, training, and performance. HR is typically responsible for executing annual employee performance reviews, goal-setting, training and competency development, and managing incentive and compensation programs. The OSM ensures that HR performs these activities in a manner consistent with corporate and business unit strategic objectives.

**Communicate strategy.** Effective communication to employees about strategy, targets, and initiatives is vital if employees are to contribute to the strategy. Canon USA, a BSC user and BSC Hall of Fame organization, describes its internal communication process as “democratizing strategy.” Canon’s OSM actively promotes understanding of the company’s strategy and BSC throughout all business units and support functions. But as with budgeting and HR management, strategy communications is often the responsibility of an existing organizational unit. In these situations, the OSM can initially play an editorial role, reviewing or helping to craft the messages to see that they communicate the strategy correctly. In organizations that lack a corporate communications group, or whose group has little knowledge of or focus on strategy, the OSM would assume primary responsibility.
for communicating both strategy and scorecard to employees.

**Manage strategic initiatives.** When the organization uses theme owners and theme teams to carry out the selection and management of strategic initiatives, the OSM monitors the overall process, soliciting information about initiative status and performance and reporting this information to the executive team in advance of the strategy management review meeting.

For organizations that do not use theme owners and theme teams, the OSM is the default for running the initiative selection and rationalization process. For initiatives that already have a natural home, the OSM assigns responsibility to their appropriate unit or function. Any initiatives that cross unit or functional lines should be managed by the OSM to ensure they get the necessary financial and human resources. Where theme teams exist, the OSM retains responsibility for monitoring the progress of initiatives.

**Share best practices.** Finally, the OSM needs to ensure that knowledge management focuses on sharing the best practices most critical for the strategy. If managers use the wrong benchmarks, the company’s strategy will fall short of its potential. At some companies, learning and knowledge sharing are already the responsibility of a chief knowledge or learning officer; there, the OSM must coordinate with that person’s office. But if such a function does not already exist, the OSM must take the lead in transferring ideas and best practices throughout the organization.

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**A Proven Success Factor**

Many organizations have achieved dramatic performance improvements by sustaining a focus on strategy implementation. We have captured and codified a body of knowledge from these successful organizations that provides the foundation for an emerging professional function focused on the management of strategy. An Office of Strategy Management that is positioned at the level of other senior corporate staff offices, with responsibility and authority for managing and coordinating all the key strategy management processes, can help organizations realize the benefits from this body of knowledge.

2. BSR May–June 2004 (Reprint #B0405A).