

# Organization Alignment: *A Prerequisite for Executing Strategy*

Dr. David P. Norton

*President*

Palladium/Balanced Scorecard Collaborative

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## Alignment: The Problem Statement

- Birth of the knowledge economy has created a wave of new strategies
  - Solutions / partners
  - Speed to market
  - Mass customization
  - Outsourcing
- “Structure follows strategy” (Alfred Chandler)
- New organization forms have not yet emerged (structure has not yet followed strategy)
- Old organization forms are getting in the way of strategy execution (vertical and horizontal silos)

**THE PROBLEM:  
How to Align (Structure) Organizations Around Their Strategies**

## Alignment: A Historical Perspective

- |      |  |   |   |
|------|--|---|---|
| 1750 | Industrial Revolution  | ➔ | • “Owner–Entrepreneur”                                    |
| 1850 | Second Industrial Revolution (1850) (Economies of Scale)             | ➔ | • Centralized Functional Organization (e.g., Ford)        |
| 1920 | Product / Geographic Diversification                                 | ➔ | • Multi-Divisional Company (e.g., Dupont, GM)             |
| 1960 | Conglomerate (Economic Diversification)                              | ➔ | • Financial Portfolio management (e.g., ITT/Geneen)       |
| 2000 | Knowledge Economy (Sharing brands, people, knowledge, relationships) | ➔ | • Networked / Virtual Organizations (e.g., Google, e-Bay) |

**How Do Executives Create Alignment in Fluid (Virtual Networked) Organizations?**

# Alignment: Our Perspective



BMW Financial Services



**TATA MOTORS**

Commercial Vehicle Business Unit



Strategy Maps, Balanced Scorecards and Strategy-Focused Organization methodologies provide executives with tools and frameworks to align even the most complex of organizations



Engineering Polymers



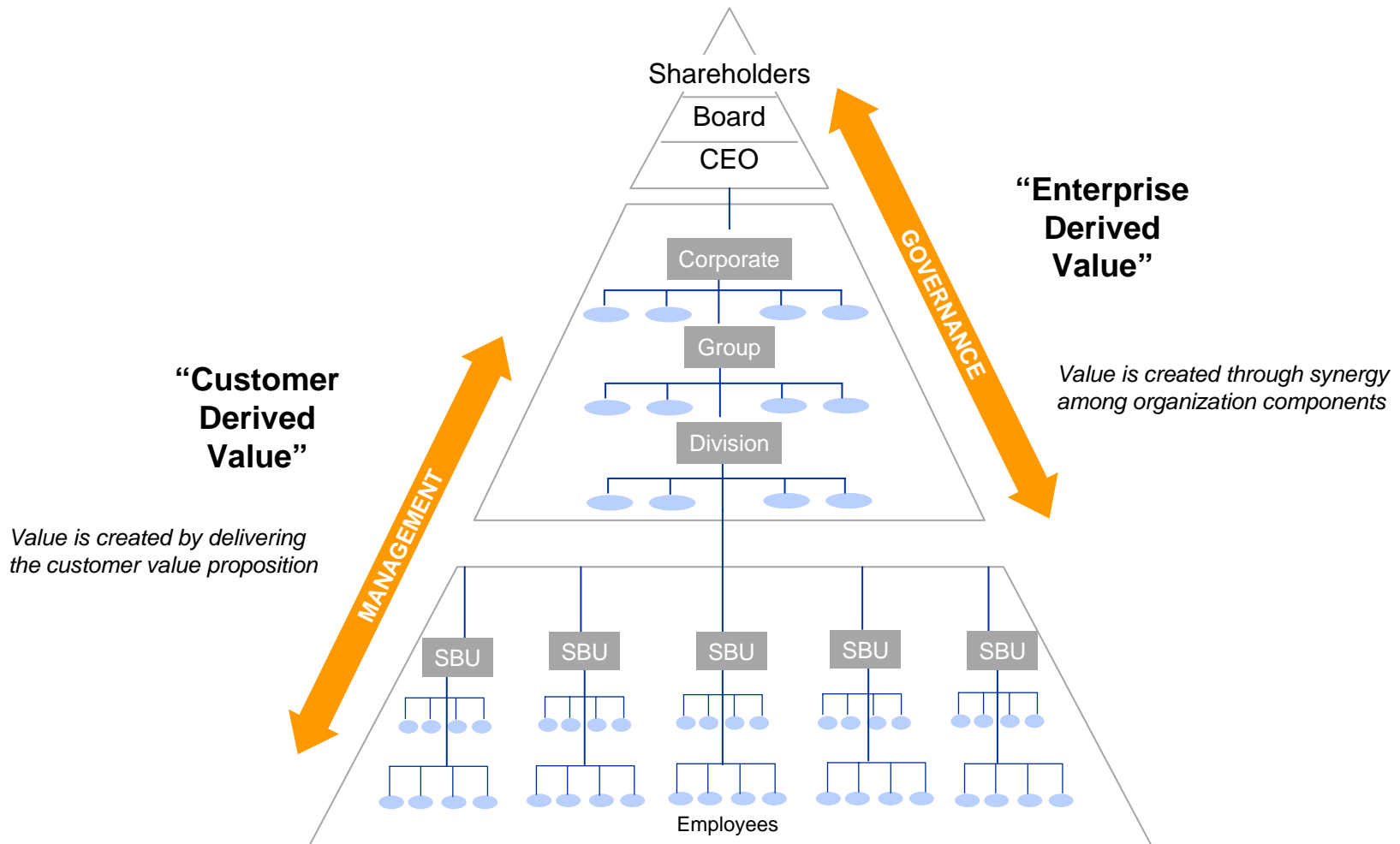
**DAIMLERCHRYSLER**  
Chrysler Group



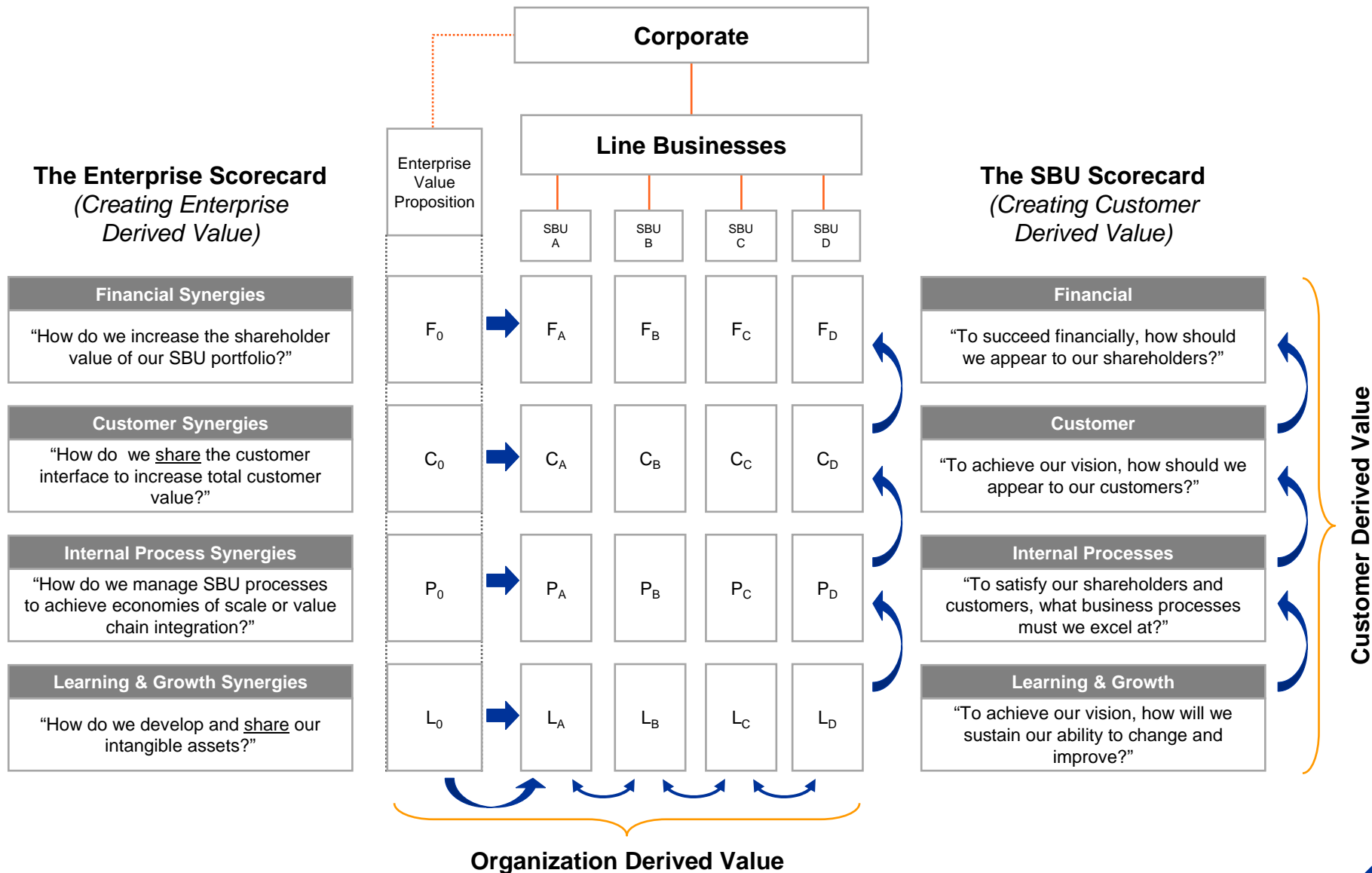
US Army



# Value in organizations is created in two distinct ways.



# The Enterprise Scorecard should describe how the corporation creates value by creating synergy.



# Sources of Enterprise Synergy

## The Enterprise Scorecard

Financial Synergies
“How can we increase the shareholder value of our SBU portfolio?”
Customer Synergies
“How can we share the customer interface to increase total customer value?”
Internal Process Synergies
“How can we manage SBU processes to achieve economies of scale or value chain integration?”
Learning & Growth Synergies
“How can we develop and share our intangible assets?”

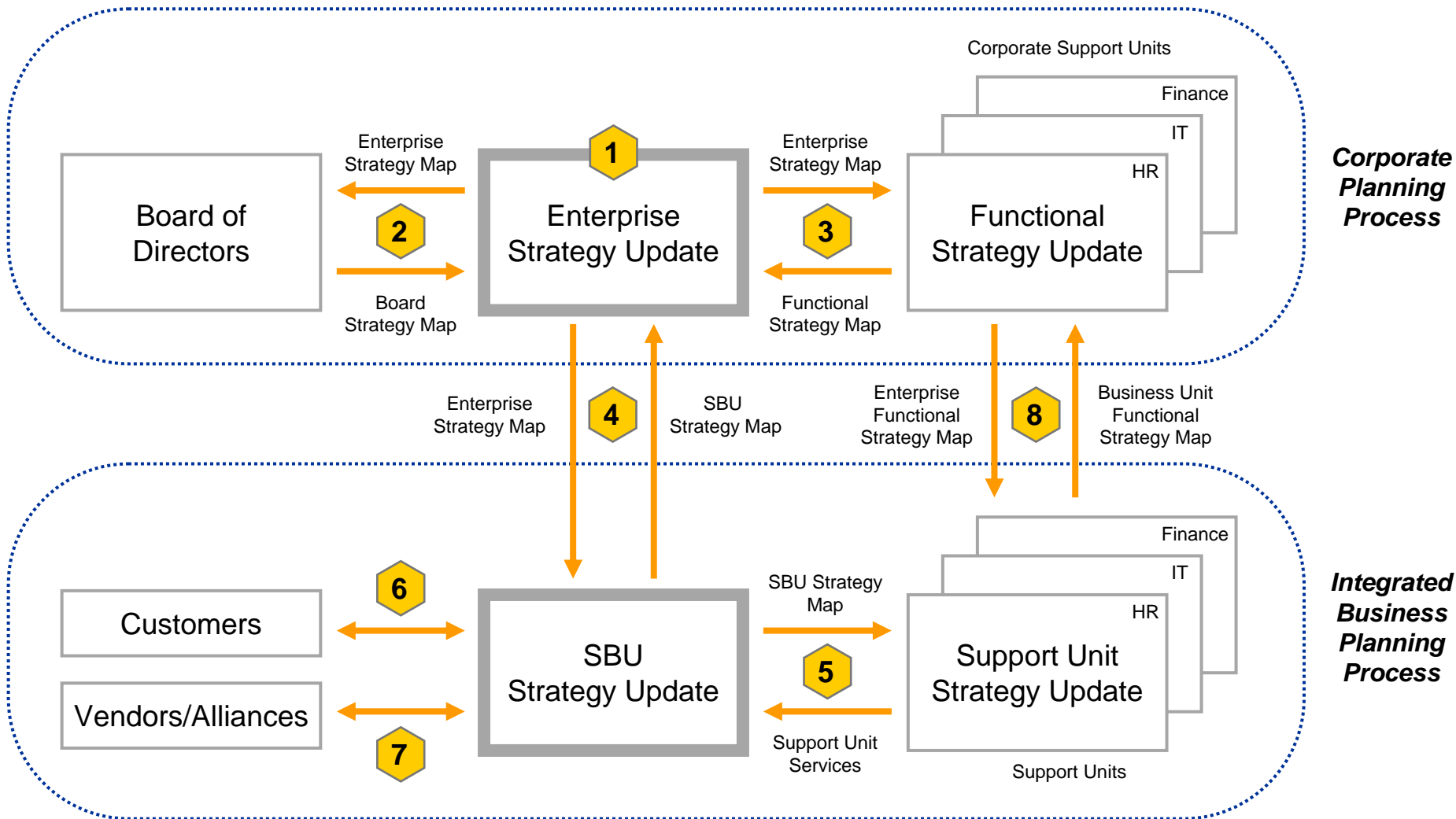
## Sources of Enterprise Derived Value

<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Internal Capital Management</i> – Create synergy through effective management of internal capital &amp; labor markets.</li> <li><input type="checkbox"/> <i>Corporate Brand</i> – Integrate a diverse set of businesses around a single brand, promoting common values or themes.</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Cross-Selling</i> – Create value by cross-selling a broad range of products/services from several business units.</li> <li><input type="checkbox"/> <i>Common Value Proposition</i> – Create a consistent buying experience, conforming to corporate standards at multiple outlets.</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Shared Services</i> – Create economies of scale by sharing the systems, facilities and personnel in critical support processes.</li> <li><input type="checkbox"/> <i>Value Chain Integration</i> – Create value by integrating contiguous processes in the industry value chain.</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Intangible Assets</i> – Share a competency around the development of human, information and organization capital.</li> <li><input type="checkbox"/> <i>Strategic Themes</i> – Provide leadership in complex organizations through the management of strategic themes.</li> </ul>

## Examples

<ul style="list-style-type: none"> <li><input type="checkbox"/> Activa</li> <li><input type="checkbox"/> New Profit, Inc.</li> <li><input type="checkbox"/> Ingersoll Rand</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> Media General</li> <li><input type="checkbox"/> Hilton Hotels</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> Bank of Tokyo Mitsubishi</li> <li><input type="checkbox"/> Marriott Vacation Clubs</li> </ul>
<ul style="list-style-type: none"> <li><input type="checkbox"/> IBM Learning</li> <li><input type="checkbox"/> DuPont EP</li> <li><input type="checkbox"/> RCMP</li> </ul>

# Creating value through synergy is a process that must be managed. The process is “organization alignment”.



**X** = Alignment Checkpoint

# Measuring Organization Alignment

**Organization Alignment:** Are the various units, departments and constituents aligned with the enterprise value proposition?

Alignment Checkpoint	Sub-Process Measure	Process Measure
1 Enterprise Value Proposition	<ul style="list-style-type: none"> <li>Enterprise value proposition defined <input checked="" type="checkbox"/></li> <li>Enterprise scorecard defined <input checked="" type="checkbox"/></li> </ul>	100%
2 Board / Shareholder Alignment	<ul style="list-style-type: none"> <li>Board responsibilities linked to strategy through enterprise scorecard <input checked="" type="checkbox"/></li> </ul>	100%
3 Corporate Office + Corporate Support Unit	<ul style="list-style-type: none"> <li>Percent corporate support units with linked scorecards                             <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> HR</li> <li><input checked="" type="checkbox"/> IT</li> <li><input checked="" type="checkbox"/> Finance</li> <li><input checked="" type="checkbox"/> Other</li> </ul> </li> </ul>	100%
4 Corporate Office + SBU	<ul style="list-style-type: none"> <li>Percent business units with corporate linkage</li> </ul>	100%
5 Business Units + Support Unit	<ul style="list-style-type: none"> <li>Percent business units with support unit alignment                             <ul style="list-style-type: none"> <li>– Linked scorecards <input type="checkbox"/> 40%</li> <li>– Service agreements <input type="checkbox"/> 50%</li> </ul> </li> </ul>	55%
6 Business Units + Customer	<ul style="list-style-type: none"> <li>Percent key customers with BSC or service agreements</li> </ul>	40%
7 Business Units + Vendor	<ul style="list-style-type: none"> <li>Percent key suppliers with BSC or service agreements</li> </ul>	30%
8 SBU Support Unit + Corporate Support Unit	<ul style="list-style-type: none"> <li>Percent business support units linked to corporate support linkage                             <ul style="list-style-type: none"> <li><input type="checkbox"/> 100% HR</li> <li><input type="checkbox"/> 50% IT</li> <li><input type="checkbox"/> 80% Finance</li> </ul> </li> </ul>	80%

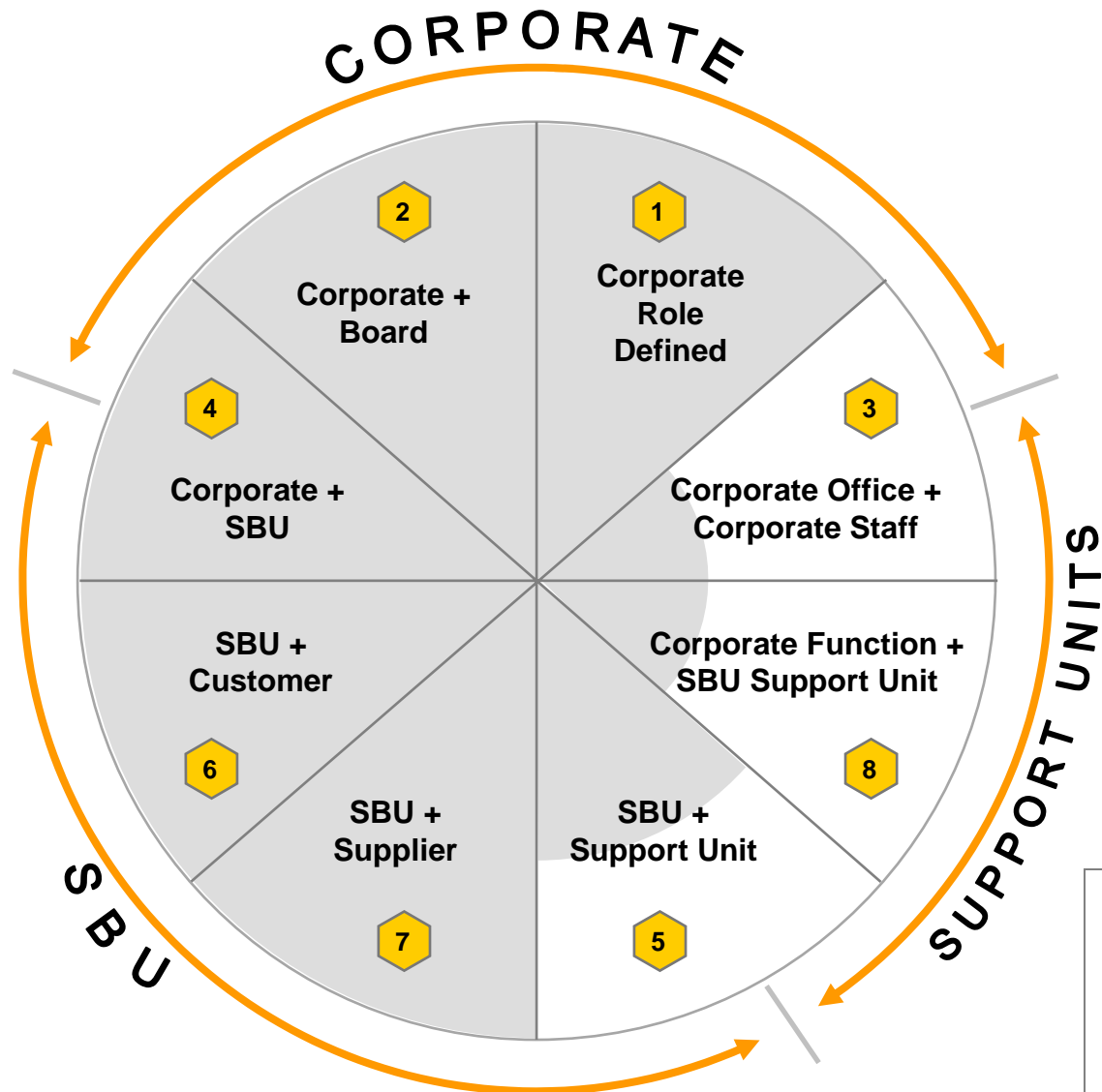
## Organization Alignment Index

**XX%**

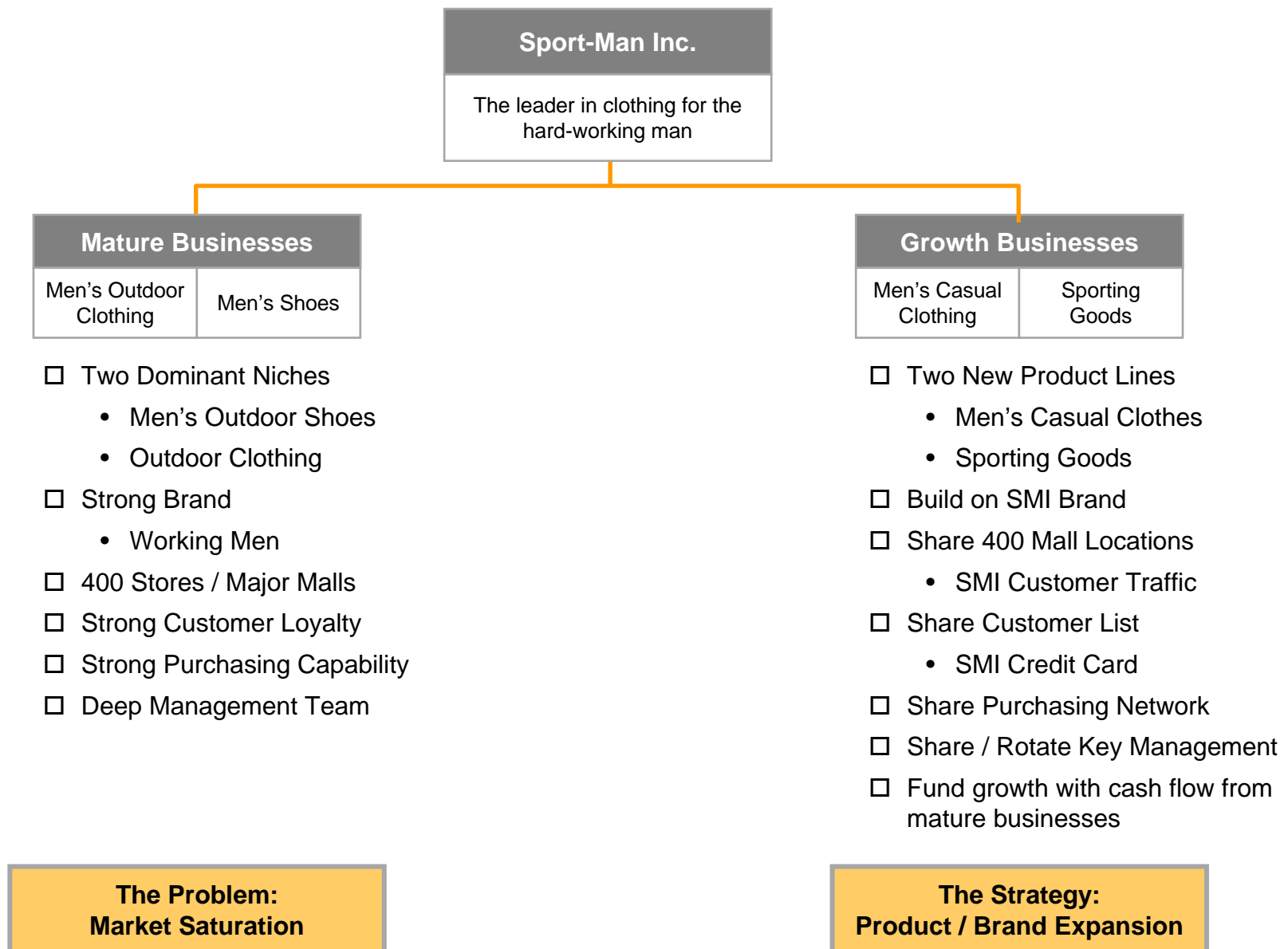
(organizations choose weights among the eight alignment checkpoint measures depending on their alignment priorities)

**(Data is Illustrative)**

# Alignment Map: Weak Support Units



# Case Study: Sport-Man Inc.



# Building the Corporate Scorecard at Sport-Man Inc.

## Synergies

### Financial Synergies

“How do we increase the shareholder value of our SBU portfolio?”

### Customer Synergies

“How do we share the customer interface to increase total customer value?”

### Internal Process Synergies

“How do we manage SBU processes to achieve economies of scale or value chain integration?”

### Learning & Growth Synergies

“How do we develop and share our intangible assets?”

## Corporate Value Proposition

### Internally Funded Growth

- Harvest cash from mature businesses
- Aggressively invest in growth businesses

### Migrate Customers

- Migrate mature customer base to new growth businesses

### Build Brands

- Build niche brands around dominant categories

### Destination Stores

- Build mall-clusters to encourage cross-brand traffic

### Sourcing Economies of Scale

- Build long term partnerships to insure access to high quality / reliable product

### Build the Infrastructure

- Share strategic jobs and skills
- Create organization alignment
- Share key systems and knowledge

## Corporate Scorecard

- Free cash flow
- Strategic investment level
- Sales growth (per store)

- % Revenue from common customers
- Total revenue per customer (annual growth)

- Market share in dominant category (e.g., running shoes)
- Sales per square foot
- Multi-store traffic
- Returns
- Order fulfillment

- Human Capital Readiness
- Key staff rotation
- Alignment Index
- Common systems (vs. plan)
- Best Practice sharing

# Corporate/SBU Alignment at Sport-Man Inc.

**Sport-Man Co  
(Corporate)**

1

	Corporate Value Proposition	Corporate Scorecard
Financial	<ul style="list-style-type: none"> <li>Internally Funded Growth</li> </ul>	<ul style="list-style-type: none"> <li>Sales per store</li> <li>Cash flow</li> <li>★ Investment</li> </ul>
Customer	<ul style="list-style-type: none"> <li>Migrate Mature Customers</li> </ul>	<ul style="list-style-type: none"> <li>Shared customer</li> <li>Sales per customer</li> </ul>
Internal	<ul style="list-style-type: none"> <li>Build Niche Brands</li> </ul>	<ul style="list-style-type: none"> <li>Market share</li> </ul>
	<ul style="list-style-type: none"> <li>Destination Stores</li> </ul>	<ul style="list-style-type: none"> <li>Sales psf</li> <li>Multi-store traffic</li> </ul>
	<ul style="list-style-type: none"> <li>Sourcing Economies</li> </ul>	<ul style="list-style-type: none"> <li>Returns (poor quality)</li> <li>Fulfillment (vs plan)</li> </ul>
Learning & Growth	<ul style="list-style-type: none"> <li>Strategic Jobs &amp; Skills</li> </ul>	<ul style="list-style-type: none"> <li>Human Capital Readiness</li> <li>★ Key staff rotation</li> </ul>
	<ul style="list-style-type: none"> <li>Organizational Alignment</li> </ul>	<ul style="list-style-type: none"> <li>Alignment Index</li> </ul>
	<ul style="list-style-type: none"> <li>Common Systems</li> </ul>	<ul style="list-style-type: none"> <li>Common systems vs. plan</li> <li>Best Practice sharing</li> </ul>

Lines of Business

4

(Growth Business)		(Mature Business)	
Sporting Goods	Men's Casual	Men's Outdoor	Men's Shoes
<ul style="list-style-type: none"> <li>★ Sales growth</li> </ul>		<ul style="list-style-type: none"> <li>Same store sales</li> <li>Cash flow</li> <li>Inventory turns</li> <li>Expense / sales growth</li> </ul>	
<ul style="list-style-type: none"> <li>Shared customers</li> <li>Sales per customer</li> <li>★ Customer satisfaction</li> </ul>		<ul style="list-style-type: none"> <li>Shared customers</li> <li>Sales per customer</li> <li>★ Customer loyalty</li> </ul>	
<ul style="list-style-type: none"> <li>Brand recognition</li> <li>Sales growth (category)</li> <li>★ New accounts opened</li> </ul>		<ul style="list-style-type: none"> <li>Brand recognition</li> <li>Sales by category</li> <li>★ Market share</li> </ul>	
<ul style="list-style-type: none"> <li>Sales psf</li> <li>Multi-store traffic</li> </ul>		<ul style="list-style-type: none"> <li>Sales psf</li> <li>Multi-store traffic</li> </ul>	
<ul style="list-style-type: none"> <li>Returns (poor quality)</li> <li>Fulfillment (vs. plan)</li> </ul>		<ul style="list-style-type: none"> <li>Returns (quality)</li> <li>Fulfillment (vs. plan)</li> </ul>	
<ul style="list-style-type: none"> <li>Strategic job readiness</li> </ul>		<ul style="list-style-type: none"> <li>Strategic job readiness</li> </ul>	
<ul style="list-style-type: none"> <li>Alignment Index</li> </ul>		<ul style="list-style-type: none"> <li>Alignment Index</li> </ul>	
<ul style="list-style-type: none"> <li>Strategic System Readiness</li> <li>Best Practice sharing</li> </ul>		<ul style="list-style-type: none"> <li>Strategic System Readiness</li> <li>Best Practice sharing</li> </ul>	

3

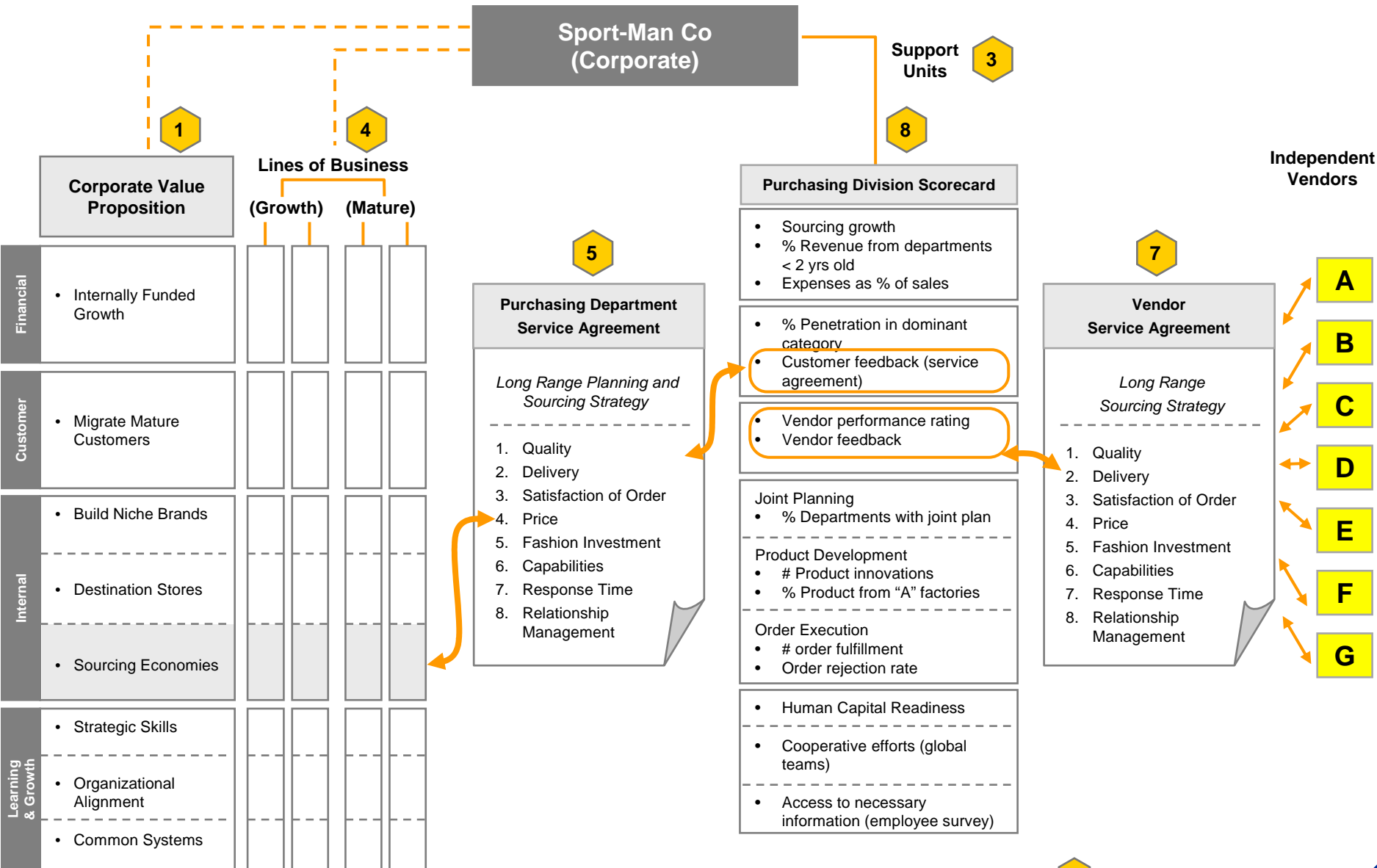
Support Units

- Corporate Finance
- Corporate Marketing
- 5
- Real Estate
- Purchasing
- Human Resources
- Information Technology

X

= Alignment Checkpoint

# Support Unit Alignment at Sport-Man Inc.

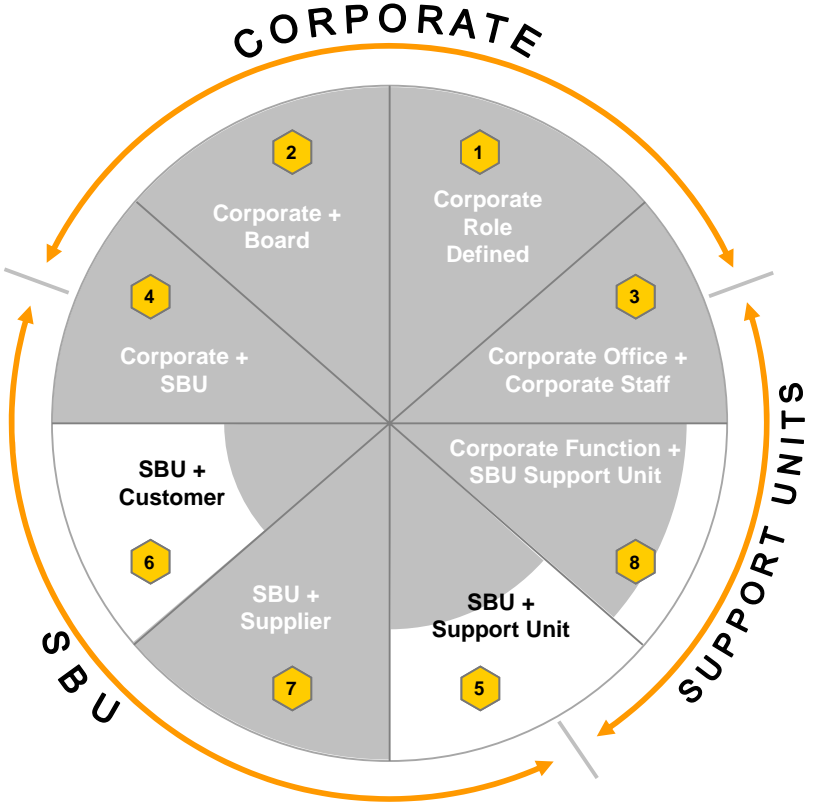


X = Alignment Checkpoint

# Summary – The Logic: Sources of Enterprise Synergy at Sport-Man, Inc.

The Enterprise Scorecard	Sources of Enterprise Derived Value	Sport-Man Synergies
<p><b>Financial Synergies</b></p> <p>“How can we increase the shareholder value of our SBU portfolio?”</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Internal Capital Management</i> – Create synergy through effective management of internal capital &amp; labor markets.</li> <li><input type="checkbox"/> <i>Corporate Brand</i> – Integrate a diverse set of businesses around a single brand, promoting common values or themes.</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Internally Funded Growth</li> <li><input checked="" type="checkbox"/> Build the <b>Brand</b></li> </ul>
<p><b>Customer Synergies</b></p> <p>“How can we share the customer Interface to increase total customer value?”</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Cross-Selling</i> – Create value by cross-selling a broad range of products/services from several business units.</li> <li><input type="checkbox"/> <i>Common Value Proposition</i> – Create a consistent buying experience, conforming to corporate standards at multiple outlets.</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Migrate Customers</li> <li><input checked="" type="checkbox"/> Consistent Buying Experience</li> </ul>
<p><b>Internal Process Synergies</b></p> <p>“How can we manage SBU processes to achieve economies of scale or value chain integration?”</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Shared Services</i> – Create economies of scale by sharing the systems, facilities and personnel in critical support processes.</li> <li><input type="checkbox"/> <i>Value Chain Integration</i> – Create value by integrating contiguous processes in the industry value chain.</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Destination Stores (Real Estate)</li> <li><input checked="" type="checkbox"/> Sourcing Economies of Scale</li> </ul>
<p><b>Learning &amp; Growth Synergies</b></p> <p>“How can we develop and share our intangible assets?”</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> <i>Intangible Assets</i> – Share a competency around the development of human, information and organization capital.</li> <li><input type="checkbox"/> <i>Strategic Themes</i> – Provide leadership in complex organizations through the management of strategic themes.</li> </ul>	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Build Infrastructure</li> <li><input checked="" type="checkbox"/> Six Shared Themes</li> </ul>

# Summary – The Toolkit: Organization Alignment Map at Sport-Man, Inc.



Alignment Checkpoint	Sub-Process Measure	Process Measure
1 Enterprise Value Proposition	<ul style="list-style-type: none"> <li>Enterprise value proposition defined</li> <li>Enterprise scorecard defined</li> </ul>	100%
2 Board / Shareholder Alignment	<ul style="list-style-type: none"> <li>Board responsibilities linked to strategy through enterprise scorecard</li> </ul>	100%
3 Corporate Office + Corporate Support Unit	<ul style="list-style-type: none"> <li>Percent corporate support units with linked scorecards</li> </ul>	100%
4 Corporate Office + SBU	<ul style="list-style-type: none"> <li>Percent business units with corporate linkage</li> </ul>	100%
5 Business Units + Support Unit	<ul style="list-style-type: none"> <li>Percent business units with support unit alignment                             <ul style="list-style-type: none"> <li>– Linked scorecards</li> <li>– Service agreements</li> </ul> </li> </ul>	55%
6 Business Units + Customer	<ul style="list-style-type: none"> <li>Percent key customers with BSC or service agreements</li> </ul>	40%
7 Business Units + Vendor	<ul style="list-style-type: none"> <li>Percent key suppliers with BSC or service agreements</li> </ul>	100%
8 SBU Support Unit + Corporate Support Unit	<ul style="list-style-type: none"> <li>Percent business support units linked to corporate support linkage</li> </ul>	80%
<b>Alignment Index</b>		<b>85%</b>

# Summary – The Process: Alignment and Synergy will not happen unless they are managed.

Strategy Management Process	Annual Cycle			
	Q1	Q2	Q3	Q4
<b>Enterprise Strategy Planning</b>		<ul style="list-style-type: none"> <li><b>Review and Update Strategy</b> <ul style="list-style-type: none"> <li>Clarify Vision</li> <li>Define Corporate Strategy</li> </ul> </li> <li><b>Develop the Corporate Scorecard / Strategy Map</b></li> </ul>		
<b>Organization Planning</b>			<ul style="list-style-type: none"> <li><b>Align the Organization</b> <ul style="list-style-type: none"> <li>Corporate and business units aligned</li> <li>Business and support units aligned</li> <li>Board of Directors aligned</li> </ul> </li> <li><b>Develop Business and Support Unit Scorecards</b></li> </ul>	
<b>Financial Planning</b>				<ul style="list-style-type: none"> <li><b>Planning / Budgeting</b> <ul style="list-style-type: none"> <li>Budgets</li> <li>Plans</li> <li>Initiatives</li> <li>Finance</li> <li>IT</li> <li>HR</li> </ul> </li> </ul>
<b>Workforce Planning</b>				<ul style="list-style-type: none"> <li><b>Employee Alignment</b> <ul style="list-style-type: none"> <li>Personal goals</li> <li>Employee incentives</li> <li>Personal development</li> </ul> </li> </ul>
<b>Management Control &amp; Learning</b>	Strategy Reviews			
	Initiative Management			
	Best Practice Sharing			
	Strategy Communication			

Accountable Executives	Coordinated By
<ul style="list-style-type: none"> <li>CEO/Executive Team</li> <li>BSC Project Team</li> </ul>	OFFICE
<ul style="list-style-type: none"> <li>LOB Leaders</li> <li>Support Unit Leaders</li> <li>BSC Project Team</li> </ul>	
<ul style="list-style-type: none"> <li>Chief Financial Officer</li> <li>Human Resource Officer</li> <li>Chief Information Officer</li> <li>Chief Operating Officer</li> </ul>	STRATEGY
<ul style="list-style-type: none"> <li>Human Resource Officer</li> </ul>	
<ul style="list-style-type: none"> <li>CEO/Executive team</li> <li>Program Office</li> <li>Chief Knowledge Officer</li> <li>Corporate Communications</li> </ul>	MANAGEMENT