Quelle: SAP AG Germany 2007

SAP Strategic Enterprise Management
Translating Strategy of Balanced Scorecard

A New Approach to Managing Strategy

The single most important skill in any business is the ability to translate strategy into action. This is increasingly difficult in larger or more complex organizations, where the distance between those who formulate the strategy and those who carry it out is significant. With size and complexity comes the necessity for communicating strategic intent and for providing a management framework that aligns the capabilities of the business with the requirements of the competitive marketplace. The challenges to successfully implementing strategy have never been so formidable.

A Fortune magazine article, based on a survey of management consultants, reported that less than 10% of strategies are successfully implemented. Tom Peters referred to that figure as "wildly inflated," suggesting that formulating strategy is not a valuable activity if it can't be translated into action. This is the reason behind the general decline of strategic planning over the past two decades. What's needed is not more planning, but a way to translate strategy directly into action.

Strategy has never been more important. As the economy moves rapidly away from the "Industrial Age" to the "Information Age," which is characterized by global and knowledge-based competition, every organization must rethink the fundamental assumptions on which it competes. As the global economy becomes more tightly connected, each business must build its own feedback systems to effectively monitor its own activity and to achieve its own strategic objectives.

Every organization must develop a new vision on how it will compete in the emerging networked economy. And every organization must translate this vision into actions that will transform them into Information Age competitors. In other words, if organizations are to survive this economic transition, they must learn to successfully implement strategy. They must learn to beat the 90% failure rates experienced by their peers. They must make Strategic Enterprise Management (SEM) a core competency of their organizations.

This white paper describes an integrated management approach that enables complex businesses to effectively harness their capabilities and to achieve their strategic objectives. The combination of a Balanced Scorecard approach to translating strategy into action, along with enterprise-wide connectivity provided by SAP, constitutes a competitive breakthrough for executives intent on achieving their strategic vision.

SAP Strategic Enterprise Management provides the concepts and tools you need for setting your strategic direction and achieving the benefits of your strategic vision. This paper will familiarize you with the Balanced Scorecard approach to developing and sharing the story of your strategy, which is an essential element to aligning enterprise resources with your strategy. It provides an overview of the components of Strategic Enterprise Management and concludes with a summary of the process and technology necessary to make it happen.

Why Is It So Difficult to Implement Strategy?

Strategy guru Michael Porter describes the foundation of strategy as the "activities" in which an organization elects to excel.

"Ultimately, all differences between companies in cost and price derive from the hundreds of activities required to create, produce, sell, and deliver their products or services…… differentiation arises from both the choice of activities and how they are performed."

If the foundation of strategy is, as Porter maintains, the "selection and execution of hundreds of activities," then strategy cannot be limited to a few people at the top of an organization. Strategy must be understood and executed by everyone. The organization must be aligned around its strategy. " performance management systems" are designed to create organization alignment. Herein lies one of the major causes of poor strategic management.

MOST PERFORMANCE MANAGEMENT SYSTEMS ARE DESIGNED AROUND THE ANNUAL BUDGET AND OPERATING PLAN. THEY PROMOTE SHORT-TERM, INCREMENTAL, TACTICAL BEHAVIOR.

In their survey of 200 major companies, the consulting firm Renaissance Worldwide and CFO Magazine found that several barriers are built into the typical performance management system.

- *Visions Are Not Actionable*. Vision is not translated into operational terms that provide useful guides to action. Only 40% of middle management and less than 5% of line employees clearly understand the vision of their organizations.

- *Goals and Rewards Are Not Linked to Strategy*. Goals and incentives are linked to annual financial performance rather than long-term strategy. Only 50% of executives, 20% of middle management, and less than 10% of line employees have goals and compensation linked to strategy.

- *Resource Allocation Is Not Linked to Strategy*. Capital allocation and discretionary program funding are based on short-term budgets and financial criteria, not long-term strategy. Only 43% of organizations have a strong linkage between their long-range strategy and their annual budget.

- *Feedback Is Tactical, Not Strategic*. The feedback and review process concentrates on the control of short-term operating performance instead of long-term strategic performance. Forty-five percent of management teams spend no time at their monthly management meetings making strategic decisions. Eighty-five percent of management teams spend less than one hour per month.

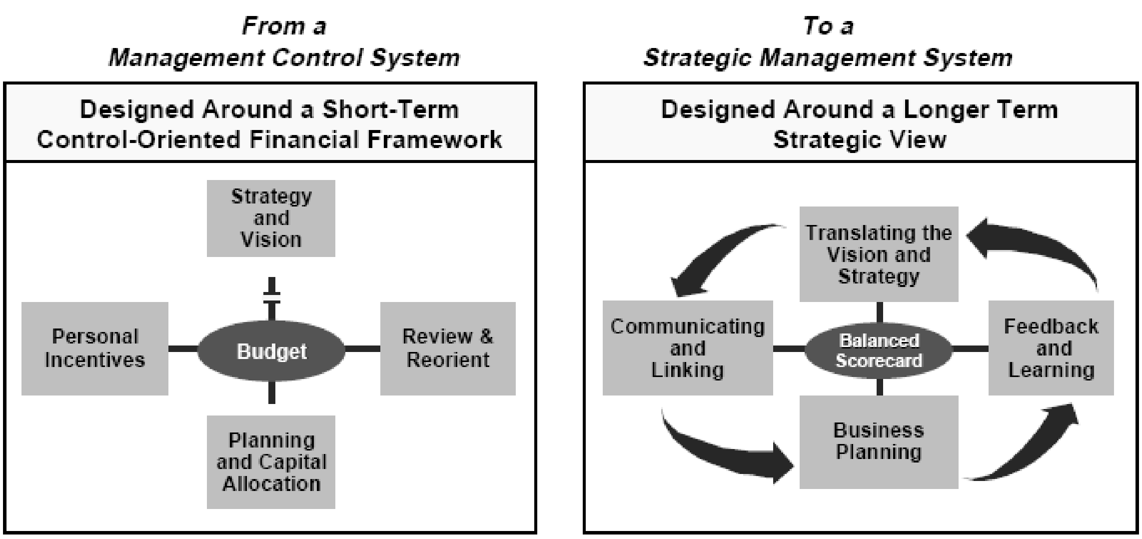
This profile paints a clear picture of the typical performance management System used to align activities within an organization today. It is a system designed to influence short-term, operational, tactical behavior. While this is a necessary part of management, it is not enough.

YOU CANNOT MANAGE STRATEGY WITH A SYSTEM DESIGNED FOR TACTICS.

The Balanced Scorecard: A New Approach to Implementing Strategy

A new approach to implementing strategy has emerged. The Balanced Scorecard, developed by Harvard Business School professor, Robert Kaplan, and management consultant, David Norton, was first introduced in a 1992 Harvard Business Review article. The idea has spread rapidly. A recent survey conducted by Bain & Company indicates that approximately 50% of companies now use "Balanced Scorecards" to help manage their organizations.

The Balanced Scorecard (BSC) is a technique to translate an organization's strategy into terms that can be understood, communicated, and acted upon. A BSC uses the language of measurement to more clearly define the meaning of strategic concepts like quality, customer satisfaction, and growth. Once a scorecard that accurately describes the strategy has been developed, it then serves as the organizing framework for the management system. As summarized in Figure 1, such a scorecard puts strategy at the center of the management process. In effect, the Balanced Scorecard becomes the "operating system" for a new Strategic Management Process.



Source: The Balanced Scorecard Collaborative, Inc.

Organizations that were early adopters of the Balanced Scorecard have shown impressive results to date.

Management Cockpit

Managing strategy requires new roles for executive teams. Faced with a mass of information, today's executives and managers must learn to look beyond the details to see the big picture. The Management Cockpit is an innovative concept for the presentation of critical management information, providing collaborative intelligence that helps managers understand each other's business issues. The aim is to create an environment that encourages more efficient management meetings and boosts team performance via effective communication. To help achieve this, KPIs and information relating to critical success factors are displayed graphically on the walls of an ergonomically designed meeting room. Different scenarios can be viewed and associated with KPI sets.

SAP SEM facilitates a "Strategic Feedback and Learning Network" through integrated SEM applications and a comprehensive network infrastructure.

SAP SEM supports the entire Strategic Enterprise Management process from hypothesis definition and testing, target setting, performance monitoring, communication, and feedback management. This includes the following functionality:

- Hypothesis definition through development of influence diagrams to visualize dependencies among strategic objectives and KPIs in a Balanced Scorecard. Influence diagrams are stored in the SEM database for shared access (controlled by defined authorizations).

- Monitoring of actual performance and the verification of hypotheses through either a Web-based Balanced Scorecard or in the Management Cockpit room.

- Quantification of influence diagram cause-and-effect linkages by creating a dynamic simulation model with SEM Business Planning and Simulation functionality.

- Running online simulations individually or in the Management Cockpit room. Results are stored as "selected scenarios" in the SEM database to initiate the enterprise planning process.

- Continued assessment of simulation models and scenarios during regular performance monitoring sessions where actuals are compared with targets in a BSC format using SEM Corporate Performance Monitor functionality or the Management Cockpit room. Models and scenarios are adapted to reflect changes observed in the organization or in the environment.

- Assignment of BSC "owners" who receive automatically through e-mail/workflow functionality the components of the BSC relevant to their ownership role (for example, owners of objectives, measures, or initiatives). Performance thresholds and event alerts will trigger the need for BSC owners to respond with assessments and comments that can be forwarded automatically to others as required as well as stored in the SEM database for common access. BSC owners are able—if they have the appropriate authorization rights—to navigate across the related scorecards of team members, managers, or other members of the organization.

- External (and even unstructured) information can be collected automatically through the internet and incorporated into the organization's internal reporting structure using the SEM Business Information Collection application component. This information will be helpful in explaining current performance and triggering updates of the organization's strategy.

- The actual status of strategic initiatives can be monitored using SEM Corporate Performance Monitor functionality or in the Management Cockpit room.

Business Planning and Simulation

In many respects, the science of management has been primitive relative to other professional disciplines. While quantitative methods and sophisticated computers have been available for some time, only recently have we begun to see the emergence of true quantitative foundations for business strategy. In part, this slow progress has been due to the inaccessibility of data, which has been fragmented and locked up in legacy systems. The ERP movement, pioneered by SAP, has eliminated this barrier. In the past, business has been able to live without quantitative foundations. But the Web has eliminated this luxury; business strategies must now be tailored to individual customers in real time. A number of technological trends are making a breakthrough possible. Data mining techniques permit extracting and transforming of data from multiple sources. Data warehousing techniques can be used to discover trends and relationships. A good R/3 foundation becomes a critical asset.

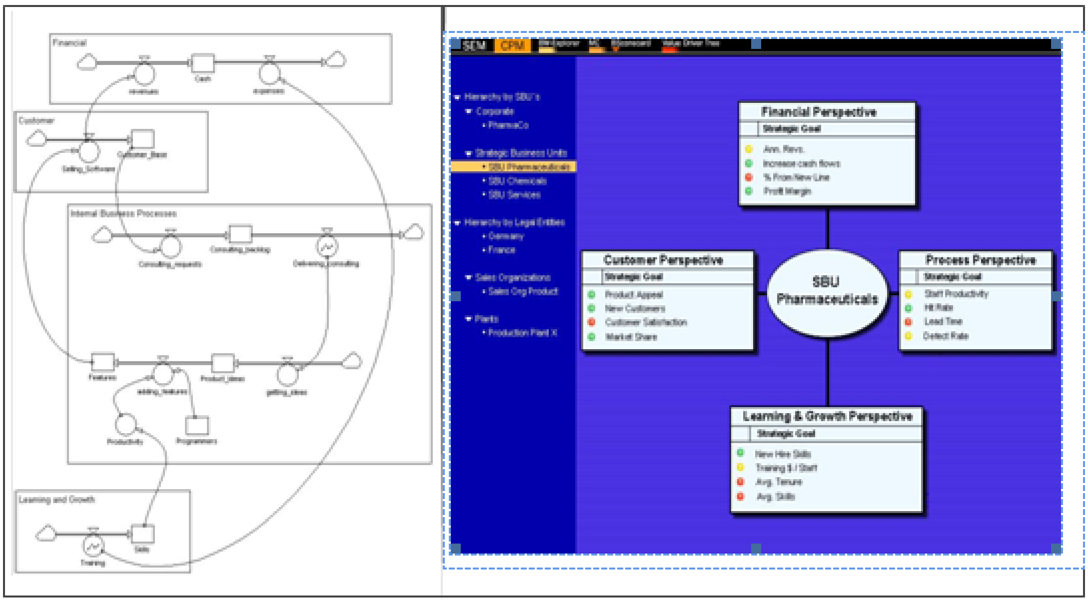
These tools and databases can take strategic management to the next level of sophistication. The high-level strategic hypotheses that are developed and monitored by executives can be explored at finer levels of granularity. A number of concepts that underlie high-level strategies can only be executed if a detailed analytic support environment is created. These data-dependent management approaches would include:

- Shareholder Value.
- Activity-Based Management.
- Customer-Relationship Management.
- Quality Management.
- Supply-Chain Management.
- Database Marketing.

The analytic approaches can be used to test hypotheses, explain higher level trends in the Strategic Feedback System, or generate new insights that update and refine the strategy.

The use of *business simulation* will dramatically increase the effectiveness of these approaches. Simulation allows the cause-and-effect linkages of the strategy to be described mathematically and used for testing scenarios.

This capability will help companies evaluate "what if" scenarios. It will allow the entire management team to participate in interactive sessions for the real-time development of strategy. Dynamic simulation could have the same impact on strategic planning that MS Excel spreadsheets have had on financial planning.



Source: SAP AG

Strategy Is a Dynamic Process ….Dynamic Tools Are Needed*

SAP SEM facilitates Business Simulation through the functionality of the SEM Business Planning and Simulation application component.

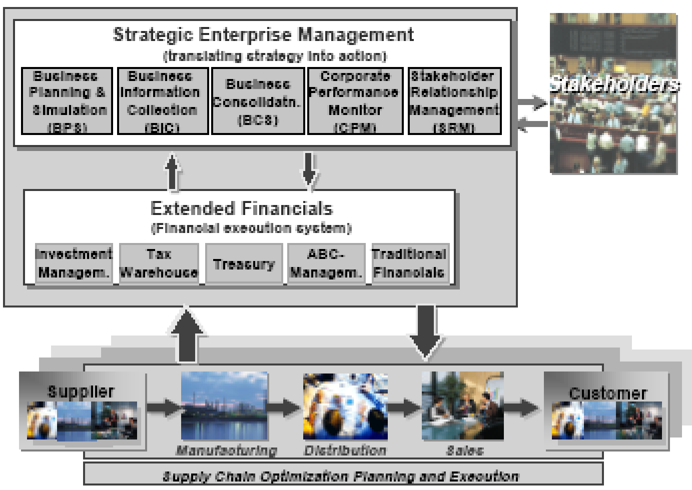
SAP SEM supports integrated strategic and operational enterprise planning, and forecasting through business scenario simulation. This includes the following functionality:

- Definition of linear and dynamic business models integrating data from internal sources - such as transaction or other planning systems - and from external sources - such as market expectations or competitor benchmarks.
- Interactive simulation of business models that include automatic valuation of business scenarios (such as the effects from business risk evaluation).
- Definition of enterprise-planning models for resource allocation (e.g., volumes and prices, activities, headcounts, costs, cash, tax, investments, P&L, balance sheet, etc.)
- Integration of scenario planning results with enterprise planning models.
- Interactive simulations on enterprise planning models.
- Support of top-down/bottom-up planning processes.
- Rolling forecasts.

SAP Strategic Enterprise Management

Modern ERP systems provide organizations with an integrated solution for planning, executing, and controlling business processes horizontally across the value chain. SAP R/3—the world-leading business software for client/server computing- integrates processes such as sales and materials planning, production planning, warehouse management, financial and management accounting, and HR management. This is achieved by using standard communication protocols and common objects between components, standard definitions for shared data, and standard rules for data access.

SAP Strategic Enterprise Management, SAP's next-generation solution, will extend these principles of integration vertically to support strategic management processes such as strategic planning, risk management, performance monitoring, and value communication. SAP SEM is tightly integrated with existing business execution systems, as well as SAP's extended financials (see Figure 15). It allows a two-way flow of information: corporate strategists can monitor performance continuously using feedback from the business execution systems, and adjustments to the strategy can be driven down to the operational level via new targets and KPIs.



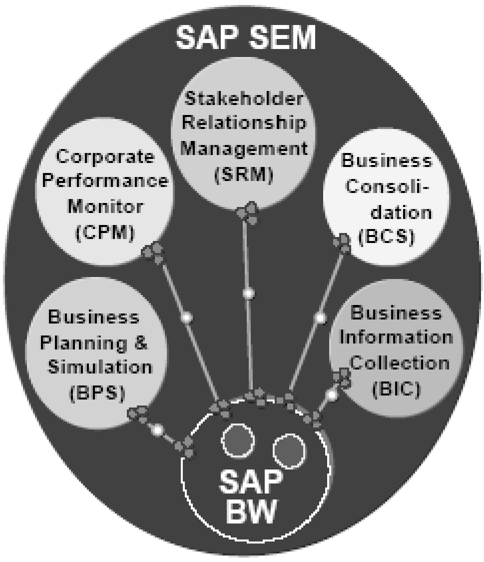
Source: SAP AG

SAP's Solution: Linking ERP with the Strategic Enterprise Management (SEM) System

Based on SAP's Business Framework and BAPI technology, which facilitate the speedy implementation of new solutions, SAP SEM comprises five application components:

1. Business Planning and Simulation.
2. Business Information Collection.
3. Business Consolidation.
4. Corporate Performance Monitor (including the Management Cockpit).
5. Stakeholder Relationship Management.

Underpinning all these components is the Business Information Warehouse, which makes it possible to analyze, manage, and query complex, multidimensional data.



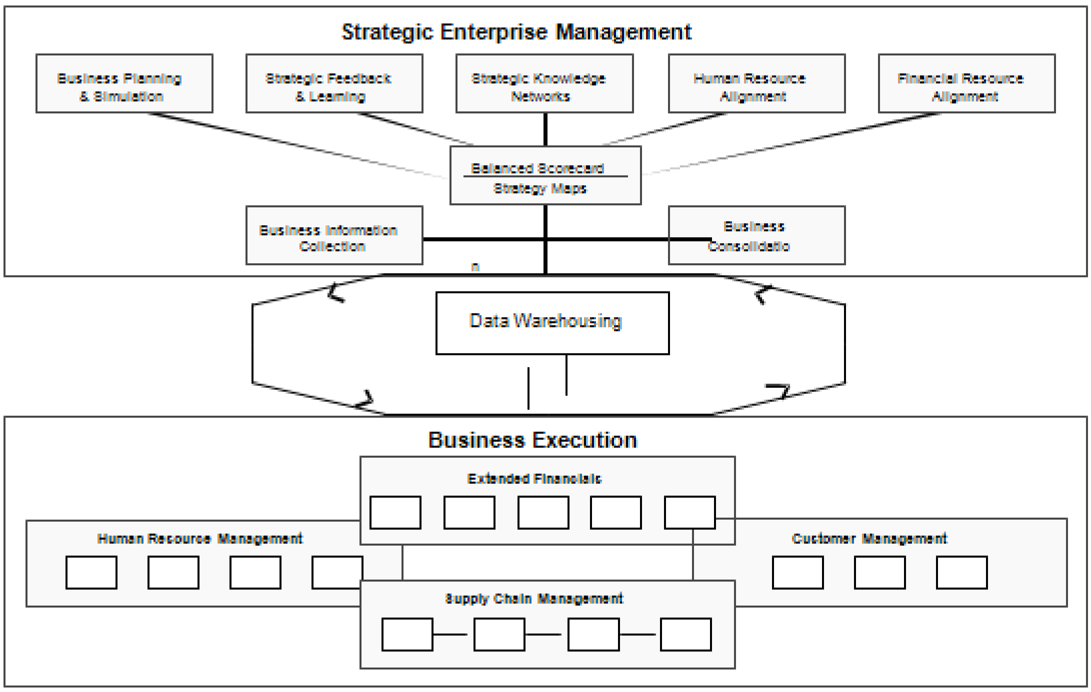
Source: SAP AG

SAP SEM: A Set of Integrated Analytical Application Components Operating on Multidimensional SAP BW Data Structures

SAP SEM enables organizations to implement Strategic Enterprise Management processes based on the Balanced Scorecard concept. The system offers therefore the following benefits:

- Guidance in Balanced Scorecard design, which improves the understanding of strategy.
- Increased strategic awareness at all levels of the organization as a result of ongoing communication, personal scorecards, and detailed feedback.
- Unlocking unused *assets*-the knowledge of the workforce-through Knowledge Networks built around strategic priorities.
- Creating *learning* from the top to bottom by establishing the hypothesis of the strategy, continuously evaluating performance, and adapting accordingly.
- Creating *insight* and value through the use of database-driven analytic approaches.

Many believe that competitive advantage is not derived from the strategy, but by the ability to execute it. This process and the system that supports it enable such execution. All of which can add up to dramatic benefits, as it has for many of the organizations described earlier. Organizations that combine the Strategic Enterprise Management process with the SAP SEM and R/3 technology will create competitive advantages that achieve results that are both rapid and sustainable.



Source: The Balanced Scorecard Collabarative, Inc. and SAP AG

SAP SEM: Closing The Loop Between Strategy And Business Execution Through The Balanced Scorecard Concept

Making It Happen

WARNING: THE BALANCED SCORECARD IS NOT A SUBSTITUTE FOR GOOD MANAGEMENT. IT IS ONLY A TOOL. IT REQUIRES GOOD MANAGEMENT.

We have spent much time reviewing the SEM/Balanced Scorecard process and the tools that support it. It is important to stress that it requires more than a process and a tool to achieve the benefits described earlier in this report. Experience has shown over and over that the single most important condition for success is the ownership and active involvement of the executive team. Strategy requires change from virtually every part of the organization.
Strategy requires teamwork to coordinate these changes. If those at the top of the organization are not energetic leaders of the process, change will not take place, strategy will not be implemented, and opportunity will be missed. A successful Balanced Scorecard program starts with the recognition that it is not a "metrics" project; it's a change project. John Kotter, in his book "Leading Change", describes how transformational change must begin at the top and with three discrete actions by the leaders:
(1) establishing a sense of urgency,
(2) creating the guiding coalition, and
(3) developing a vision and a strategy.

The leaders of successful Balanced Scorecard organizations clearly followed this model.

Creating the Climate for Change

Before change will occur it must be clear to the organization why change is needed; the organization must be unfrozen. In the case studies described earlier, each of the companies (Mobil, Cigna, Brown & Root, Chemical Bank) were experiencing difficult times. The obvious threat of failure and loss of jobs was a motivator that created receptivity for change. At the other extreme, organizations like General Electric have set a goal of "*being #1 or #2*" in the industry, or getting out. Deregulated industries or industries in dynamic growth offer different rationales. In this period of dramatic change in our economy, it is not difficult to find plausible and real reasons why the organization must change or face extinction. The first step in the change process is making this need obvious to all.

Creating the Vision and Strategy

The creation of a shared vision and strategy is an effective way to create this teamwork. The framework of the Balanced Scorecard is a structured way to guide the development of the vision and strategy. It should be developed in a team setting (e.g., in the Management Cockpit room). A tremendous amount of cross-fertilization takes place as each element of the strategy is translated to the Scorecard format. The strategic issues surrounding customer segments (Marketing), yield optimization (Manufacturing), cost of capital (Finance), etc., which are generally the domain of a functional executive, now become the shared issues of the executive team. The development of the shared vision is only a starting point for building an Executive Leadership Team. The vision/strategy, translated into the Balanced Scorecard, becomes the shared agenda. Working this agenda, together, and continuously over time, leads to cultural change and teamwork at the top—and to an enabler for change at lower levels.

Continuing Leadership

A strategy is not executed overnight. Some of the great success stories cited earlier achieved dramatic results in a period of two years ... fast, by most standards. But they found that the job wasn't done in two years. In many respects, it was just the beginning … the strategy continued to evolve, it had to be updated, communicated, aligned, funded, evaluated, and changed. So the real challenge and the real key to success are how the executive team acts once the program is designed and introduced to the organization. First and foremost, the executive team must adopt a new way of managing. As stated earlier, "managing strategy is not like managing tactics." Most executive teams have never really managed strategy. The SAP Strategic Enterprise Management process and tools and the Balanced Scorecard concept provide an excellent framework and infrastructure to help. But it still requires leadership from the top. In the words of one executive, who had achieved dramatic successes using the Balanced Scorecard, the implementation process in his organization was:

"… like hammering a nail into concrete. You have to be patient, but you have to be persistent. Do not underestimate the time and effort that will be required."

As you consider the beginning of a strategic journey in your organization and contemplate the use of the Balanced Scorecard as a management process, heed that advice. The Balanced Scorecard has worked for others, and it can work for you. But it requires the commitment and hard work of the busiest people in the organization. However, in the words of another successful executive:

"If our job isn't executing strategy, what is it?"