

Mind Your Own Business News Letter

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Special points of interest:

- Strategy explained
- Balanced scorecard fundamentals
- Roadmap

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What's strategy anyway ?

The word 'strategy' is often abused or misused. To some people strategic is synonym of important as in "I am working on a strategic project for the CEO". To some, strategy means outcome, as in "our goal is to become number one in this market segment". Others see strategy as synonym of urgent.

The word strategy originates from the Greek 'Strategos' meaning army leader. In the context of the enterprise or organization, a relevant definition of strategy would be: 'Defining the best possible outcome for your organization, the transition plan to follow to achieve the targeted outcome, and clearly communicating the transition plan and its outcome'.

Based on this definition, we can derive the following implications:

tions:

- A strategy has to be practical and detailed enough. Unrealistic out-



comes will not be achieved and the transition plans would be

unpractical.

- A strategy does not exist until a relevant and logic plan to achieve it has been established.
- There is not such a thing as a confidential strategy. A strategy is only actionable if the team and employees in charge of its execution are fully aware.

The strategic planning process is of paramount importance for most organizations. The strategy sets the tone and direction for all investments and enables insightful monitoring of the business performance.

So is the word "strategy" meaningful and consequential to all in your organization ?

Sustainability Scorecards

Most organizations have recently understood the need and benefits of getting better at sustainability management. Chief Sustainability Officers and sustainability scorecards are making their way to the highest level of the organizations.

Sustainability management is often through a triple pillar made of environment, social and

economic concerns. A sustainability scorecard will try to capture the progress made by the organization. It will also keep a forward-looking idea on how the organization will be performing its green management, how it will benefit from a true corporate social responsibility and how those will help maintain a healthy economical result.

Modern organization will place sustainability at the highest level of the scorecards, driving specific and measurable business objectives with key strategic initiatives to achieve true results. As a set of KPI or as self-contained scorecard, sustainability is a new element of the management puzzle.



The path to performance is not always obvious.

“Many organizations have a vision but do not really define a true path to reach it”



PESTEL method

Landing the strategy

Most business strategists will tell you that the strategic planning process starts at 30,000ft, by defining the mission and vision of your organization, and then slowly gets more detailed until a clear set of strategic initiatives have been defined.

The strategic planning process is indeed subtle, starting with abstractions, ideas, concepts, notions and to some extent some speculation. That said, landing the strategy on the ground is of major importance. Too many organizations have a

vision (the “what”) but do not really define a true path to reach it (the “how”). The strategic process is therefore not complete until the strategic initiatives and their control and monitoring is crystal clear. An implication is that the strategic process borders with program or project management, in the sense that the world of strategy and the world of operation must overlap a little bit to enable true progress toward the end-goal. Strategic frameworks or the tools supporting strategic management must therefore

embed a clear mapping between the business drivers, specific objectives and the actual strategic initiatives or programs, that will put the strategy in action.

Failure to do so will create a gap between the intent and the real activities performed. The “how” will misread the “what” and the strategy achievements will stay at 30,000ft, too high to become a down-to-earth reality.

Have you landed your strategy ?

Learning and Growth perspective of the Balanced Scorecard

The 4-perspective balanced scorecard (BSC) is a management tool that allows an organization to set, track and eventually achieve its key business objectives. One perspective of the BSC is referred as the “Learning and Growth”. Learning and Growth is what captures knowledge management, employee training and all those things that will take advantage of people-powered activities (mostly everything!).

This is vital to all organizations, yet very often ignored or thought to be of minimal importance. The Learning and Growth leg allows the company to understand the importance of taking care of human resources, how to measure knowledge, education and growth.

Even though the employee capabilities is often an intangible asset, the human and information capital of an organiza-

tion are the sources of a major domino effect that eventually impacts greatly the performance of an organization.

Because of its nature, improvements on the learning and growth perspective often does not have short-term effects, however medium and long-term performance starts with high scores in the most misunderstood BSC perspective.

PESTEL

PESTEL is an analytical method used by business to help them understand how they compete or will compete in the market place, and what they should do to compete better. PESTEL is a model that looks at 6 aspects of the business eco-system:

- **Political:** How is the political environment of the country impacting the business (tax laws, environmental laws...)?
- **Economic:** What economical elements are influencing the business performance (exchange rates, inflation...)?
- **Social:** What in the social framework is effecting the business (age of customers, cultural changes...)?
- **Technological:** How is the technology environment evolving and what threats and opportunities does it create?
- **Environmental:** How is mother nature affecting the organization?
- **Legal:** What is the legal environment (employment laws, health and safety...) of the business and how is it shaping the strategy?

The metrics corner: EVM, Earned Value Management

When managing key projects, it is healthy to monitor projects through EVM (Earned Value Management) to make sure that projects will deliver on time and within budget. The method reports on a comparison between the planned value (PV), earned value (EV) and the actual cost (AC).

Measuring the performance of key projects is a natural way of understanding if the strategy implemented following expectations. Some of the key indicators and indexes that can be

derived using the EVM method are:

- SV: Schedule Variance, where a positive value indicates a project ahead of schedule.
- CPI: Cost Performance Index, that should be kept under 1 (one) in order to keep projects under budget.
- SPI: Schedule Performance Index, indicating if a project is ahead (> 1) or behind (<1) sched-

ule.

The EVM is a simple yet strong methodology understood by most project and program managers. However, the EVM focuses on timing and budgeting considerations, but does not capture how well the project is delivering and its promised benefits. It is therefore recommended to complement the EVM metrics with scope, risks and other elements in order to obtain a 360' view of the key strategic projects.



Using the right KPI and KRA in the right dashboard.

KPI: Financial reporting series, what is the Acid-Test ?

It is good business practice for a business to maintain enough liquidity to avoid short-term cash issues.

It is also good practice to check other organizations (e.g. Clients) ability to pay their current debt when due.

The Acid-Test (aka as quick ratio) is a strict test of a company ability to pay its current debt. The ratio excludes inventories and prepaid assets and

therefore avoids false impressions.

The *Acid Test* is the ratio between the *Quick Assets* and the *Current Liabilities*, where the *Quick Assets* is equal to:

Cash plus Short Term Investments plus Current Receivables.

An Acid-Test ratio lower than one is not desirable for most companies and indicates that a firm does not have enough short-term , liquid assets to pay

-off immediate liabilities.

The Acid-Test ratio should be part of most Financial scorecards as it also indicates how well cash-inflows and cash outflows are being managed,

However, watch out for the true quality of the "Current Receivables", as in a volatile economy, current receivables could turn out to be not so liquid or even over-valued.

“Earned Value Management to make sure that projects deliver on time and within budget”

Coming soon, MS2C Winter ‘10

The MS2C Winter 2010 adds a strong management tool to its portfolio: EVM or best know as Earned Value Management.

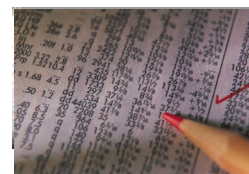
EMV is a method used to measure if an initiative (aka project or program in some organizations) is delivering on its value, keeping the cost and schedule in mind. The method, praised by professional project manager, reflects through simple indexes how an initiative is performing against its baselined

plan.

Also coming to MS2C is a new dedicated support web-site that will combine:

- User manuals
- How-to's
- FAQ
- Administrator help
- Case studies
- A repository of ideas

where MS2C clients can log or vote for the best ideas for improving MS2C. Those ideas will be assessed by our product managers and the best ones will be implemented in coming MS2C release



New activities at MS2C.

MANAGEMENT SCORECARDS

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If you're not keeping score, you're just practicing.

MS2C is a product of **GEM-UP CONSULTING**. The product is dedicated to helping organizations with their strategic planning and business performance. By combining the strengths of strategic planning tools, balanced scorecard, risk management, portfolio management, we strive to accommodate the needs of the agile and modern organizations and enable them to perform to their best of their capability. **MS2C** integrates all the tools within a single on-line framework that makes the overall business performance easier to manage and execute. More information on the product can be retrieved from our web site at www.managementscorecards.com.



BSC pitfall: Cherry picking the KPIs

A common pitfall of balanced scorecard implementation is to select only certain KPIs such as:

- **Choosing only easily achievable KPIs.** There is nothing wrong in choosing very achievable goals or low hanging fruits from time to time. However, when KPIs are too easy to achieve, it often does not drive performance excellence.
- **Choosing only easily measurable KPIs.** KPIs should be measurable, however sometimes important and critical metrics are hard to get at, but the re-

ward is high. Obviously, the cost of the measure should never be higher than its benefits.

- **Choosing only generic KPIs.** Scorecards should contain common metrics, however scorecards must also contain metrics that are specific to the organization. Also the KPIs must be contextual. KPIs are used to measure if the strategy is being implemented successfully and therefore should reflect the specifics of a company and its current strategic plan.

- **Choosing result ori-**

ented KPIs only. A scorecard must contain KPIs reflecting the true results of the strategy. However, scorecards should also contain subtle measures that are at the source of complex domino effect and allow the organization to understand causal-effect relationship and its overall value-chain.

Cherry picking the KPIs is a common pitfall. When implemented poorly, a scorecard could picture an illusory situation. The best KPIs are insightful, forward looking and a true reflection of the performance of the organization.



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scorecards.com