The Business Value of Strategy Alignment

Defining Strategy Alignment Interventions in the Context of Financial Organizational Outcomes

Jonathan M. Estes

It's actually common knowledge. Successful organizations have good strategy alignment. Most leaders in business and any institution for that matter will agree, the degree by which their vision is communicated effectively to each member of the organization in order that their contribution is aligned with the financial outcomes determines the success of that organization. Unfortunately, corporate leaderships' gut feeling of aligning the highest level strategies across the enterprise and down to every employee does not always translate into a financial investment with an expected return on investment. Strategy alignment initiatives are considered "soft" and intangible to measure like training and marketing when in fact the business value of strategy alignment can and should be measured by the same financial standard as any "hard" asset the company invests in. Measurement of strategy alignment has either been ignored or implemented at level of making sure everyone was happy with the process. This isn't good enough. The goal of determining the business value of strategy alignment is not just to validate the return on investment of that initiative, but to discover the specific drivers of business success and maximize the effort for greater return in future initiatives.

Business Value

In this cost savings economy where the CFO reigns, demonstrating the value of any business initiative in financial terms is imperative. Individual employees, teams, and departments all must demonstrate the business value of their work or lose their jobs, lose their budget, or get dissolved and outsourced. Most units can't define their value beyond cost savings and pull together data that makes a compelling business case to justify their team and their work towards a true return on investment. The metrics have traditionally been considered intangible, out of reach, or too expensive to measure. But the alternative doesn't contribute to business impact either. Regardless of how much is saved year to year or quarter to quarter, there is always a diminishing return. This "Savings on Investment" approach, or SOI, falls short of demonstrating true business value. The focus needs to rather be on demonstrating a return on investment and maximizing business impact. The goal in this new "Delivering Business Value" environment is to become a high-performance, high-value contributor to the corporate strategies that can show decisively how its work is driving higher revenue, improved client satisfaction and greater operating efficiencies. To meet these needs, managers need a common understanding of value and how it's created in the context of their business unit in relation to the rest of the organization; an accessible tool to communicate business value in financial terms; and a means to measure and monitor their success effectively.

Strategy Alignment

If "strategy" is defined as "a framework within which the choices about the nature and direction of an organization are made," then strategy alignment is the complete integration of every organizational component to the mission, strategic vision, planning processes, day-to-day decision making, and human performance systems. As a dynamic process, strategy alignment facilitates continuous monitoring, review, and updating of the strategy, crucial in today's environment of constant change.

The process of strategy alignment is often divided into five phases that are each linked with feedback loops for validation and adaptation to changes. These five include:

Phase 1: Strategy intelligence gathering and analysis which ensures quality, up-to-date information by which to make decisions;

Phase 2: Strategy formulation which includes exploring fundamental beliefs and assumptions to create a strategic vision, products and services offered, profile of targeted consumers, geographic scope, competitive advantage, needed capabilities, and financial goals;

Phase 3: Strategic master planning which encompasses the development of the implementation plan, prioritizing, defining steps and roles in detail, sequencing, scheduling, researching, executing, and monitoring strategic projects;

Phase 4: Strategy implementation which involves taking planned actions, monitoring implementation, and modifying the strategic master project plan as circumstances change. In this phase, the more strongly employees feel ownership of the strategy, the more they will committed to the strategies' success. And,

Phase 5: Strategy monitoring, review, and updating which is a key input to regular review that evaluate the effectiveness of the ongoing implementation as well as examine the validity of underlying assumptions of the strategy.

To make this process successful, there is a necessary need for creating a "strategic culture" (the combined effect of behaviors, norms, beliefs, values, heritage, thinking, and relationships and the way they manifest themselves in an organization and its strategic performance) which is often the primary function of strategy alignment initiatives. When these align with, and support, an organization's strategy efforts, strategic success is likely assured. This strategic culture concept is further validated by Per Christiansen and Jon Lund Hansen in "Organisational Ecology and Strategic Leadership, Christensen & Lund Hansen 1993 where they describe a third view or systems approach of systemic thinking as follows:

> It is easy to see the world from one's own point of view, *or first position* as we refer to it here. It is more difficult to see it from the other's - *second position.* Seeing relationships between one's self and others is the most difficult of all - from the *third position.* This perspective: to see processes and patterns from an outside viewpoint, is also called system-perspective, or systemic thinking.

High performing organizations manage their workforce to create breakthrough results using four key aspects:

1. Align their workforce with the top-level business strategy
2. Actively engage the workforce in all phases of strategy implementation
3. Measure the business impact of the contributions of the workforce
4. Provide constructive feedback to the workforce on their results compared to the measurements.

For strategy alignment to achieve the greatest business impact, it's vital to involve as many people as possible in the process of implementing, if not actually setting strategy. Energizing and motivating people to action is easier when they feel involved, rather than being imposed on from above.

Conference speakers and articles in industry journals are replete with calls for demonstrating ROI among a variety of interventions including IT, training, and facilities management, as well as strategy alignment consulting services. Harder to find, however, are case studies that describe specific examples and metrics in the context of measurable organizational outcomes for strategy alignment interventions. A new model is required that breaks away from standard forms of planning and that incorporates the business value concepts with those of strategy alignment as follows:

Standard Planning	**Business Value and Strategy Alignment**
Industry-specific models and language imposed on business	Business models and language applied to Industry
Emphasis on counting and cataloguing of prescriptive data and wish lists	Emphasis on activities, functions, and performance concepts
Outcomes measured as Industry-defined performance statistics	Outcomes measured in business terms
Prescriptive, on-size-fits-all planning process	Conceptual framework, flexibility applied to specific client needs
Strictly tactical, linear approach	Balance between strategic and tactical, iterative process
Financial outcomes based on SOI using line-item budget	Financial outcomes based on ROI using a business case format, cost-benefit analysis
Top-down dissemination of information about strategies to workforce	Inclusiveness of workforce in strategy development and implementation

Strategy Alignment with a Business Value focus is a key element in creating and sustaining value in business. Yet there is still no standard for recognizing, developing, managing, or measuring this intangible asset. It's not enough for OD professionals to be able to explain why and how they implement their approach. They need to be able to transcend the SOI mentality, measure performance, and link Strategy Alignment contributions to the mission of the organization and define its impact in financial terms.

Calculating the Business Value of Strategy Alignment Interventions

Most organizations today focus on creating value through improving the efficiency of organizational processes. They measure their success through changes in mass-manufacturing economies of scale, savings benefits garnered through hyper-efficient distributions systems, Six-Sigma quality control programs, and so on which all contribute to enormous value creation in organizations. Organizations will get progressively better at designing and managing processes to improve efficiency, but such initiatives no longer have break-through value-creation potential. They are already witnessing diminishing marginal returns when it comes to the incremental value creation possible through improving efficiency.

Measuring the business impact of interventions such as Strategy Alignment Interventions is based on understanding business value and its implications, which is always financial. Business Value can be defined as: "The financial contribution of an individual or team that is measured as a return on investment and that achieves the strategic goals of the organization." For a Strategy Alignment Intervention, there is only one reason the investment is made: The value of the benefits the intervention produces for the organization exceeds the cost to the organization of having the team produce those benefits. Defining the formula for the business value of strategy alignment is deceptively simple:

$$\text{Business value of strategy alignment (\%ROI)} = \frac{\text{Value of the organizational benefits produced}}{\text{Direct cost of intervention}} \times 100$$

However, calculating the benefits produced is difficult to obtain because there are often intangible outputs, it's hard to measure in dollars, costs more apparent than revenues. But the implications of not measuring the business impact are greater than the difficulties and with the advent of new analytics software tools available on the market, statistically isolating the business impact of soft interventions such as strategy alignment is becoming easier and more economical.

Many employees don't believe that their leaders truly want them to act strategically—to view their organization from the third position. Whenever a choice needs to be made between strategy and short-term cash—and it always does—most people feel irresistible pressure from management to go for the cash. They settle for an SOI definition of themselves because usually the message from leadership is clear: strategy can wait for tomorrow. Rather than leaders encouraging strategy perspectives among employees, they are often the biggest obstacles to the implementation of strategy. They need to realize that short-term paybacks, if not aligned to a long-term strategic value, will be short-lived. In "The Balance Scorecard" by Kaplan and Norton, they emphasize organizations needing to link their investments to long-term strategic priorities rather than tying them to narrow financial measures such as payback and discounted cash flows. Though senior executives deny it, most organizations allocate financial resources using incremental, tactical, capital-budgeting mechanisms that stress easily quantified financial measures of near term cash flows. A lot of this has to do with not being able to measure the impact of strategic initiatives, including the strategy alignment process itself. The metrics tend to be elusive, vague, broad, or inaccessible. These excuses are not longer valid as the need for demonstrating and maximizing business impact has become the new factor in determining competitive advantage.

What are the metrics to be used for measuring the business impact of Strategy Alignment Interventions?

Measuring intangible assets such as strategy alignment and their relationship to the overall strategy of a firm will inherently transform traditional accounting procedures that are bases on tangible assets. Most of the impacts of the strategy alignment process will be linked to financial goals of workforce performance and behaviors of the firm. Strategy alignment can't help but be held accountable to the performance outcomes of the participants of the process. In fact, true strategy alignment implies that leaders must identify and be involved with those strategic implementation elements that create those results and the measurement system should provide a clear view of how each employee contributes to success and express those measures in terms everyone understands.

Data for these outcomes are usually stored in corporate legacy systems. Productivity data may be stored in one system that includes product output, error rates, and cycle time. Sales data may be stored in a financial software package that includes sales volume, time to close, and numbers of calls made per day. The human resources database stores all of the necessary employee information to help isolate those who received an intervention and those who didn't in order to statistically isolate the business impact of those interventions. Firm must move from measuring only lagging indicators that tell what happened in the past such as previous performance metrics to including leading indicators that assess the status of success factors such as R&D cycle time and customer satisfaction.

The ideal metrics for Strategy Alignment Initiatives include four themes cutting across any or all of the core areas of the firm including Mission and Vision, Customers and Markets, Products and Services, Unique Competencies, and Values & Cultures. The four themes include: Identifying the Strategy Alignment deliverables, identifying and measuring the processes and interventions that generate those deliverables, developing a validated competency model that will focus on outcomes, and identifying Strategy Alignment efficiency measures that link costs and benefits.

Possible metrics to be collected:

1. Survey of those whose behaviors the intervention is designed to influence. Performance data of participating members in the intervention that could include:

productivity	satisfaction	morale
error rates	absentee rates	fewer complaints
retention	innovation	etc.

2. Changes in value of specific processes that are directly impacted by the intervention.
3. Explore employees' perceptions of alignment by identifying the key strategic drivers, identify the key elements that enhance the strategy implementation, and a paired alignment evaluation for all elements in the first two steps.

A new vision is required to demonstrate the business value of strategy alignment to move from a "line item", cost containment, and "service provider" mentality towards being more strategically aware, involved, and focused on contributing to the overall success of the company, not merely their function or department. The main outcome of such a vision is to empower leaders and staff to become aware of their role as "Business Value Analysts", learning how their unit's business impact is proposed, delivered, measured, and reported more effectively to their clients and to management.

