Deloitte Review

ISSUE 2 | 2008

Complimentary article reprint

Chronic Misalignment

Why leadership's calls for better organizational alignment don't work, and how a simple 'value language' can remove common barriers

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> ILLUSTRATION BY JOSH COCHRAN

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Why leadership's calls for better organizational alignment don't work, and how a simple 'value language' can remove common barriers

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Everyone knows that strategies are essentially useless if they don't influence what actually happens across the company on a daily basis. Leaders increasingly expect that people throughout their organizations will "think like owners," aligning their actions more directly with the strategies and priorities of the company. This has worked for some organizations, but for many more it has not. Why have some been able to create alignment, and why haven't the others?

Many efforts have been made to explain the differences, and the vast majority of the resulting articles and books are insightful in both their diagnoses and their prescriptions. What can get lost, however, is that the simplest explanation of poor alignment is often the most useful: people cannot align their actions and decisions with the strategies and priorities of the company if they lack an accurate understanding of the company's strategy, its performance, the resulting priorities, and the ways in which their actions affect the performance of the company.

Many companies simply do not build a sufficient understanding of the business among the levels of people who make operational decisions across the company. Consequently, asking people to align their activity with strategies and priorities is unlikely to produce results and may actually frustrate ambitious, well-intentioned staff.

So how well-primed is your company for alignment? Here's a quick way to assess the readiness of your own organization. Have a look at the five questions in the sidebar and ask yourself:

- How much consensus is there among our executive leadership team around the answers to these questions?
- How far down in the organization do you have to go before there is little or no clarity around the answers to these questions?

If your answers leave you feeling confident and secure, your company is in the minority. Our experience suggests that there is frequently little common understanding around these questions, even at senior management levels, and that what common understanding does exist usually deteriorates rapidly one or two levels deep in the organization.

In a recent Deloitte Consulting LLP survey of financial executives, 78 percent reported their most pressing worries revolved around three related challenges: improving the understanding of causal relationships between operations and shareholder value; effectively communicating improvement plans and progress to all levels of the organization; and resolving the misalignment of project portfolios.

Also insightful were these executives' perceptions of who within their organizations was most in need of a better understanding of the causal relationships between shareholder value, strategies, financial performance and change efforts. Eighteen percent reported that their companies' top executives were most in need, while 65 percent thought middle management and line staff were most in need.

To be sure, some companies excel at creating

FIVE KEY QUESTIONS FOR YOUR ORGANIZATION

How much consensus is there within your organization?

1. **How does our organization create value for our shareholders/stakeholders?**
What do we provide, to whom, and on what competitive basis?

2. **What do we have to be good at to be profitable?**
Do we have to have the best products, the lowest prices, the best locations?

3. **How are we doing?**
Are we good at the things we need to be good at; are we on track from financial, customer, process and development perspectives?

4. **What improvement areas matter the most?**
What types of investment and improvement efforts are we (and should we be) pursuing?

5. **Are our people pointed in the right direction?**
Do we have the right people, and are their incentives consistent with our needs?

a common understanding and focus. For example, call center sales representatives at one high-performing manufacturer understood that their company created shareholder value primarily through asset efficiency. Furthermore, they were able to explain how this fact impacted the company's product strategy, manufacturing techniques and compensation schemes. This deep understanding of management-oriented concepts among line staff has almost surely contributed to the company's exceptional performance year after year — not to mention its above-average retention of highly skilled people.

REALIZING THE POWER OF ALIGNMENT EFFORTS

One of the strongest and most sophisticated methods for creating better alignment is to define a set of key performance metrics (a "balanced scorecard" in the parlance of Norton and Kaplan)[1] to keep attention focused on the company's most important performance needs. The next step is often to tie investments and performance measurement to this set of metrics. Hoshin Planning goes a step further by creating direct ties between the metrics of the company and the performance measures for senior executives, division leaders, line management, and workers deeper within the operational areas of the company — all in a cascading, linked set of progressively more granular metrics.

While these approaches have proven strong both in concept and application, their benefits can be negligible if they are not preceded by an improvement in the business awareness and understanding of the people involved. Management by metrics can markedly improve alignment and the performance of the company, but the reach, durability and flexibility of this approach will be severely limited if only those at the top of the organization understand the rationale for those metrics — i.e., if the workers deeper within the organization see the metrics as the outputs of a black box. Such a condition can create a myopia that grossly underutilizes the intelligence and motivation of large portions of the organization. It can also make it very difficult for people to work cohesively with colleagues across other business units or functions.

> "People cannot align their actions and decisions with the strategies and priorities of the company if they lack an accurate understanding of the company's strategy, its performance, the resulting priorities, and the ways in which their actions affect the performance of the company."

So how can companies create an empowering understanding of the business deeper within their organizations? The answer often lies in creating a shared view of how the business works — an explanation of how the operations of the company ultimately create business value in bottom-line financial terms. This shared view of the company can help establish a common perspective and language for discussing business performance. With this common view and language in place, it should become much easier for leaders to communicate how the company is performing and in which areas the business most needs improvement. It can also make it easier for leaders to understand and evaluate each others' opinions and suggestions, because the shared language provides a consistent backdrop for what they think and why they want to pursue particular actions. Equally important, the shared perspective can help educate many people deeper within the organization which, in turn, can help improve their ability to contribute to the performance of the company.

VALUE MAPS: SHARED "VALUE LANGUAGE" TO LINK OPERATIONAL PERFORMANCE TO BUSINESS RESULTS

One of our most consistent findings from work with all levels of people in the organizations we serve is that people are hungry for information that gives them better insight into how their leaders think and that helps them understand how what they do (and could do) creates value for the company.

The other good news is that it doesn't take (much) rocket science to start to get your people onto the same page. We have found that a new twist on an old concept — a quasi-DuPont model tied to operational business processes and tactical improvement actions — can catalyze much stronger business understanding and more aligned business activity both among executives and much deeper in the organization.

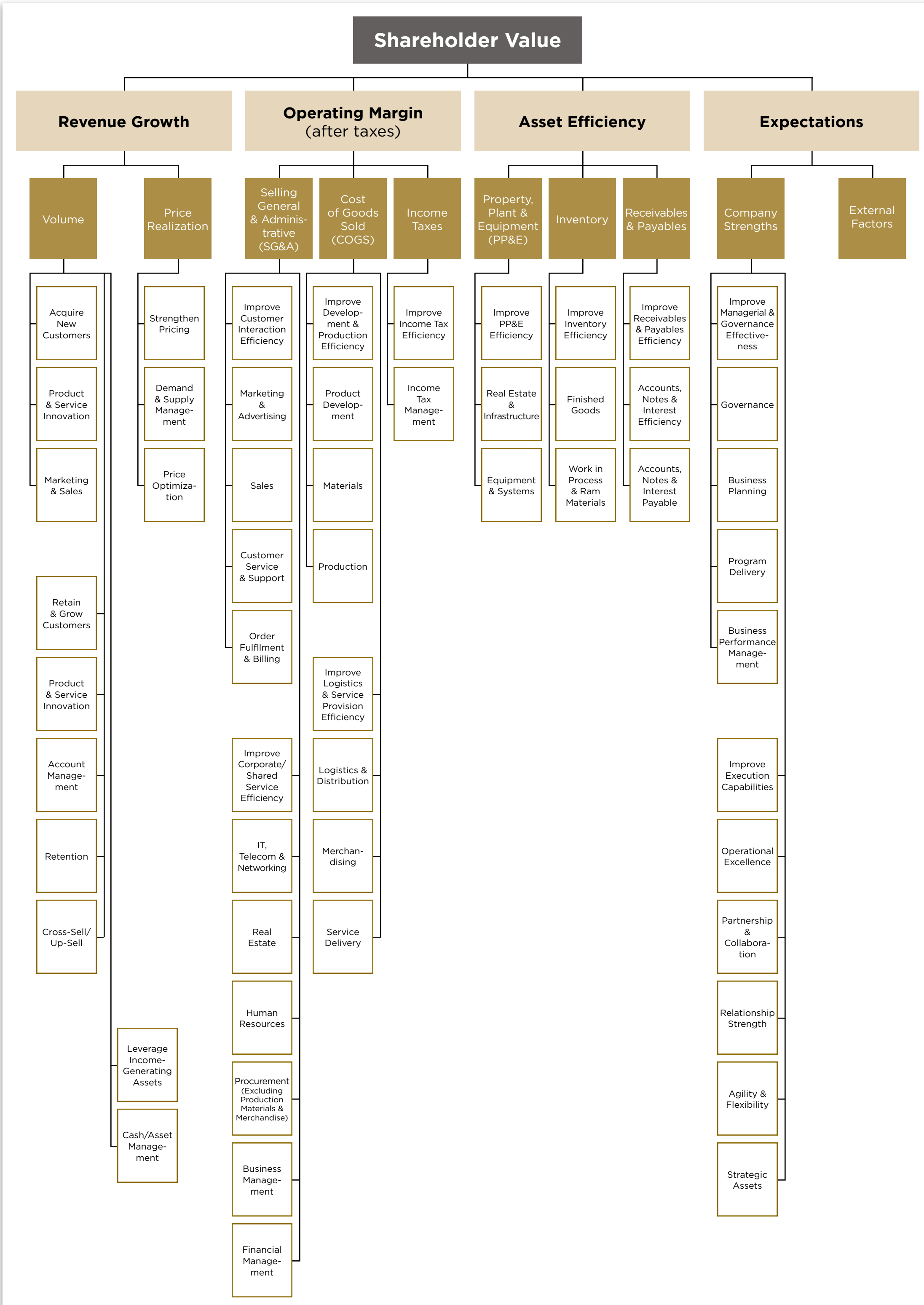
"With this common view and language in place, it should become much easier for leaders to communicate how the company is performing and in which areas the business most needs improvement."

The DuPont model is a decomposition of shareholder value into a set of financial drivers, each of which is further decomposed into its own set of subordinate financial drivers. The new twist is to attach the DuPont model's financial drivers (which, as outcomes, are influenced only indirectly through business decisions and activity) to *operational* drivers (which, as manageable processes, are influenced directly). We have found that putting these decomposition charts, which we call value maps, on a single poster provides a strong, broadly accessible framework for communicating how value is created within the operations of a company. And in much the same way a topographic map provides an objective, geographical context for planning a journey, value maps can provide a logical, concrete and consistent context for business understanding and decision-making.

Once you have established a value-centered, operationally driven value map, you can challenge your talented, diversely skilled people to continuously ask and answer the five key questions posed earlier. Equally important, you can expect them to start thinking, planning and communicating more contextually, specifically considering the shareholder value impacts of what they do and the decisions they make. The CFO of one of our clients explains why this matters:

"When we used to have business planning meetings, the IT people would use technology frameworks to explain what they were doing and why," he said. "The HR people would use an HR framework and talk in HR terms. The sales and marketing folks would use their own frameworks. Not only was it confusing for cross-functional leaders like me, but it also made it hard for these leaders to understand each other

THE BASE "DELOITTE ENTERPRISE VALUE MAP™"



and work together. Now our value map is the accepted business language, and everyone knows they have to overlay their discipline onto the business framework and not the other way around. People know that, if you can't explain what you want to do and why you want to do it using value maps as a backdrop, you're probably not thinking from the right perspective — bottom-line business impact."

When we first started using value maps with clients, we expected and received a positive response from CEOs, CFOs, COOs, strategic planners, program office leaders and other cross-functional, financially focused executives. What we underestimated was how strong the interest would be within individual business units, departments and project teams.

As we began helping leaders use value maps deeper within their organizations, it became clear that these relatively simple, single-page posters were typically more effective in communicating goals, priorities and cause-effect relationships than were multi-page presentations, internal executive memos and annual reports. People throughout the company started to see the maps as windows into the thought processes and priorities of their company's executives and shareholders. Furthermore, people who had been unfamiliar with business terminology (especially those without formal business training) were frequently surprised by the simplicity of the concepts and the cause-effect relationships.

Not surprisingly, we started seeing value maps not only on the walls of executive offices, but also on the walls of staff cubicles and project workrooms. As the head of customer relationship management for one of our clients said: "[Our value map] certainly enthused a lot of people to really understand how the work they're doing is going to affect shareholder value… and how the metrics on their programs and projects will roll up ultimately into a financial understanding of the contribution we make to the business."

Equally important, we started to see value maps used to focus and accelerate pre-existing improvement efforts. By establishing a shared language and a deeper foundation of business understanding across the organization, value maps were starting to help companies realize the full potential of powerful management approaches like Balanced Scorecards, Six Sigma, and Hoshin. While each of these approaches is powerful in its own right, value maps were providing a valuable context and language that both focused and accelerated their implementation.

PRINCIPLES FOR BUILDING AN EFFECTIVE VALUE MAP

Orient it toward shareholder value — True North
Long-term shareholder value is the ultimate measure of whether or not a company is creating sufficient value for customers, employees and broader communities.

Structure it around shareholder terminology — The Shareholder's Lens
There is a reasonably consistent manner in which shareholders view the performance of the business. This should be your people's view, too.

Make it objective — The Lay of the Land
Maps are not subjective; they are representations of fact. Once you have an objective lay of the land, you can start incorporating opinions about where you are, where you're headed, and how you're going to get there.

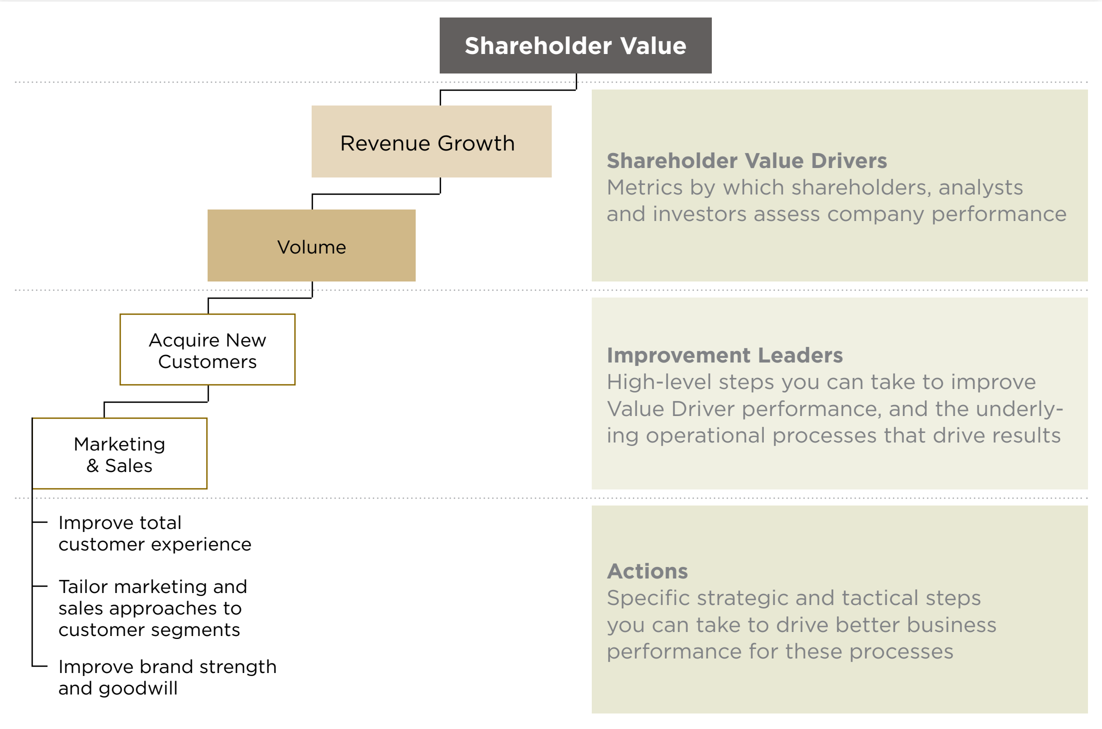
Tie it to activity — A Plain-English, Cause-Effect Guide to Action
Don't build the map around organization structures or topics or concepts. Show how actions drive upward to create shareholder value.

Make it available — The Common View
You can't expect people to make good decisions if they don't know the destination, the path, or the lay of the land.

KEYS TO AN EFFECTIVE VALUE MAP

Like any geographic map, value maps are intended to provide an objective, agenda-free

THE LEVELS OF A TYPICAL VALUE MAP



lay of the land. Preserving the logic and objectivity of the cause-effect relationships is the single biggest challenge in creating an effective value map. Embedding politics and agendas will doom a value map because they can threaten the acceptance of the map (i.e., Executive A sees the value map as a mechanism for promoting Executive B's agenda) and because they can impact the timelessness of the map (i.e. politics and agendas shift, so the map shifts, too.) Undeniably, politics and agendas have their place, but with this objective, fact-based map as a basis, your people will be more capable of expressing and justifying their assessments and opinions regarding where the company is, where it is headed, and how it should get there.

To avoid the political-agenda pitfall, it is crucial that the creation of the value map is overseen by the right senior executive — usually the CEO or his or her designee. It is also vital that there be a single, impartial architect whose job is to work with the company's functional specialists and make the map as factually correct, logically consistent and defensible to shareholders and market analysts as possible. There is almost always more than one right way to design the map: the job of the architect is to pick one of them, then be true to it throughout the design of the map.

Another effective technique to help maintain both quality and objectivity is to start with an existing, tested value map template and modify it only as needed. To this end, we have developed an industry-generic Enterprise Value Map that is available free of charge via our Deloitte.com Web site.

If you choose to develop your own map, or substantially alter the generic

Enterprise Value Map, the five steps outlined in the sidebar provide an overview of principles that will help you in your efforts to develop an objective, durable version.

Most importantly, remember that the litmus test for the map will be whether it makes sense to the company's current and potential owners. If the map doesn't make sense to these people, it will be very unlikely to instill the owner-like thinking essential to the ultimate profitability of the business.

PUTTING THE VALUE MAP TO WORK

When we first started talking about value maps with executives and other managers, one of the first things that struck us was the speed and creativity with which they started using the maps to tackle their companies' and divisions' business problems. As is the case when using any map, people tend to focus on different things depending on their needs and their roles. Some focus on the cities and landmarks, some on the terrain, and some on the roadways and distances.

Not surprisingly, senior executives tend to approach the map top down, spending most of their time focused on the destinations and terrain — the red boxes and large white boxes. As we went deeper within organizations, people typically started to approach the map bottom up — locating the operational processes and improvement projects over which they have responsibility, and tracking upward to intended business impacts.

From our experience working with leaders across organizational functions and levels, four broad uses of the value map have emerged: understand, focus, align and execute.

Understand relates to the idea that companies take different approaches to creating value for shareholders, competing in the marketplace and organizing their business operations — and that it is important for an organization's people to understand what choices have been made and what the implications are for the various parts of the organization. Senior executives frequently customize value maps to fit their own company's industry and culture, and then use those maps as a backdrop for discussing strategies and performance with company leaders, external analysts and other key stakeholders.

Focus relates to the principle that not all parts of the value map are equally important — and that effort and attention should be concentrated on the parts of the business that are most important to the achievement of chosen strategies at a point in time. Using value maps as a guiding framework, leaders assess the relative impact of financial drivers (the second row on the Enterprise Value Map) on the creation of shareholder value — for example, do small changes to some drivers create more impact than large changes to others? For the most important of these financial drivers, they also typically assess the relative impact of operational performance factors on financial performance in those areas — for example, does one of the operational drivers have a disproportionate impact on the financial driver it supports? Finally, leaders typically evaluate current performance in key operational areas to assess where improvement efforts should be focused.

Align refers to the principle that the company's resources should be put to work in ways that are consistent with the company's most pressing needs and priorities.

HOW COMPANIES ARE USING THEIR VALUE MAPS

Understand	**Articulate how organization strategies and operations create shareholder value** • **Value Creation Strategy** identify the financial and operational drivers of shareholder value • **Industry and Company Factors** identify internal and external factors driving value creation • **Organization Analysis** assess how business units and functions can contribute
Focus	**Determine which value drivers are most important and in need of improvement** • **Financial Performance** EVM red-box performance relative to past and peer group • **Operational Performance** EVM white-box performance relative to benchmarks • **Capability Development** EVM expectations branch relative to current & anticipated challenges
Align	**Align minds, activity and investments with the organization's priorities** • **Project Portfolio Alignment** align investments with improvement priorities • **Behavior Alignment** align activity of people with strategic priorities • **Metrics Alignment** align metrics/scorecards with key performance areas
Execute	**Ensure project investments deliver their intended business benefits** • **Business Case Development** articulate the targeted benefits and costs for initiatives • **Implementation Planning** ensure initiatives are designed to deliver needed improvements • **Project Value Delivery/Assurance** ensure projects create intended business benefits

One popular alignment exercise is simply to overlay the company's key metrics (or its balanced scorecard) onto the value map and see whether they seem to be focused on the right things. Ideally, the metrics will be aligned with the key financial and operational areas highlighted in the focusing exercises explained above.

The most prevalent alignment exercise revolves around assessing the alignment of the company's (or the division's) project portfolio with the company's strategies and priorities. The simplest approach is qualitative. This involves overlaying programs and projects onto a large copy of the value map and checking whether the distribution of effort makes sense. Ideally, the projects will be largely focused on key operational areas where improvement is required.

Execute relates to the principle that the organization must deliver targeted results within the key operational areas of the business, and that projects must deliver their intended business results — not just be completed on time and on budget. To better understand performance in key operational areas, companies frequently use the lowest levels of the value map to help them identify what needs to be measured at detailed process levels. To increase the likelihood that projects will deliver their intended business results, companies use the value map as a business case framework and require project sponsors to consider and articulate the multiple paths by which their initiatives can and will create value.

While using any of these techniques in isolation can help companies better link the activities to business results, using them in concert will likely have a higher impact.

NOT ROCKET SCIENCE

The effectiveness of value maps comes foremost from the power inherent in a shared purpose and a consistent understanding across groups of people. When leaders provide motivated, talented people with information that explains where the company is and where it is headed, they can more effectively help position them to make full use of their abilities in helping the leaders execute their plans.

There is no rocket science here. Some who look at value maps will say, "So what? We already knew this." On the other hand, a substantially larger number of people who haven't thought this way before (or at least haven't in a long time) will likely start to develop a much better understanding of how their daily activities and decisions ultimately create value for the company and its shareholders. This understanding is a crucial step on the path to strong shareholder value performance, and it is vital to the effectiveness of approaches like Six Sigma, Balanced Scorecards and Hoshin Planning. Value maps can be one of the most straightforward tools for getting the process started.

THE VALUE MAP IS NOT THE POINT

We have learned from our work in helping our clients use value maps that there is no such thing as a silver bullet. While formulating and distributing a value map can catalyze learning, conversations and better-directed activity, our experience has shown that this step alone is not sufficient to generate longer-term, systemic changes in behavior.

It's crucial to keep in mind that the value map is not the point. Getting people with diverse backgrounds and experience working together toward shared goals is the point, and the shared language and perspective established by value maps is just one piece of what is required to make this happen. In the end, value maps are only as effective as the people guiding their use. Consequently, the most effective use of value maps has been driven by company executives who are able not only to establish value maps as a common language, but also to integrate maps into the way the company:

- Talks about its bottom-line performance (internally and externally)
- Evaluates potential investments
- Measures the performance of groups and individuals

As is the case with most improvement efforts, you will only get out of it what you put into it. As a standalone step, formulating and distributing value maps can get the attention of people throughout the organization and provide them with an overview of how operational activities ultimately drive financial results. But without further steps to embed this thinking in managerial approaches, the maps will likely have spot use in particular business groups and be seen by others simply as nice reference-oriented posters.

WORTH THE EFFORT

At the beginning of this article, we asked you to consider five important questions about your organization and how deep you had to go within your organization before the ability to answer these questions began to deteriorate.

Our experience and research show that organizations that have been effective in establishing this understanding deep within operational groups tend to be better at getting their resources aligned with strategies and priorities than those who are not. Consequently, we believe that organizations with leaders who have a deep business understanding not only do a better job of getting people focused on the right things, but also tend to reduce the amount of effort focused on wrong things. This typically results in more effective execution against key priorities *and* better investment efficiency overall.

Moreover, organizations that do a good job of educating and including their people in bottom-line business thinking are more likely to inspire, utilize and retain their most ambitious and well-intentioned people. As one client executive said: "If we could push this type of understanding just two or three levels deeper within our company, we could make much better use of the talent and insight we have across our functional areas."

While value maps alone do not provide a silver bullet for addressing these challenges, the shared understanding, perspective and language they establish can lay the necessary groundwork for broader organizational efforts to align operational activity with strategic priorities. DR

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Endnotes

1 Robert S. Kaplan and David P. Norton, (1992) "The balanced scorecard: measures that drive performance", *Harvard Business Review*, Jan – Feb pp71-80.