# Operational Management Versus Strategy Management

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In the very first sentence of their book, *The Execution Premium*, Dr. Robert Kaplan and David Norton, the co-founders of the Balanced Scorecard (BSC) methodology make a very important statement, **"Managing strategy is different from managing operations."** After more than a decade of working with countless organizations in implementing the Balanced Scorecard methodology to improve strategy execution, Kaplan and Norton learned that many organizations that struggled with implementing their methodology failed to understand this distinction. This paper provides practical guidance on how to keep a strategy management system elegant and effective, regardless of whether it follows all the characteristics of the Balanced Scorecard methodology or if it has adapted the approach for other situations, such as for a community strategy implementation. This paper assumes you have already been introduced to the OMTI or OMTA structure, which stands for Objectives, Measures, Targets and Initiatives/Actions.

While it is a bit overly simplistic, it is helpful to think of operational management (and operational dashboards) to be about ongoing *business as usual*, and strategy management is about successfully implementing *intentional change*. Balanced Scorecard professionals often use the term *Strategy* Management rather than *Strategic* Management because the methodology is about managing the strategy implementation, not just about management that can be described as "strategic."

The vast majority of the work done by most people in most organizations is not focused on bringing about strategic change. Most day-to-day work involves the on-going operational activities, doing on-going work in the same way they have been doing it. This does not mean it is unimportant.

When an organization (or community) creates a strategy, it should not be a detailed description of what every function in the organization does. Instead, it should identify some key outcome changes and then articulate the most important changes that will contribute to the organization (or community) achieving those desired outcomes. Consider the following two examples:

- If a company wants to achieve a higher level of profitability, it should not just set a higher target for profitability and then continue doing everything as they have in the past. The essence of strategy is articulating the *changes* that will lead to the desired outcome and then managing the implementation of the actions that will bring about those changes. The strategic plan should focus on clearly described and intentional changes that the leaders believe will result in the organization achieving the desired level of profitability. It should not describe every role and responsibility in how the organization creates value.

- If leaders in a community want to reduce the infant mortality rate, they should do more than just try and measure all the on-going operational processes of organizations that have some impact on infant mortality. They may need to look at some operational measures as part of their up-front analysis to find opportunities for change that can help them craft a strategy, but the strategy should focus on specific intentional changes that they determine will have the most impact in moving them towards achieving the improvement in outcomes.

## Strategic Scorecard Structure

When using the Balanced Scorecard methodology (or related strategy management approach) the building blocks of the strategic plan are a series of Objectives, each of which describes a desired change. Some of the Objectives are for outcomes, such as increasing profitability or reducing infant mortality. Other Objectives are "driver" Objectives that describe the changes that will contribute to achieving the outcome Objectives. In a classic Balanced Scorecard for business, the Objectives are organized into four categories, called Perspectives, with the top Perspective containing the Financial Objectives. Community strategy scorecards often name the top category the Outcome Objectives. Beneath that top category of Objectives, a Balanced Scorecard has other categories (or Perspectives) that contain the Objectives that contribute to achieving the Outcome Objectives.

An important best practice that came from the Balanced Scorecard methodology is the use of a strategy map that creates a visual picture of the strategy by showing the relationships of how the "driver" Objectives in the bottom Perspectives contribute to accomplishing the Outcome Objectives at the top of the strategy map. A general cause-and-effect logic should flow from the bottom to the top. The Balanced Scorecard should have the same basic structure as the strategy map, but in addition to the Objectives, it also displays the Measures that help track the performance (progress) in achieving each of the Objectives. In a well-crafted Balanced Scorecard, each Measure is directly linked to a specific Objective and answers the question, "How are we doing in accomplishing this Objective?"

## Avoiding Operational Clutter in a Balanced (or Strategic) Scorecard

If the scorecard (or strategy map) does not have a clear focus on the desired strategic changes, it is easy for a scorecard to get cluttered up with operational content that undermines the elegance of a good Balanced Scorecard. Instead of focusing on important and intentional changes, the Objectives can be described as some of the on-going functions of the organization or coalition. In these situations, the Objectives may serve as headings for a set of measures that might be interesting to watch to see if anything good or bad happens, but the essential function of the Objective—describing a desired change—is missing. The scorecard may then contain many different measures, and those measures may even have targets, but system thinking that makes a Balanced Scorecard powerful is likely to be missing (or buried among a lot of operational content).

One indication that a scorecard has too much of an operational focus is when the Objectives don't begin with a change verb—like increase, decrease, expand, or reduce. If the Objective consists of a noun, like "Customer Support" or and ongoing process verb, like "Educate Expectant Mothers," there is a good chance it is focusing on on-going operations rather than an intentional change. If an employee in the organization or a partner in a coalition can look at the Objective and say, "Yes, we do that," then the Objective is not doing a good job of communicating the desired change. If the organization continues to "do" customer support or continues to educate expectant mothers as they have been doing, there is nothing that compels a positive change or helps move the organization or coalition towards the desired Outcome changes. If customer support is going fine, then it doesn't need to be on the Balanced Scorecard or strategy map. Educating expectant mothers may be very important and key to success, but if there is not a clear intention of changing how education of expectant mothers is done, then it doesn't belong on the Balanced Scorecard or strategy map.

In contrast, suppose that analysis identifies that poor customer support is a major contributor to poor customer satisfaction, poor customer retention, and disappointing profits. In that case, the strategy should include and Objective for "Improve Customer Support." That begs the question of "What needs to improve?" and the answers to that question should lead to a series of Actions to bring about the desired changes. If one of the keys to reducing infant mortality is "Enhancing Education of Expectant Mothers" then a similar question arises? What type of enhancement will be most valuable" How will we make those enhancement? The answers to those questions should define the key Actions that would then be monitored as part of the strategy management system.

## Strategic Measures versus Operational Measures

There are countless things that could be measured in organizations or coalitions, but not everything that can be measured belongs on a Balanced Scorecard (or a strategy scorecard). Many measures are not worth the effort it takes to collect the data, and other measures are important for compliance or for operational monitoring, but they don't belong on a strategy scorecard because they are not specifically linked to the Objective with describes an intentional change. It is important to understand that some measures can be both operational measures AND strategic measures. It all depends on the strategy.

Consider two manufacturers that make components that they ship to an electronics manufacturer. They could both, in theory, measure the amount of plastic they purchase for custom-molded packaging used for their products. Or they could measure the cost of the plastic per 1,000 units of their product. Those might be interesting measures for accountants or business analysts to look at. Or perhaps some environmental policy might require that they report those numbers, so they need to track them someplace. Those would be considered operational measures and should not be cluttering up a Balanced Scorecard. Now, suppose one of the companies had a strategy to win more business by lowering their prices and a key Objective to lowering the prices was to "Reduce Packaging Costs." If an important part of packaging cost was the amount of plastic used, then for that company, the amount of plastic used per 1,000 units of their product could be an important Measure on their Balanced Scorecard.

But, if the other company had a strategy to increase sales by expanding internationally and they were not making it a strategic priority to reduce packaging costs, they would not want the same measure to be on their Balanced Scorecard. They were not focusing on intentional change to reduce packaging costs. That measure might still be tracked for other purposes, but not on their strategy scorecard—and perhaps not at all.

Imagine two non-profit organizations working to reduce infant mortality. One operational measure for both organizations might be the number of expectant mothers that they were serving during each month. For one of the non-profit organizations, a key strategy was to enhance their outreach efforts, and an Objective might be "Increase Women Receiving Pre-Natal Education." In that case, that operational Measure might be used to monitor that Objective on their Balanced Scorecard. Because of their strategy, it becomes a strategic Measure. But, suppose another non-profit had a focus on "Enhance Trauma-Informed Practices" as their key strategy Objective and they were not trying to expand the number of mothers they served. They would provide their services for whatever women become pregnant, and there were no intentional plans to try and increase the number of women they served. They still probably need to track the number of expectant women they served each month, but it would be an operational measure, not a strategic measure. For them, their strategic measure for the Objective of "Enhance Trauma-Informed Practices" might be "% of Expectant mothers trained in Adverse Childhood Experiences."

*It is important to realize that you can't just look at a Measure and determine if it is an operational Measure or a strategic Measure. It all depends on what the strategy is. But, once the strategic Objectives are defined, then you should be able to determine what measures belong on your strategy scorecard.*

## Strategic Actions version Operational Activities

If we understand the strategy to be a system of Objectives (intentional changes) and not the on-going operational functions, then the key to managing strategy implementation is to keep focused on the Actions that are important for accomplishing those changes. For the one manufacturing company we've been using as an example, success in their Objective to "Reduce Packaging Costs" is not likely to happen simply because they start collecting data and tracking some new strategic Measures on their scorecard. The Objective should clearly communicate the priority of reducing packaging costs, and the Measure should give them an indication of whether or not they are making progress on that Objective, but unless specific Actions are taken, the intentional change is not likely to occur. In this case the strategic Action is NOT the fabrication of the plastic product packaging. That is the operational activity. The strategic Actions might include having the engineering group redesign the packaging so that it uses less plastic. While operational activities are usually on-going, the Actions usually should have a start date, an end date and a percent complete.

If we think about the non-profit organizations working to reduce infant mortality, they may have many important operational activities that keep them very busy. But, if they want to achieve the desired Outcome changes, then they should be focused on what Actions are key to accomplishing the various driver Objectives. If we consider the organization that had an Objective to "Increase Women Receiving Pre-Natal Education," their Actions would most likely focus on launching new types of outreach, creating new relationships with referral partners, developing communication materials in new languages, or hiring new staff to build awareness of their program.

In some cases, organizations believe that just increasing measurement, targets and accountability will lead to increase performance. Sometimes that is the case, if a major problem is that people are being lazy, sloppy, and just not doing the things that they already know they need to do.

*For most organizations or coalitions, the big opportunities for improvement involve the implementation of a strategy that weaves together multiple changes that would not otherwise happen—even if people were being pressured with added accountability.*

## Why Strategic Actions are So Important

One of the reasons that successfully implementing a strategic change is difficult (and often not successful) is that it falls outside the normal daily activities of people doing the jobs they were trained to do. There is often pressure to just get through your daily work, and there is usually not a lot of extra time to think about how to change to better ways of doing things. It might be *important* to help improve the processes or otherwise implement positive changes, but the *urgency* of getting each day's work done often gets in the way. When a select few Actions get included in a strategic scorecard system, they become more urgent. *If too many non-priority Actions (or operational activities) start to clutter up the strategy management system, then the focus gets diluted and the urgency gets replaced with a frustration about having to track progress on so many things.*

A second reason change is difficult in organizations or coalitions is that there are often many dependencies. A change in a manufacturing process might involve some engineering work, and then it might involve re-programming some of the software used by the production equipment. It may also involve training of employees on the new techniques they should use. If all three of those things are not done at the appropriate times, then that part of the strategy may not be successfully implemented. The Balanced Scorecard methodology involves pro-actively thinking through what Actions need to be done to accomplish the Objective and move the Measure towards the Target. That often involves communicating and coordinating the efforts of different people in different roles—all doing things that are probably not part of their regular on-going activities.

In sectors where there has been a lot of focus on research and evaluation, there can be great pressure to try to justify each action that is taken and provide the measures and explanation for how that action contributed to some positive outcome. The reality is that in both the business world and the social sector, the high-level outcomes are almost never accomplished by the individual actions done by departments or organizations. Each of those actions is likely to be of limited value if is not aligned with many other things that collectively contribute to achieving the desired outcomes. Rather than trying to prove the value of each individual Action, the process that is woven into the Balanced Scorecard methodology and strategy engagement approaches work backwards from the desired outcome Objectives. It systematically prioritizes the "driver" Objectives that will contribute to the Outcomes and then defines the highest priority Actions that will contribute to the "driver" Objectives being accomplished. With this approach, the focus can be on getting the Actions *completed*, not on using precious time and resources to research and evaluate the Actions to see if they are valuable.

## Conclusion

Once we understand these key differences between operational management and strategy management, we can thoughtfully design the types of Measures, scorecards and Actions to best support these different types of management. Following the OMTA structure will streamline, clarify and increase the success of strategy management.