CIMA Strategic Scorecard™

Boards engaging in strategy

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ISBN 978-1-85971-587-1 (pdf)

Preface

This executive report builds on the ideas included in CIMA's discussion paper, *The CIMA Strategic Scorecard,* published in March 2005. Since then, we have developed a suggested methodology, as well as identified the tools and techniques, that can be used to support the implementation of the scorecard. We are currently helping organisations to implement the scorecard.

We have published this executive report alongside a separate executive summary to meet the needs of different readers. These are both available to download from **www.cimaglobal.com/strategicscorecard**

How to use this report

You may have come across the CIMA Strategic Scorecard™ before, for example, in the IFAC/CIMA report *Enterprise governance – getting the balance right* or through CIMA's discussion paper.

If you are familiar with the concept you might want to go straight to section 4 (pages 12 to 42). This provides guidance on how to implement a scorecard in your organisation.

However, if you are new to the scorecard and would like an overview, we would suggest one of two alternatives:

- read the executive summary to gain an overview of the concept and information on how to start using a scorecard, or
- read this report, omitting section 4.5 (pages 18 to 41) which covers the detail.

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1 How to engage your board in strategy

Ask a typical board member why they took on the role and what gives them most satisfaction, there is a good chance that they will talk about getting involved in strategy and bringing their experience and enthusiasm to bear on the future success of the organisation.

But as we will see, the reality is often very different. Recent regulatory developments, such as the Sarbanes-Oxley Act (SOX) have meant that many boards have had to devote most of their attention to compliance issues. Strategy has often had to take a back seat.

The problem is, however, this is a luxury that few organisations can afford. The dramatic increase in the speed of change – largely driven by developments in IT, globalisation and the shift towards a knowledge-based economy – has put boards and their organisations under relentless pressure to really understand the environment in which they are operating so that they can generate the options that will create future value and success.

The best planned strategy counts for nothing unless it is implemented successfully – boards have a key role to play in providing effective oversight. Not only this, but they also need to understand the attendant strategic risks so that they can seize opportunities and avoid adverse occurrences.

So how can boards address all these dimensions of the strategic process?

CIMA believes it can offer one possible answer through its development of the CIMA Strategic Scorecard™ – this is a tool for helping boards of any organisation to engage effectively in the strategic process – in spite of the numerous challenges in the way, such as compliance requirements, information overload and sheer lack of time.

What the scorecard does is to give the board a simple, but effective process that helps it to focus on the key strategic issues and – most importantly – to ask the right questions. This means that the board can work constructively with management to promote the future success of the organisation.

The uniqueness of the scorecard lies in the fact that it:

- Summarises the key aspects of the environment in which an organisation is operating to ensure that the board is aware of changing competitor, economic and other factors.
- Identifies the (key) strategic options that could have a material impact on the strategic direction of the organisation and helps the board to determine which options will be developed further and implemented.

- Charts for the board the significant steps or milestones in relation to the chosen strategic plans to be achieved in the coming period and then tracks performance against these.
- Highlights the risks facing the board in its strategic endeavours and moves these into manageable opportunities or mitigation plans.

Early indications from our first trials are already proving just how effective the scorecard can be for all the key players in the strategic process.

We have discussed more strategy than ever before at a board meeting and we have made decisions. (a board member)

We have had a great discussion with the board and I feel that they are totally supportive of our strategy. This process has brought us closer together. (a member of the executive team)

The process has brought focus to our strategic thinking and enabled our executive team to discuss the strategic options and engage the board. (chief executive)

It has helped us to focus on the issues that really matter and to avoid the comfort zone of detail. (finance director)

1.1 What this report will show

The aim of this report is therefore to explain what the scorecard is all about and how it can help the board of your organisation – whatever size and sector – to make a more effective contribution to strategy.

First, we look at the role of the board in strategy, in particular the difficulties that boards can face.

We then provide some contextual background in section 3 by looking at the enterprise governance framework and showing how the CIMA Strategic Scorecard™ provides the missing link to the overall process of board oversight.

Section 4 – the longest section in this report – looks at the scorecard in more depth and provides practical advice on how to use it together with some suggestions for supporting tools and techniques.

Finally, in sections 5 and 6, we take a brief look at how the CIMA Strategic Scorecard™ relates to the well-known balanced scorecard as well as CIMA's current and future work on developing the scorecard.

2 The role of the board in strategy

In recent years, major corporate scandals have meant that company boards have had to turn their attention to internal issues and the need to comply with new governance rules. Companies which are listed in the US, for example, have had to come to terms with the stringent requirements of the Sarbanes-Oxley Act, while in Europe listed companies have had to deal with the transition to international financial reporting standards. It is little wonder, therefore, that strategic issues have sometimes taken a back seat.

Nevertheless, there are signs that the pendulum is swinging back into balance; indeed, a recent McKinsey article emphasises that there is now a very strong case for directors to focus their attention where it belongs: for corporate strategy. The article argues that companies need to embrace an approach of strategic dynamism and that this will reap dividends in terms of increased shareholder value. It is the strategically minded boards that forge close partnerships with management that will prove to be the crucial difference between companies that create shareholder value and those that do not. (Carey and Patsalos-Fox, 2006). For a board to be dynamic, it needs a continuous process for strategy. Application of the scorecard framework creates such continuity and should engage directors in the strategy process effectively.

Furthermore, we have already seen how the increasing pace of change and the growing importance of intangible assets for the organisation's market value have made it so crucial for directors to determine, drive and take accountability for the key strategic drivers of future value.

There is no doubt that boards of organisations of all sizes and in all sectors have a crucial role to play in strategy. The OECD Principles of Corporate Governance, which serve as a benchmark for governance standards across the world, state that one of the board's key functions is to review and guide strategy. For example, the widely-respected UK Combined Code on Corporate Governance states:

'Every company should be headed by an effective board, which is collectively responsible for the success of the company.

The board's role is to provide entrepreneurial leadership ... The board should set the company's strategic aims ... and review management performance.

... non-executive directors should constructively challenge and help develop proposals on strategy.'

Fortunately, directors themselves are keen to get involved in strategy. A 2005 McKinsey survey of over one thousand directors found that more than 75% wanted to spend more time on strategy and risk (Felton and Keenan Fritz, 2005).

However, this is easier said than done. The same survey revealed that over a quarter of the directors had, at best, a limited understanding of the current strategy of their companies. Only 11% claimed to have a complete understanding. More than half said that they had a limited or no clear sense of their companies' prospects five to ten years in the future. Only 4% said that they fully understood their companies' long-term position and more than half said that they had little or no understanding of the five to ten key initiatives that their companies needed in order to secure the long-term future.

A key priority is to ensure that the right people are selected to sit on the board and that there are effective procedures in place to evaluate performance and plan succession. These issues of board design and performance are major topic areas in their own right and are not the focus of this report.

Another key priority – which this report explores in more depth – is to ensure that there are effective board processes in place to help the board fulfil its responsibilities in respect of the organisation's strategic development.

In his article, *Building Better Boards,* David Nadler argues that 'boards must decide how engaged they want to be in influencing management's decisions and the company's direction'. Enlightened boards need to invest effort in clarifying their role, agenda and information requirements (Nadler, 2004). The level of involvement of the board in strategic issues will depend on the particular circumstances facing the company, for example, the experience of the management team, whether the company is undergoing major change or facing a crisis. It may also change over time and will need to be kept under regular review.

However, there are three key reasons why boards struggle to make effective contributions to their organisation's strategic development.

1 Lack of time and crowded agendas
'The most common concern I hear is: 'We don't spend enough time considering and dealing with company strategy'. Obviously, this is related to a second worry: 'We are spending too much time focused on issues related to complying with new laws and rules'.' (Lorsch, 2005).

2 Too much information
Greater complexity of business combined with information overload can make it difficult for non-executive directors to get a deep understanding of the organisation and engage in constructive debate with management. Carter and Lorsch (2004) discovered that many directors simply forget much of the information that they have been given in recent meetings. Similarly the McKinsey survey revealed that a mere 32% of senior executives credited directors with a complete understanding of the corporate strategy. However, this can often be due to the fact that there is simply too much information that is poorly organised or is presented in different formats at each meeting.

'... well-intentioned directors find that they have insufficient time and knowledge to perform their jobs well. A director's lack of knowledge is complicated by another problem – the quality of information they receive from management. Oddly, it is not that they receive too little, but that they receive too much, which is often poorly organised and does not illuminate the most significant issues'. (ibid).

3 Lack of robust processes at board level for dealing with strategy
Boards may have annual strategy sessions or 'awaydays', but they do not tend to have ongoing processes for dealing with strategy.

By providing a continuous process with standard progress reporting with which directors become familiar, the CIMA Strategic Scorecard™ can address all three issues and thus makes for a more effective board.

The scorecard approach forms a key element of what has been termed the enterprise governance framework. This is explored in more depth in Section 3 (pages 9 to 11).

3 The enterprise governance framework and the CIMA Strategic Scorecard™

The CIMA Strategic Scorecard™ was developed in response to the key findings that emerged from a project led by the International Federation of Accountants (IFAC) and CIMA to develop the framework of enterprise governance.

3.1 Enterprise governance defined

'The set of responsibilities and practices exercised by the board and executive management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organisation's resources are used responsibly.' (IFAC/CIMA, 2004)

The framework is illustrated below.

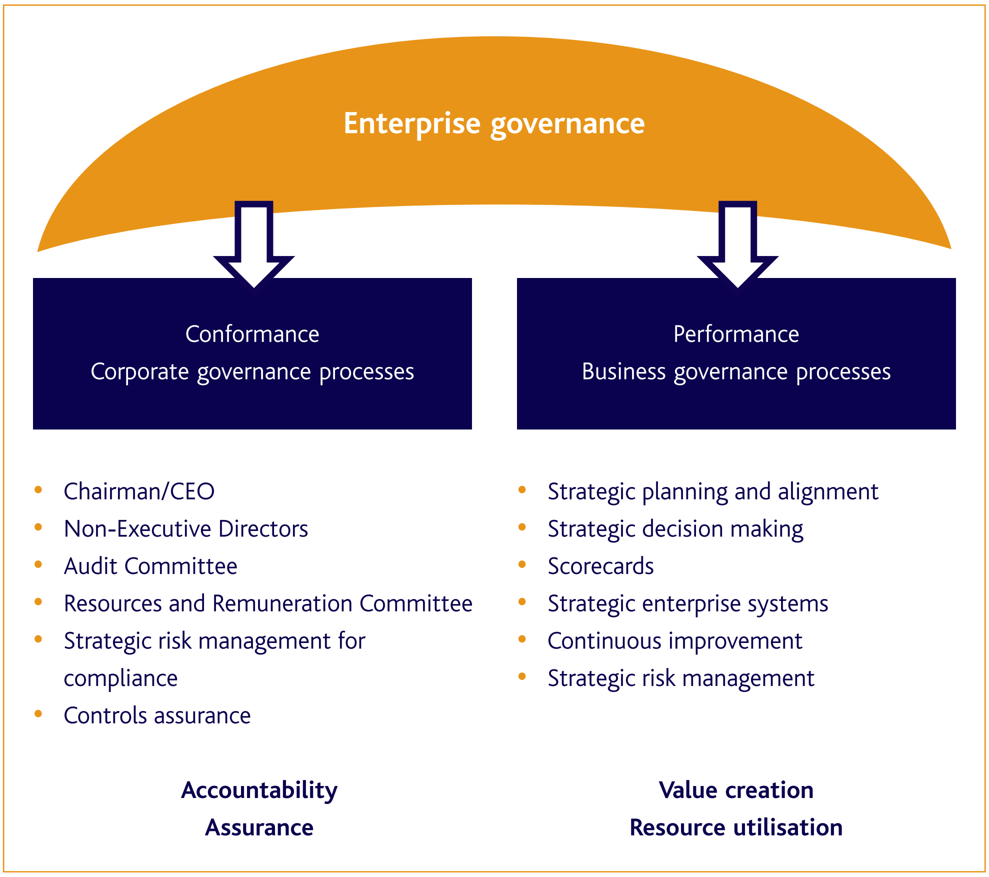


Figure 1 The enterprise governance framework

The key point to note about the framework is that enterprise governance encapsulates two dimensions of corporate governance processes i.e. conformance and performance that need to be kept in balance.

The conformance dimension covers issues such as board structures and roles as well as executive remuneration. Codes and/or standards can generally address this dimension with compliance being subject to assurance/audit.

The performance dimension centres on strategy and value creation. The focus is on helping the board to make strategic decisions, understand its appetite for risk and the key drivers of performance. This dimension does not lend itself easily to a regime of standards and audit. Instead, it is desirable to develop a range of best practice tools and techniques, such as the CIMA Strategic Scorecard™, that can be applied intelligently within different types of organisations.

At the heart of the framework is the argument that good corporate governance can help to prevent failure, but it does not guarantee good business performance. As we have already seen, corporate failures led to significant efforts to reform the corporate governance side of the equation in the early 2000s, but, until more recently, there has not been as much attention on the performance side in terms of strategic decision making and implementation. What we are now seeing is that the pendulum is swinging back to a more healthy position. The enterprise governance framework helps us to understand the importance of both conformance and performance to the organisation's long-term success.

3.2 The need for checks and balances

Another point to note, and one of particular relevance, is that both conformance and performance require robust board oversight mechanisms to ensure that each is working effectively.

In the case of the conformance dimension, there are well established oversight mechanisms for the board to ensure that good corporate governance processes are effective e.g. committees composed mainly or wholly of independent non-executive directors and, in particular, the audit committee or its equivalent in countries where the two tier board system is the norm. Other committees are typically the nominations committee and the remuneration committee.

However, while it is true that strategy is the responsibility of the full board, there are no dedicated oversight mechanisms comparable to the audit committee. In other words, while issues such as remuneration and financial reporting are subject to particular scrutiny by a specialist board committee of independent non-executive directors and referred back to the full board, the crucial area of strategy does not receive the same dedicated attention. So there is an oversight gap in respect of strategy.

'While most boards have processes for dealing with traditional audit and compensation issues because of the committees established for those purposes, they also need well-designed processes for engaging in strategy development ...' (Carter and Lorsch, 2004)

One way of dealing with this would be to establish a strategy committee of similar status to the other board committees. However, this might put at risk the fundamental tenet that the board must take collective decisions on matters of strategy.

An alternative – and the one we propose here – is to use a pragmatic and flexible tool that helps directors to exercise effective oversight of the organisation's strategic position and progress. This tool is the CIMA Strategic Scorecard™.

4 The CIMA Strategic Scorecard™ in practice

The CIMA Strategic Scorecard™ is shown below with its four dimensions.

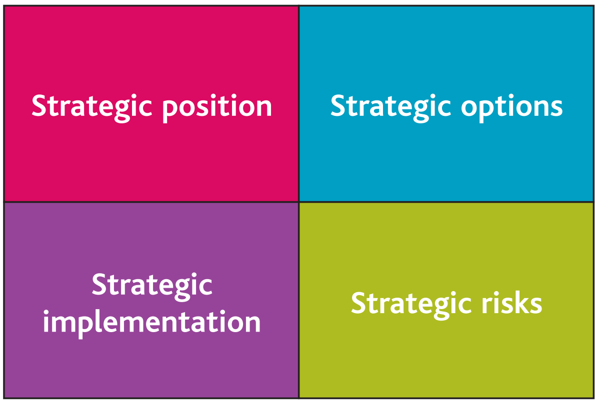


Figure 2 The CIMA Strategic Scorecard™

The scorecard is a pragmatic and flexible tool that is designed to help boards to fulfil their responsibilities to contribute to and oversee strategy effectively. It is important to emphasise that it remains the role of the management team to develop and propose the strategy – it is not for the board to undertake the detailed strategic planning. The board's focus should be to challenge the strategy constructively, endorse it and monitor its implementation.

It is also important to note that the implementation of the scorecard assumes that the organisation has already determined its broad strategic direction and has a strategic plan in place. The scorecard represents a process for developing and moving this strategy forward in a dynamic way.

4.1 Objectives

The objectives of the scorecard are to:

- Assist the board, in particular the non-executive directors, in the oversight of an organisation's strategic process. In effect, it gives the board the big picture.
- Provide an integrated and dynamic framework for dealing with strategy at board level that focuses on the major strategic issues facing the organisation and ensures that the strategy is discussed at board level on a regular basis.

- Provide strategic information in a consistent and summarised format to help directors to obtain sufficient grasp of the material so that they can offer constructive, informed input.
- Assist the board in dealing with strategic choice and transformational change and the attendant risks.
- Provide assurance to the board in relation to the organisation's strategic position and progress.
- Assist the board in identifying key points at which it needs to take decisions.

Although the scorecard is primarily aimed at board level for use as an agenda item at board meetings, it offers considerable benefits to the organisation's management:

- The discipline of having to prepare and update the scorecard helps management to keep its focus on the key strategic issues.
- It facilitates discussion within the management team and helps the team to refine its proposals prior to exposure to the board.
- It can help to identify gaps in knowledge and analysis and can improve the quality of information presented to the board.
- Because the scorecard improves the quality of the board's contribution, this will lead to more constructive engagement with management. The strategic process and content are thus enriched. This makes for better governance and performance.

4.2 Dimensions

The four dimensions of the scorecard are summarised below.

4.2.1 Strategic position

This focuses on information that is required to assess the organisation's current and likely future position. It covers externally focused information such as economic and market developments and market share as well as internal issues such as competences and resources.

4.2.2 Strategic options

Having set the scene with relevant background and information, the focus of the scorecard shifts towards decision making. Strategic options can be defined as those options that have the greatest potential for creating or destroying stakeholder value.

4.2.3 Strategic implementation

At this point, the emphasis of the scorecard is to identify key milestones for the board and to monitor implementation of the agreed strategy. Decisions on appropriate action may be required if things are not proceeding as planned.

4.2.4 Strategic risks

This dimension underpins the others by focusing specifically on the major strategic risks that pose the greatest threat to the achievement of the organisation's strategy as well as key issues such as the organisation's risk appetite.

The particular value of the scorecard lies in the way that it brings all the high-level strategic information together in a summarised, but coherent form for the board's use within a robust framework. This is supported by a strong foundation of high quality management information which the board can access if it is felt necessary to explore a particular issue in greater depth. The key benefit of the scorecard is that it provides the board with the big picture. The scorecard is a very flexible approach in that organisations can use any strategic tools and techniques to undertake their detailed strategic planning and management for each dimension.

4.3 The scorecard in practice

When presented to the board, the scorecard is set out in the form of tables with relevant headings for each dimension. These can be modified to suit the individual organisation. These headings prompt management to provide an adequate description of the activity being undertaken, including when the last relevant information was put to the board and when new information will be presented in the future. The board can then ask challenging questions and depending on the answers, the board can decide whether it is satisfied, whether action needs to be taken and/or whether it needs to explore a specific issue in more depth, perhaps by referring to the more detailed supporting analysis and whether further discussion is required in a future board meeting.

4.4 Using the scorecard: getting started

In the first instance, the decision needs to be taken to prepare an initial scorecard and use it on an ongoing basis. The impetus for getting started can come from management or the board or both. As mentioned above, however, the scorecard assumes that the organisation already has a strategic plan in place; if this is not the case, then the organisation needs to address this before it attempts to implement a scorecard.

It is important that the format of the scorecard should be standardised so that directors can become familiar with it quickly and be able to see the key trends. Otherwise, the temptation is to keep re-engineering the scorecard to get it right, particularly at the outset. It is more important to keep it simple so that it can be established and useful quickly. Otherwise, it will be seen as just another initiative and lose its impetus.

4.4.1 Roles and responsibilities

It is useful to define broad roles and responsibilities.

Chief executive

The Chief Executive Officer (CEO) should be the champion or advocate of the document and is responsible for ensuring that it is delivered to the board at the appropriate time with complete, relevant and high quality content. The CEO is not directly responsible for preparing and updating the scorecard, but needs to ensure buy-in to the process from both the board and the management team. The CEO is also responsible for leading discussion at the board on various aspects of the scorecard.

Scorecard owner

The owner should be a member of the organisation's senior management team (or its equivalent) and preferably the person who is responsible for managing the strategic planning process. The initial preparation of the scorecard is likely to be a joint responsibility of the strategy director and the finance director, but the subsequent regular updating should be the responsibility of the finance director.

Management team

The team is responsible for providing input on the parts of the scorecard for which they have been allocated responsibility, for example, the marketing director will often be responsible for preparing information on competitors. The management team is also responsible for leading discussion at board meetings. There need to be clear accountabilities as to who does what, hence the need for standardisation so that the data gathering can be as routine as possible.

The board

The board is responsible for reviewing and challenging the information that has been presented to them as well as deciding appropriate follow up action. The board will need to make constructive suggestions as to other areas that may need to be considered and whether it needs to review any issue in more detail. It may be helpful for each member of the executive management team to be given individual responsibility for different aspects of the scorecard and projects. They can then drive the information requirements and delivery of specific projects for which they are responsible – albeit supported by the appropriate business functions.

Company secretary

The company secretary is responsible for preparing the board's agenda, so has a key role to play in ensuring that the scorecard is included. Ultimately, however, it is the chairman of the board who owns and drives the agenda and is responsible for its final sign off.

4.4.2 Preparation and scheduling

The organisation needs to make an initial time investment in order to prepare the first version of the scorecard. Once this has been done and the format agreed, the scorecard should be updated regularly – as a minimum, quarterly – to meet the organisation's particular schedule.

Our experience so far has shown that the process is not unduly onerous when it ties in with an organisation's existing planning schedules. If the scorecard is implemented properly, it becomes part of the normal planning process. As it develops and directors become familiar with the framework and outputs, it does not require significant additional resource. The largest resource requirements are at the outset, but these should diminish quickly once the scorecard is up and running. Boards should start to see benefits in terms of better use of their time.

The steps required are:

1 The board needs to receive an initial presentation of the scorecard concept to achieve initial buy-in and agreement to use it.

2 The board and management team agree to prepare an initial scorecard and determine a date for which it will be produced. A recommendation would be to prepare it for a board strategy awayday or similar strategic planning session, but there is no reason why it cannot be presented at a regular board meeting. It is also worth giving some thought as to the facilitation process that will be necessary to support the discussion in the board meeting, for example, it may be useful to use an external facilitator when the completed scorecard is first presented to the board for discussion.

3 Management needs to plan a schedule for preparing the scorecard and the length of time required will depend on the current extent of strategic planning and reporting. For some organisations, it may simply require pulling together information that already exists, but it is preferable to produce a simple first draft reasonably quickly that can be kick started at an awayday. Note that it is not essential to have produced all the underlying detail and analysis that supports the scorecard, for example, a detailed competitor analysis report. For the purposes of the scorecard, it is sufficient to flag competitors as a significant issue and provide a schedule of when the detailed report will be delivered. The main effort of producing the scorecard lies in determining which headline issues need to be included. Specific advice on preparing each dimension is provided in Section 4.5 (pages 18 to 41) of this report.

4 Once the scorecard has been presented to the board for the first time, the board needs to decide (in conjunction with management) its schedule for reviewing and monitoring strategy using the scorecard. The sooner that the scorecard forms part of the normal board routine, the better. A recommendation would be to review the full scorecard on a quarterly or half yearly basis – and certainly as part of regular strategic reviews – although specific components of the scorecard may be reviewed more frequently. For example, a particular strategic option may be considered at a number of board meetings until the recommended action is agreed. Another example might be where it is agreed that specific market information, e.g. competitor analysis needs to be reviewed monthly. Strategy needs to be included on the board agenda at a frequency, and level, that will keep pace with change and that will support successful delivery. As mentioned above, it needs to be part of the board's normal routine.

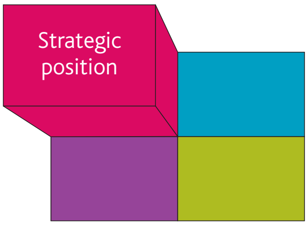
Timing suggestions for each dimension are considered below:

Strategic position – updated quarterly by exception only and significant changes highlighted.

Strategic options – the board should have a list of current options under consideration and a list of potential options of those previously discussed and not active. When an option is under intensive review, for example a merger that was being given active consideration, it would be considered at all board meetings until a course of action was agreed.

Strategic implementation – should be reviewed quarterly and key milestones identified for the following period, for example, 12 months. The frequency and dates of updates in relation to significant strategic actions should be agreed with the board.

Strategic risk – a list of key strategic risks should be included on the scorecard. A thorough review of risks should be completed by the board every 12 months and dates for review of actions planned for key risks should be agreed. The board should be aware of any new risks, in particular those resulting from a significant movement of the strategic position.



4.5 The four dimensions explained

4.5.1 Strategic position

This dimension focuses on providing information for the board rather than making major decisions.

The purpose of this dimension is to:

- Ensure that the board and executive management share a common understanding of the relevant facts on the strategic position.
- Provide assurance to the board that management is reviewing its strategic position appropriately. In particular, the board will wish to know that the management team is considering the **right** information at the **right** time.
- Provide the board with a summary of the analysis undertaken so that the board can review it, discuss its implications and challenge it in a constructive manner. This then helps management to refine its thinking on the strategic position.

4.5.1.1 Considering the strategic position: tools and techniques

There are a number of tools and techniques that organisations can use to understand their strategic position. A few are summarised below with some references to useful sources. However, what is important here is:

- The key points emerging from this analysis need to be summarised in such a way so that the board is not overloaded with information. The board needs a few key points with links to the more detailed analysis as necessary. In some cases, it may be necessary for the board to drill down and see the more detailed supporting information.
- The information needs to be discussed and challenged so that the implications can be understood.
- The organisation might need to develop its own tools and techniques to understand its position effectively. The tools and techniques are therefore only a means to an end.
- Not to over analyse; it may be best to select just a few tools and stick to those.
- Environmental scanning and analysis should not be the one off exercise typically associated with the annual strategic planning cycle. Instead, it should be thin, but constant. Certain information, for example, competitor activity will probably need to be reviewed monthly.
- The analysis needs to consider both the external environment as well as factors internal to the organisation, for example, resources and capabilities, core competences and culture.

The areas that need to be considered include:

- The macro environment – political, sociocultural, environmental, economic, technological and legal factors.
- The micro environment – factors specific to the particular industry and related industries, including competition, customers, suppliers, and barriers to entry.
- Threats and opportunities from significant or abrupt changes, for example, new restrictions on air travel.
- Current internal position in terms of service offering (price/quality), market share, differentiation, core competences, strengths and weaknesses, resources and capabilities, culture.
- Stakeholder factors.
- The speed and direction of change and their implications.

Environmental analysis

This basically reviews various current and future aspects of the operating environment, based on categories such as political, economic, social, technological, environmental, ethical and legal issues (so called 'STEEPLE' analysis). It is also important to consider the impact of current and future competition as well as international developments, such as the emergence of India and China as major economic players.

Scenario planning

This takes the above framework a stage further by developing some coherent possible outcomes to some of the key environmental influences. Given the high degree of uncertainty related to future predictions, it is important to avoid making the scenarios too complex. Their main function lies not in helping to predict the future, but in providing a useful debating tool to help decision makers think more strategically.

SWOT analysis

This analyses the internal and external environment of the organisation by considering its strengths, weaknesses, opportunities and threats. The main difficulty can be whether a particular issue is actually a strength or weakness. However, what is actually important is to identify internal and external strategic factors and understand their implications rather than getting overly concerned about classifying different factors.

Strategic capability

This involves looking at:

- What customers value.
- Critical success factors – what must the organisation do well in order to succeed?
- Does the organisation have the resources and competences to succeed in that particular market?

A useful framework distinguishes the threshold resources and competences that are required to operate in the market compared with those that are unique to the organisation and thus represent a key source of competitive advantage. It is important to note that even the threshold level may change over time so the organisation may need to continue to invest in its resource base simply to stay in business.

	Same as competitors or easy to imitate	Better than competitors and difficult to imitate
Resources	Threshold resources	Unique resources
Competences	Threshold competences	Core competences

(Johnson and Scholes, 2005)

Figure 3 Resources/competences matrix

4.5.1.2 How to get started on the strategic position dimension

1 Assuming that management has already agreed a date to present the first draft of the scorecard to the board (and will need to agree the reporting cycle with the board for subsequent versions), management needs to decide which aspects of the strategic position should be reported to the board and the frequency. In some cases, the detailed analysis may not yet be available although the management has decided that it would be useful. In such a case, management needs to provide a plan of action and timescale as to when this information will be provided.

2 Management will also need to agree the headings and groupings (e.g. economic, competitor, market and sector specific) for this part of the scorecard. A possible layout is shown in Figure 4 (page 21).

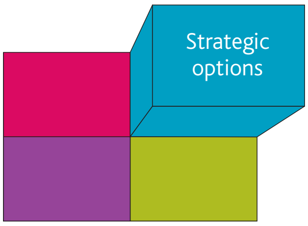
Strategic position								
Issue	**Owner**	**Process**	**Last reviewed**	**Progress since**	**Follow-up action**	**Next review**	**Key findings**	**Detailed report**
Competitor activity	Head of Marketing	Monthly report	June	Format finalised for report	No change	July	New entrant to market Rival launched new pricing structure	Via intranet
Legislative developments	Head of Policy	None			Subscribe to alerting service	October	Gap in knowledge leaving us exposed	To be available on request

Figure 4 Strategic position

3 The board now has the opportunity to review the structure and content of this part of the scorecard. In doing so, it could consider the following:

- Are we happy with the headings and overall structure of this section of the scorecard?
- Do all the issues listed represent an adequate picture? Should anything be added or omitted?
- Do we need to look at any aspect in more detail? How can we access more detail?
- What types of analysis have been carried out? Are these appropriate? Do they tell us what we need to know?
- How reliable and rigorous is the information?
- What are the implications of the information? This can lead into the discussion on strategic options (covered in Section 4.5.2, pages 22 to 29).

4 Based on the discussion, management can update the scorecard and have a robust understanding of its strategic position as it evaluates strategic options and strategic risks.



4.5.2 Strategic options

This dimension builds on the strategic position by starting to scope out the options that are available to the organisation.

The purpose of this dimension is to:

- Provide assurance to the board that management is identifying, developing and analysing a comprehensive range of strategic options available to the organisation on a continuous basis.
- Provide the board with a summary of the options so that the board can discuss them constructively and decide which should be developed further into a formal business plan for a separate and more detailed board debate. During the course of the scorecard discussion, the board may identify other options that have not been considered or reframe the ones that have been presented, for example, by combining two options into one. In essence, what the board is doing is scoping out the options in broad terms. The purpose of the scorecard is to set out the landscape rather than consider each option in detail.

The crucial point is that management and the board both need to be engaging regularly in discussions on strategic options and agreeing a timeline for reviewing specific options.

4.5.2.1 Considering strategic options: tools and techniques

The first issue is to clarify what is actually meant by a strategic option.

A strategic option provides the opportunity – but not the obligation – to pursue a course of action. Outcomes from their consideration may include acceleration, delay or adjustment of investment and operating decisions over time in response to the resolution of uncertainties arising from the review of the strategic position. For example, a strategic option should relate to an action that is materially significant for that particular organisation and at the extreme end, may even amount to a major change to services offered or a restructured organisation.

The resultant agreed courses of action may be difficult to reverse. However, using decision making techniques such as real options analysis, provides organisational flexibility and reduces the risk of adverse irreversibility. The pursuit of an options mindset also enables the consideration of exit points for each strategy ('abandonment triggers').

Options may relate to:

- Change of scope e.g. geography, product, market sector.
- Change of direction e.g. high/low growth, offering of price/quality.
- Mergers, acquisitions or disposals.

The key point is that an organisation should not have too many strategic options under active consideration at any point in time as this would not help the board to maintain its focus on the big picture – an indicative maximum number is four or five. If the management team is finding it difficult to whittle options down into a manageable number, it could consider the following:

- Are all the options genuinely strategic and significant for the organisation? If not, they need to be struck off the list.
- Another possibility would be to list some of the strategic options 'below the line' to indicate that they are not lost sight of, but for the moment, are not under active consideration.
- Interdependencies between options should be avoided i.e. option 1 would only work if option 2 were adopted as well. In other words, strategic options need to be complete and stand alone on their own merits. The organisation may therefore find that what it thought were separate options actually need to be combined together to form a single option or desired scenario.

The process of option generation and selection can be divided into distinct phases. These are based on the Disney Creativity Strategy, which evolved on account of the fact that Walt Disney would adopt three distinct roles of dreamer, realist and critic when his team was developing an idea.

- Identifying and framing options – this is essentially the creative phase where ideas should not be constrained.
- Considering what would actually be involved to put the ideas into practice – this is the practical phase and needs plenty of hard facts and information.
- Evaluating the strengths and weaknesses of the option – a critical, judgmental point of view is required here.

By looking at the phases of option generation, an organisation can consider where it has strengths and weaknesses and can take appropriate action to address them. An organisation that struggles to generate ideas, for example, may decide to explore tools and techniques that help to boost creativity and/or they could identify individuals in the organisation (including the board) who have particular strengths in this area.

Option generation

There are a number of useful frameworks that tend to adopt a matrix approach. Depending on the different axes used, such frameworks can:

- Expose parts of the business that are not a good strategic fit and could therefore be considered for divestment.
- Set out a range of strategic possibilities, including some that may not have been previously considered.

A well-known matrix is the one developed by the Boston Consulting Group (BCG). This helps an organisation to review all the component parts of its organisational portfolio by considering each business or product in terms of market share and market growth as illustrated in Figure 5. For example, a 'cash cow' business is characterised by high relative market share, but low market growth. It can be a useful component of an organisation's portfolio as it can generate funds for investment in future growth in new areas.

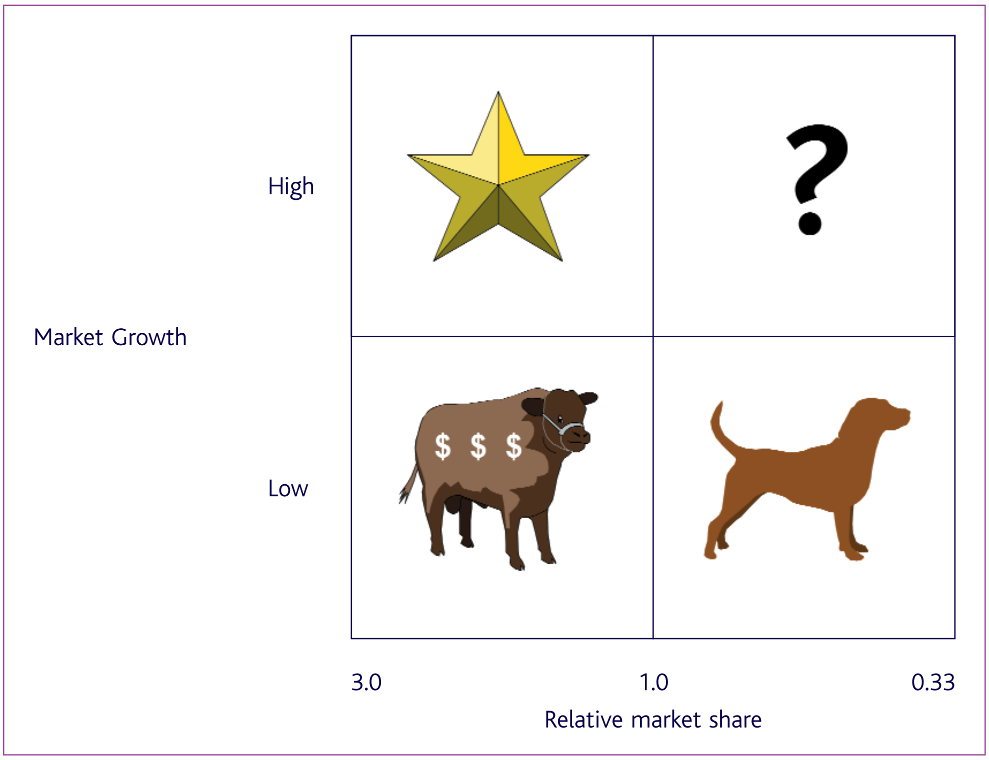


Figure 5 Boston Consulting Group matrix

An organisation which aspires to grow rapidly should have sufficient 'stars' (high growth and high market share) and 'question marks' (low market share but high growth) for it to achieve this. On the other hand, the organisation may need to consider divesting the 'dogs' which are characterised by low market share and low growth. In this way, the BCG matrix can inform the generation of a strategic option in terms of its potential to contribute to the organisation's objectives.

Another well-known tool is Ansoff's product/market matrix which looks at different growth strategies:

	Present product	New product
Present market	Market penetration	Product development
New market	Market development	Diversification

Figure 6 Ansoff's product/market matrix

Market penetration basically means increasing market share by selling more of the existing products to existing markets.

Market development refers to selling existing products to new markets, for example, by expanding into another country.

Product development refers to selling new products to existing markets, for example, Tesco's moves into non-food items and Marks and Spencer's move into electrical items.

Diversification looks at creating new products for new markets.

Although these frameworks have their uses, they have their limitations in that organisations may use them too rigidly and may also convince themselves that, by using a matrix, they have ticked the box that says 'generate strategic options'. This is where the real 'thinking outside the box' needs to start. It may be helpful to refer to some creative problem solving techniques.

The tools mentioned above start the process of determining the high level strategic options available which then need to be further delineated into the mechanisms for delivery:

- organic development
- mergers and acquisitions or divestments
- joint developments, strategic alliances
- technological change
- outsourcing.

Feasibility

Once a range of options has been generated, it is necessary to establish whether in fact these options are feasible in terms of resources and competences. Funds flow forecasting, for example, is a possible tool for assessing the financial feasibility of an option.

While resources and competences need to be considered carefully, an additional crucial factor is that of timelines. Strategic options may not have a very promising timeline – it may take some time before a decision point is arrived at for the option to be pursued further. In effect, some options are on the shelf, waiting for the right combination of circumstances to emerge. Therefore, it is important to be clear about what has to happen before the option can be pursued.

Analysis

Having generated and established the feasibility of the strategic options, the focus needs to shift towards evaluation and analysis of all the strategic options. There are many tools available, some of which are illustrated below, with references for further reading. Several organisations will be using several of these tools already, but the following will help to put them in the context of the scorecard and may also provide a source of new ideas.

One such tool is the strategic option grid. This basically scores the various options in terms of specified criteria:

- strategic attractiveness
- financial attractiveness
- implementation difficulty
- uncertainty and risk
- acceptability to stakeholders.

For each option, score each criterion from zero to three. Other analytical tools and techniques can be used to inform the score, for example, investment appraisal techniques will inform the financial attractiveness of the option. The scores are totalled and an ideal total score is 12 or more.

An example is shown in Appendix 1 (page 45) and is taken from an article in CIMA's *Financial Management* magazine (2005). This applies the technique to Marks and Spencer.

A key technique for evaluating strategy is shareholder value analysis or a value based management approach. This requires some measure of value creation such as economic profit, which is defined as net operating profit after tax, minus the organisation's cost of capital (including that of equity). Another approach is to discount the future expected cash flows of the strategic options at an appropriate cost of capital over a defined time horizon and then select the options that produce the highest net present value (i.e. the sum of the discounted cash flows). Indeed, there are a range of metrics which can be used for valuing strategy; there are significant differences between them, but they all share the objective of measuring value creation.

For a more detailed discussion on the tools and techniques of shareholder value analysis, CIMA has published *Maximising shareholder value – achieving clarity in decision making* (2004).

Such appraisal techniques are particularly useful when evaluating very specific investments or strategic options. However, the problem is that some strategic options can only be expressed in very broad terms – they may represent an overall direction rather than a specific project. It can therefore be difficult to estimate the investment expenditures and returns associated with the strategy. It may also be difficult to specify a timeline over which the strategic option is deemed to operate.

'A more feasible approach is to recognise and understand the factors that determine a firm's profits in order to select the strategy that offers the best prospect of maximising profits, even if we are unable to quantify them.' (Grant, 2004)

A more recent approach has been the development of real options analysis. Although the techniques of valuing real options are complex and sophisticated, the underlying principles are much more straightforward.

What is a real option?
'The right, but not the obligation, to take different courses of action (for example defer, abandon and expand) with respect to real assets* (for example an oil well, a new product or an acquisition) as opposed to an option on financial securities or commodities.'
CIMA Official Terminology, 2005 edition

*It is important to note that a real asset could also be an intangible asset – the key distinction to be made is between a financial option and other options.

The value of the real option lies in its flexibility – basically, the project is giving the organisation strategic flexibility for the future. Thus, the costs of creating the required flexibility need to be considered alongside the benefits that such flexibility offers.

These are most useful to major projects or strategic options where there is value in dividing the project up into different phases where the decision of whether and how to undertake the next phase can be made in the light of prevailing circumstances. It is no surprise therefore that the real options approach tends to be associated with such industries as pharmaceutical, gas and oil and aircraft manufacturing, but can be applicable to new product development in other industries.

However, a key point to note is that the real options approach represents a way of thinking rather than having to necessarily get embroiled in complex mathematical techniques. It is all about creating possibilities for the future, which is very much the essence of the strategic options dimension of the scorecard.

4.5.2.2 How to get started on the strategic options dimension

1 The management team needs to think about possible options. For some organisations, this may be a well developed aspect of the team's work and it is simply a case of determining the major ones that should be included on the scorecard. For others, the scorecard provides a useful discipline by ensuring management think these through. An important consideration is when a specific option needs to be included on the scorecard – at what point is it helpful and/or necessary to start getting the board involved?

2 Management will also need to agree the headings for this part of the scorecard. A possible layout is shown in Figure 7 (page 29).

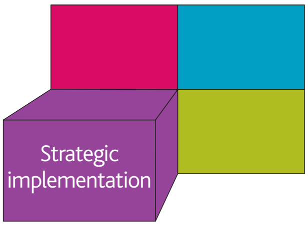
Strategic options					
Option	**Status**	**Last review**	**Progress to date**	**Next steps**	**Next review**
Divestment of major business unit	Hot	June	Market review completed	Prepare formal business case	October
Outsourcing major process	Cold	July	Feasibility study completed	Drop from list	

Figure 7 Strategic options

3 The board now has the opportunity to review the structure and content of this part of the scorecard. It could consider the following:

- Are we happy with the headings and overall structure of this section of the scorecard?
- How have these options been generated?
- Are they consistent with the strategic position of the organisation?
- What other options have been considered? Why were they rejected?
- What are the broad implications of each?
- Should any option be modified?
- Are there any other options that should be included?
- Do we keep looking at the same options without ever making a decision to pursue further or reject?
- What action should we take in respect of each option?

4 Once the board has considered that a strategic option should be pursued further, a formal business case can then be prepared and will be the subject of a separate and more detailed board discussion. Assuming that the board endorses the business case, the strategic option will now move into the strategic implementation dimension.



4.5.3 Strategic implementation

Once a project or process improvement has moved through the evaluation stage to implementation, the board needs to be updated on progress. To a large degree, the success of the scorecard rests on how well this dimension is managed. The best analysis of the organisation's strategic position and identification of options will count for nothing if the strategy is not well executed.

The detailed evaluation of a specific option should have developed and set out attainable milestones and timelines that need to be met. These should be reported on regularly, together with an outline of any implications and necessary corrective action.

Critical success factors should also be clearly set out – what must happen to make the strategy successful? There may be a critical path linked with the milestones.

The board needs to be aware of where there are breakpoints when board decisions and/or intervention might be required. These decisions would include whether to accelerate, abort, delay or, possibly, switch strategy.

It would be helpful for the board if the management team were to provide a brief update (say 20 minutes) on the strategic priorities during the board year rather than a once per year update on completion of a task. An example of this would be an update on a new product line or a major internal project.

It should be noted that the strategic implementation dimension of the scorecard should be very high level. It is meant to focus on a small number of key projects that are crucial to delivery of the strategy. The board should not get too bogged down in the detail of strategic implementation. Nevertheless, it is useful for directors to have some feel for how management executes strategy, including some of the tools and techniques used.

4.5.3.1 Considering strategic implementation: tools and techniques

As indicated above, a strategy is only as good as the success of its implementation and there are a whole range of tools and techniques that can be used to support this. A well-known tool is the balanced scorecard and this will be considered further below. The scope of strategic implementation may range from relatively straightforward projects to major organisational change, requiring significant investment in new structures, processes and/or infrastructure such as IT.

However complex the undertaking, it is essential that it is managed effectively. The overall success of the strategic implementation also needs to be carefully managed and monitored. Some well-known tools and techniques that are relevant to strategic implementation are covered below.

Project management

All organisations need to use some effective system for managing projects. There are many tools and techniques, but they are all similar in terms of requiring clear objectives, deliverables, milestones, a project manager and sponsor, timescales and risks.

One well regarded technique is PRINCE2 or (Projects IN Controlled Environments). It is widely recognised and used in the private and public sectors internationally. PRINCE2 is a structured method that can be adapted to suit any type of project. The lynchpin of this approach is the business case which drives all the project management processes. The management of risk and quality are also integral components of the process. The main purpose of PRINCE2 is to deliver a successful project as defined by:

- delivery of the agreed outcomes
- on time
- within budget
- at the required quality.

Other project management methodologies include:

- PMBoK (Project Management Body of Knowledge) – the US based Project Management Institute (PMI) has defined best practice project management principles and processes into a volume entitled PMBoK. It describes nine key areas in terms of inputs, outputs, tools, techniques and how they fit together. A number of vendors encapsulate PMBoK into their own service and software offerings.
- SixSigma – another process improvement and defect methodology that has its roots in improving manufacturing and product development processes. There are now extensions to apply the concept to more generic project management processes.
- IDEAL/INTro – IDEAL is a process improvement and defect reduction methodology from the Carnegie Mellon Software Engineering Institute (SEI). INTro is a particular application of the methodology for rolling out technology, for example, new IT. The institute has a reputation for researching and improving the project management process.
  (CIMA, 2006)

The balanced scorecard as a management system

One of the best known management systems is the balanced scorecard. This was originally developed as a way of addressing a performance measurement problem, namely the fact that traditional financial measures with their historical perspective were ineffective in helping to create future value. The scorecard complements these financial measures with a range of performance measures that capture activity throughout the organisation and thus improves focus on the drivers of future performance.

The balanced scorecard consists of a framework that pulls together performance measures from four perspectives:

- Financial – the traditional measures such as revenue, profitability, cash and budget variances.
- Customer – measures that capture the creation of value from the perspective of the customer, for example, overall customer satisfaction and/or specific issues that are particularly important for that industry such as punctuality in the transport industry.
- Internal business processes – the key processes at which the organisation must excel in order to add value to customers, for example, banks will focus on issues such as completing customer instructions without error.
- Learning and growth perspective – this supports the rest of the scorecard by focusing on the organisational infrastructure, such as employee skills and information systems.

However, because the measures are derived from the organisation's strategy, it has evolved from being a performance measurement system to a strategic implementation system. This is for the following reasons:

- The balanced scorecard forces the management to translate what can be a vaguely expressed strategy into concrete objectives and measures.
- It is relatively straightforward to cascade the scorecard down throughout the organisation and thus create a culture of shared objectives.

There is a wealth of material available on the balanced scorecard, including the numerous books and articles, written by the originators of the concept, Robert Kaplan and David Norton.

4.5.3.2 How to get started on the strategic implementation dimension

1 For the first draft of the scorecard, the management needs to decide which key milestones should appear in this section. There will also be a direct flow through from strategic options i.e. once the option has been agreed for implementation, it will shift from the options section to the implementation section. The board should discuss and agree which strategic implementation milestones need to be brought back to the board agenda.

2 Management will also need to agree the headings for this part of the scorecard. A possible layout is shown below. It is important that this section contains only the significant strategic initiatives and is not a substitute for the operational plan or the balanced scorecard. The focus needs to remain on strategy and the scorecard should not become a long list of operational issues (notwithstanding the fact that these issues are important).

Strategic implementation					
Action	**Owner**	**Last review**	**Progress to date**	**Next steps**	**Next review**
Introduce new product	Head of SBU	July	Product specification agreed	Develop marketing plan	Sept
Relocation of warehouse	Head of Operations	June	Relocation of stock complete but difficulties with order fulfilment	Overnight working	August

Figure 8 Strategic implementation

3 The board now has the opportunity to review the structure and content of this part of the scorecard. It could consider the following:

- Are we happy with the headings and overall structure of this section of the scorecard?
- Are we satisfied with progress and proposed next steps in respect of each item listed?
- Are there any major strategic actions that should be included here?
- What are the key learnings arising from any post completion audits?

4 At this point, the board has completed its strategic analysis and arrived at the implementation stage. However, there are external factors that are unpredictable and changeable. These can have a major impact on the organisation's ability to achieve its strategic objectives. Therefore, the board needs to understand its strategic risks and its appetite for risk in the same way as any investor. This consideration leads the board to the next dimension – strategic risks.

4.5.4 Strategic risks (or strategy for risks)

In recent years, there has been an increasing emphasis on risk management and various frameworks have been developed. The Enterprise Risk Management (ERM) approach, for example, recognises that risk management needs to encompass all the organisation's risks such as operational, financial, compliance, regulatory and strategic risks. Strategic risks are defined as those risks that would threaten or enhance the achievement of the organisation's strategy and even the ability of the organisation to survive. Compared to other risks, such as operational risks, strategic risks can have major impacts. They are typically less predictable and can be interconnected.

A recent analysis of risk in the US by Marsh & McLennan found that where 10% of Fortune 1000 companies suffered a loss of over 25% of shareholder value in one month, the major reasons were strategic factors such as competitive pressures, misaligned products, integration of mergers and acquisitions and loss of reputation.

Furthermore, a number of research studies have revealed a lack of confidence at senior level that the major business risks are being managed effectively. For example, research by Protiviti almost consistently indicates that six out of ten senior executives lack sufficient confidence that their organisation is identifying and managing all potentially significant business risks (Protiviti, 2006). McKinsey research has shown that only 11% of 1000 directors worldwide claimed to have complete understanding of current risks and 8% had understanding of long-term risks (ibid).

So it makes sense for the board to focus its attention on strategic risks. In essence, risk management must be embedded within the overall context of business strategy. In this way, the emphasis is balanced between risk minimisation – stopping bad things from happening – and risk optimisation – ensuring that good things happen. In this way, the risk management process drives improved performance and creates shareholder value.

The emphasis of strategic risk analysis often only concentrates on the internal strategies of the organisation and does not encompass the external risks (sometimes not within the organisation's control). Changes in economic or competitive environments are often more dramatic, tend to have both short-term and long-term impacts and should be on the board's risk radar. Work on the strategic position and strategic options often feeds into the strategic risk discussion.

There are three key components to strategic risk management:

1 Risk appetite – as its name suggests, this covers the organisation's propensity to take risk. Every organisation has a risk appetite regardless of whether it is aware of it or not. The determination of the risk appetite is a key strategic task as the risk appetite provides an overall context for the strategy.
2 Strategic risks and opportunities facing the organisation – the nature and extent of these, the likelihood of their occurrence and/or potential for exploitation, ability to manage risks, etc. To a large extent, these need to be considered in respect of each of the other three dimensions, but the strategic risk dimension provides a useful check and balance to ensure that this is actually happening.
3 Process issues – for example, risk identification and prioritisation, how risks are actually managed within the organisation, training issues, stress testing, risk monitoring processes and whether any risks are currently materialising.

In some respects, this dimension can be regarded as encompassing or driving the other three dimensions. For example:

- A couple of major companies in the motor and media sectors have suggested repositioning the strategic risk box so that it is the first box that is considered.
- An alternative approach, suggested by a major media company, is to view the strategic risks dimension as the 'strategy for risk' and add what it has termed the 'risk wrapper' to the entire scorecard with suggested risk interventions for each of the dimensions of the scorecard.

However the board chooses to view it, the key issue is that they spend adequate time on all three components of strategic risk and that risk management is fully embedded in the overall strategy. **Best practice is intelligent risk taking with formalised risk management.**

4.5.4.1 Considering strategic risks: tools and techniques

We have already touched on enterprise risk management above, which represents a long-term approach to managing risk across the whole organisation. There are a number of frameworks available, such as the Turnbull Guidance (UK), the Treadway Commission's Committee of Sponsoring Organisations (COSO), *Enterprise Risk Management – Integrated Framework* (US), the Risk Management Standard (UK) and *AS/NZS 4360 Standard on Risk Management* (Australia and New Zealand). It is beyond the scope of this report to cover them comprehensively and in any great detail.

Risk appetite

As this is a major task that falls to the board and senior management, it is worth looking at this in more detail. As we have already seen, the determination of the risk appetite is a key strategic task as the risk appetite provides an overall direction for the strategy. It clarifies which risks the organisation is prepared to accept and those that it is not. So it is crucial to be aware of risk appetite when formulating and evaluating strategy.

Risk appetite can be expressed in qualitative or quantitative terms. It does not need to be very complicated, but the following may be considered:

- Whether there are specific risks that it will not accept.
- What level of capital or earnings is the organisation willing to put at risk?
- How does the risk appetite compare with that of peers?

Another way of expressing risk appetite is by defining a boundary on a risk map – where a risk is assessed to be beyond the defined risk appetite, it may be rejected as a strategy or modified to the point where it falls within the risk appetite.

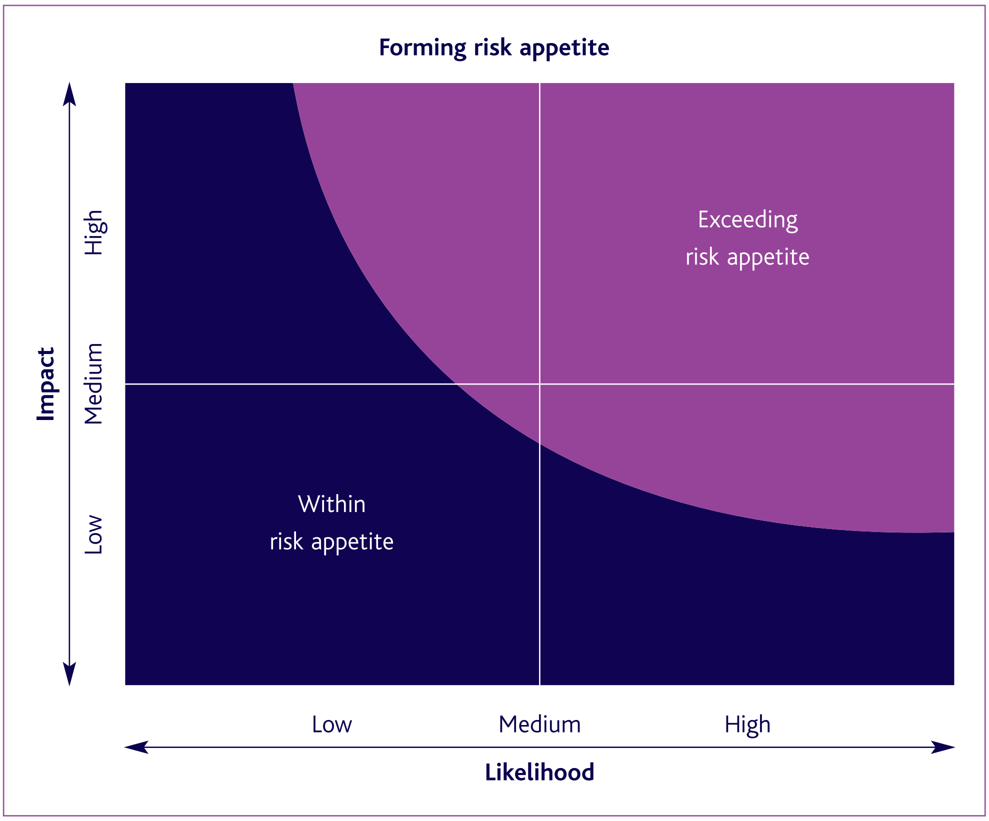


Figure 9 Risk appetite

Risk identification

This is usually a case of finding the most effective way of tapping the right sources of knowledge. Possible methods are risk workshops, brainstorming sessions and interviews. Serious consideration should be given to identifying risks from a variety of perspectives – i.e. not just the management team, but also possibly technical specialists such as engineers and IT staff, external experts and other stakeholders. However, self assessment is to be avoided as it does not provide adequate rigour. It is also helpful to identify possible upsides in addition to adverse occurrences and to consider risks from the perspective of sustainability (or Corporate Social Responsibility). A key question to ask is 'What are the risks that threaten the achievement of the strategy?'

Risk assessment and risk mapping

Once the key strategic risks have been identified, it is necessary to assess the possible impact and likelihood of occurrence. These can then be plotted on a risk map as shown in Figure 9 (page 37). More sophisticated tools and techniques for assessing, classifying and representing risks may include:

- scenario planning
- computer simulations
- decision trees
- sensitivity analysis
- specialist software
- risk heat maps.

Risk responses

Possible responses generally fall into the following categories:

- risk retention
- risk avoidance
- risk reduction
- risk transfer.

Risk processes

The identification and assessment of risks may not prove to be too difficult. The hard work starts in embedding risk management within the organisation on a long-term basis. Hence, some writers have described risk management as a process or even a journey. The following are key success factors for ensuring effective implementation:

- Top level commitment.
- Integration into strategic planning – because the CIMA Strategic Scorecard™ includes a specific section for risk, this ensures that there is an adequate connection between the organisation's risk management and strategic management at key stages in the process.
- Evidence that there is good risk management practice within the organisation.

(Derived from *CIMA Risk Management: a guide to good practice,* 2002)

Risk in mergers and acquisitions

It is worth devoting particular attention to this area as mergers and acquisitions are notoriously risky and frequently fail to deliver the benefits envisaged. Because of their typical scale and strategic importance, it is particularly crucial that they are scrutinised effectively by the board.

Once it has been agreed that acquisitions are part of the strategic plan and target spotting has been carried out, it is possible to map eight key stages in acquisitions:

- initiation and appointment of project team
- target valuation
- identification of key risks
- business case
- due diligence, split between key risks and all other risks
- finalise the deal, including a final 'sponsor note' to the board
- integration and implementation
- post audit.

The risk management process should be integrated into this process as shown below:

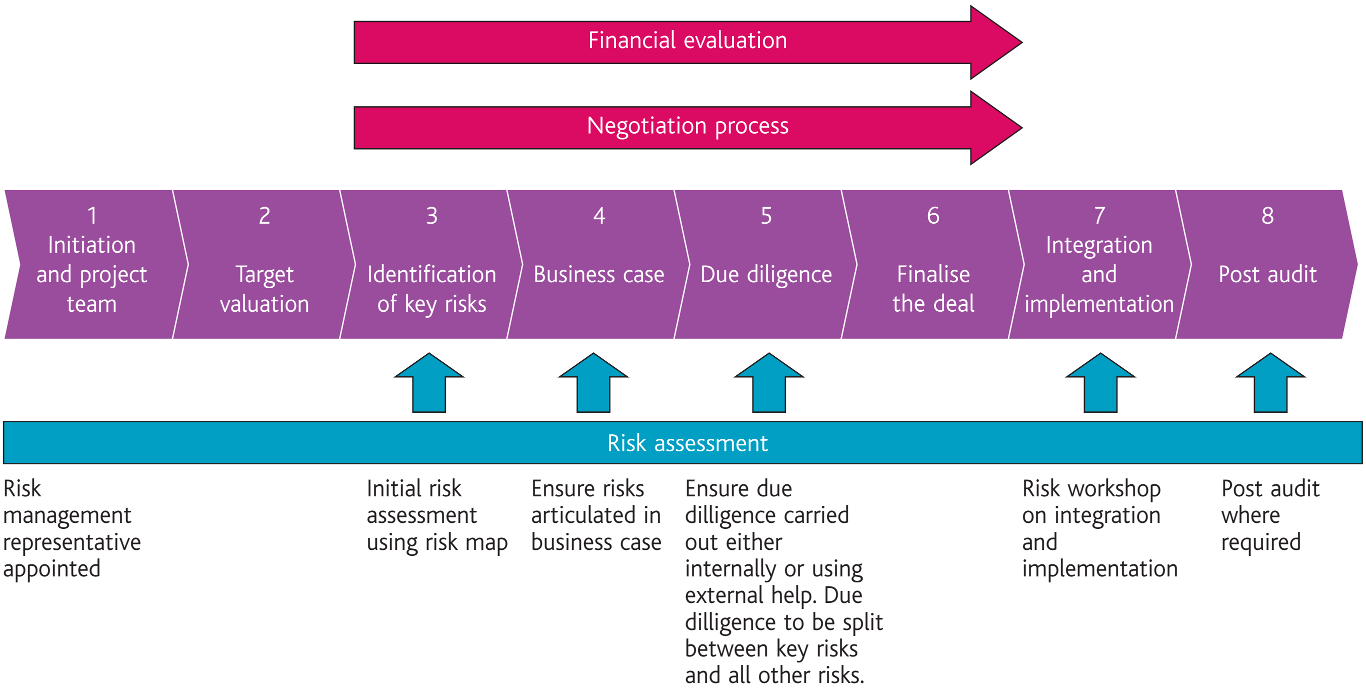


Figure 10 Risk management

Chapter 7 (The Acquisition Process and the Risk Management Process to support it) of the IFAC/CIMA report, *Enterprise Governance – getting the balance right* covers this area in more depth.

4.5.4.2 How to get started on the strategic risks dimension

1 For the first draft of the CIMA Strategic Scorecard™, the management needs to decide which process issues need to be included. Risk appetite should certainly be included, but it may also be useful to include issues such as risk management capabilities, policies and methodologies. The strategic risks themselves also need to be covered – although many will have been identified in each of the other three dimensions, the board will need assurance that this has indeed been done and that these risks are being managed effectively. There may also be other general risks that do not relate to specific strategies, but which would still affect the organisation's ability to achieve its strategy. These can be picked up here as well and perhaps allocated to operational management to address, thus reserving the strategic considerations for the board as part of the scorecard process.

2 Management will also need to agree the headings for this part of the scorecard. A possible layout is shown in Figure 11 (page 41).

Strategic risks					
Risk issue	**Sponsor**	**Importance**	**Response to risk**	**Progress since last review**	**Next review**
Process issues Risk appetite Risk management capabilities Risk management policies	Chief Executive	High	Determine risk appetite policy		October
Strategic risks Growth objectives not in line with economic forecasts	Marketing Director	High	Revise objectives		September
Capabilities not sufficient to achieve objectives	Chief executive	High	Enhance capabilities	Requirements now mapped out	September
Organisation not aligned to growth objectives	HR Director	Medium	Training programmes	Training scoped	October
Competitor introduces new service in area of high market share	Marketing Director	Medium	None – as already developing new, more profitable areas		December
Competitive product introducing new and improved technology	Head of Business Unit	High	Review product offering	Range of offerings scoped out	September

Figure 11 Strategic risks

3 The board now has the opportunity to review the structure and content of this part of the scorecard. It could consider the following:

- Have we determined the risk appetite?
- Are there any major gaps in risk management capabilities and what are the plans to close these?
- Have all the risks been identified in relation to the actual (strategic implementation) and potential strategy (strategic position/options)? Are the proposed risk responses appropriate?
- Have any of the identified risks materialised? What is actually being done and is this response effective?
- What is the organisation's risk management framework? Is it fit for purpose?

4.6 Pulling it all together

So far, we have looked at each of the four dimensions of the scorecard individually and explained how an organisation might use them.

The objective of the CIMA Strategic Scorecard™ is to pull all the strategic information together in a summarised and consistent format to enable the board to exercise oversight. Thus, all the separate sections shown above would be combined to create a single document. What can be helpful is to supplement this with a cover sheet that lists all the items covered within each dimension in one place. This might sound very simple, but it can be of immense benefit to a busy non-executive director to be able to see all the major strategic issues at a glance. An example is shown below.

Figure 12 CIMA Strategic Scorecard™ summary

5 How the CIMA Strategic Scorecard™ relates to the balanced scorecard

The CIMA Strategic Scorecard™ and the balanced scorecard differ in the way that they are used at other levels of the organisation. The CIMA Strategic Scorecard™ is primarily a high-level tool for use by boards and executive management in exercising strategic oversight. It can also be used by strategic business units (SBUs) or divisions of an organisation. This contrasts with the balanced scorecard which is often cascaded to lower levels of the organisation. Many organisations have prepared lower-level scorecards e.g. at business unit, department and even individual level. These scorecards are designed to be used as a management tool to support implementation of the organisation's agreed strategy.

Although the developers of the balanced scorecard, Kaplan and Norton, have emphasised that the best balanced scorecards should reflect the strategy of the organisation and that a scorecard can help to force clarification and consensus about what the strategy is, they are quick to acknowledge that 'strictly speaking, the balanced scorecard is a strategy implementation tool' (Kaplan and Norton, 2001).

Unlike the CIMA Strategic Scorecard™, the balanced scorecard is not really designed to address strategic issues that confront the organisation as a result of major external disruption such as market collapse, competitor activity or regulatory change. Nor does it help with strategic choices, for example, whether to undertake mergers and acquisitions.

Despite these differences, there is a link between the two scorecards in that, as we have seen, the balanced scorecard can supplement the strategic implementation dimension of the CIMA Strategic Scorecard™. This then provides a clear cycle from the strategic position through to options and then to implementation.

6 Current and future developments

CIMA has adopted the scorecard itself to assist its governing Council in the oversight of strategy and this has been very successful in ensuring greater focus on the major issues. A number of other organisations are also using the scorecard on their own initiative and, in some cases, have modified the framework and/or used it in innovative ways to suit their own particular needs.

CIMA is also in the process of conducting in-depth trials with other organisations. The outcome of these trials together with the learnings gained from the use of the scorecard by other organisations will be published at a later date. In the meantime, CIMA would be very pleased to hear from organisations which have also adopted the scorecard and/or would be interested in undertaking a formal trial.

Other documents available on this topic from **www.cimaglobal.com/strategicscorecard**
Executive summary, March 2007
Discussion paper, March 2005

Appendix 1
Tools and Techniques

Strategic Options Grid

Criteria	Options				
	Incremental strategy	Float off food	Close more stores	Rationalise products	Increase franchise space
Strategic attractiveness	●	● ●	● ●	● ● ●	● ● ●
Financial attractiveness	● ●	● ● ●	● ●	● ●	● ● ●
Implementation difficulty	● ●	● ●	●	● ●	● ●
Uncertainty and risk	● ●	● ● ●	●	● ●	● ●
Acceptability to stakeholders	● ●	● ●	● ●	● ●	● ●
Totals	**9**	**12**	**8**	**11**	**12**

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This grid has been used by a number of major companies, including Tesco and Diageo, to develop strategies. The options for Marks & Spencer (M&S) include:

- **Incremental strategy.** This would not really improve M&S's long-term competitive advantage and it would be a high risk approach, because the business would become even more exposed.
- **Float off food.** This would make shareholders better off, since the business is probably undervalued. It would not be inherently hard to do this.
- **Close more stores.** This would focus the company on its key outlets, but it might damage the brand and decrease customer loyalty in the process.
- **Rationalise the product e.g. stop selling men's shoes.** This would 'declutter' the business and provide an opportunity for growth.
- **Increase franchise space.** This would allow in other products, which would create more interest.

Appendix 2
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April 2007

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TE029V0407