Managing by Strategic Themes
By Robert S. Kaplan, Baker Foundation Professor, Harvard Business School, and Catherine (Kit) Jackson, Vice President, Palladium UK Ltd.

Far more than an umbrella for related strategic objectives, the strategic theme is actually a powerful tool. It enables organizations to not merely transcend silos, but also to clarify and execute every aspect of strategy management. Many government organizations have discovered that the strategic theme can help overcome the constraints of bureaucratic structure. Here, Robert Kaplan and Kit Jackson explore in detail how strategic themes provide the architecture that enables the cross-functional, cross-business, integrated actions necessary for successful strategy execution.

Strategy maps describe a model of value creation through cause-and-effect linkages among the strategic objectives in the four Balanced Scorecard perspectives. But employees and management teams often struggle with balancing the simultaneous demands implicit in a strategy map’s 15 to 20 different strategic objectives when they perform strategy execution tasks such as resource allocation, initiative management, reporting, and management meeting agenda setting. Moreover, accountability and governance are often difficult to establish for those strategic objectives that cut across business unit and functional lines. Yet precisely because strategy is holistic and cross-functional, its successful execution requires interorganizational structures, processes, collaboration, and accountability.

By using strategic themes as the building blocks of strategy maps, companies can clarify their strategic message and simplify decision making, governance, and other strategy execution tasks.

A strategic theme is generally a vertical “slice” within the strategy map, a subset of the overall strategy consisting of a distinct set of related strategic objectives. Most strategic themes originate in the internal process perspective and connect upward to customer and financial outcomes, as well as downward to the enabling objectives of the learning and growth perspective. Strategic themes provide a subarchitecture within the strategy map to support the boundaryless approach necessary for successful strategy execution. Themes provide clarity to the strategy by clustering a strategy map’s multiple objectives into the three to five value-creating elements that will deliver the organization’s overall financial targets. By decomposing a strategy map into a collection of strategic themes, executives can plan and manage each of the key elements of the strategy, and explicitly recognize the tradeoffs and tensions between them in ways that, collectively, deliver the results targeted by the overall strategy.

*Figure 1* shows a generic strategy map organized by four strategic themes:

1. **Improve Quality and Productivity** (often referred to as “operational excellence” in theme-based strategy maps) to lower cost and improve reliability of production, delivery, and service.

2. **Grow High-Value Customer Relationships** to increase revenues from selling more products and services to existing customers.

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4. Create a High-Performance Culture to drive the improvements in the processes at the heart of the three other strategic themes. This horizontal strategic theme, encompassing the learning and growth objectives, is foundational to the three other strategic themes.

As the building blocks of strategy maps, strategic themes help clarify the strategic message and simplify decision making, governance, and other strategy execution tasks.

3. Accelerate Product Innovation to generate revenues from new products and services, often to new customers and market segments.

Strategic themes help organizations execute strategy by providing the following:

- A structure for clarifying and decomposing the long-term target
- An architecture for alignment
- A mechanism for theme ownership, funding, and accountability
- Execution capability through “theme teams”
- A framework for reporting and governance
We discuss each in turn.

1. **A structure for clarifying and decomposing the long-term target.**

Executive teams are responsible for delivering superior long-term performance: increases in shareholder value for a private-sector company, measurable social impact for a public-sector or nonprofit entity. Executive leaders set a stretch target for that future performance, which defines a value gap between targeted performance and what the company would achieve by following its current, business-as-usual operations. Strategy is the game plan for closing that value gap.

To achieve the long-term (financial) performance target, the organizational strategy can be subdivided into component pieces, or strategic themes. Each theme creates some level of value in a unique way. In the aggregate, the values created by the individual themes should add up to the overall financial value gap. Take, for example, a financial services company that wanted to increase its current operating income of $20 million by more than $100 million in five years. At first, this ambitious target seemed impossible to reach. The company, however, identified three strategic themes that, collectively, would help it achieve the overall target: (1) Reduce Costs Through Operational Excellence, (2) Expand Customer Relationships, and (3) Add and Retain Valuable New Customers. If the company could reduce its cost per customer by 25%, increase revenue per customer by 50%, and triple its high-value customer base from 200,000 to 600,000, operating profits would increase to $135 million. Each theme’s target seemed feasible, making the overall stretch target now appear reachable.

The remainder of the strategy map and the strategic initiatives are designed to deliver the targeted performance for each theme. Typically, as shown in Figure 1, the theme architecture of the strategy map is shaped by three main types of internal processes: those comprising cost reduction and productivity improvements, those that provide more complete customer solutions, and those that help the company innovate with new products and services. Every organization, of course, whether private, public, or nonprofit, needs to tailor its strategic themes to its own customer value proposition—the heart of the strategy—as well as to the financial perspective’s productivity objectives. The emphasis placed on each theme reflects its relative weight in creating and delivering the various components of the strategy.

Many theme-based strategy maps use a horizontal structure for learning and growth objectives, as shown in Figure 1, signaling that improving human resource (HR) capabilities, information technology (IT), and organizational climate and culture are foundational for all strategic processes. But developing key competencies and IT applications can also be linked directly to specific process-based strategic themes. For example, improving the capabilities of a joint venture manager (an HR objective) would support a theme such as “Creating Growth Through Innovation,” and implementing a CRM/lead management system (an IT objective) would support a theme of “Creating Demand Through Customer Partnerships.”

2. **An Architecture for Alignment**

Strategic themes provide a logical architecture that transcends the constraints of the organization’s existing structure to allow for cascading the strategy and creating alignment across regions, business lines, and functions. For example, BMW Group Financial Services built its divisional strategy map around six strategic themes: Financial, Process Excellence, Customer (Consumer) Focus, Dealer Focus, Growth and Innovation, and Learning and Development. (The Financial and Learning and Development themes encompassed all the strategic objectives within their respective perspectives, thus are synonymous with the perspective name.) BMW then cascaded the Balanced Scorecard to four regions, 22 local markets, and numerous departments and functions, eventually aligning the company’s 3,000 widely dispersed employees to the division’s strategy. Each of the local strategy maps and BSCs used the same six themes. In this way, each unit aligned its contributions to the divisional strategy while customizing its strategy to local opportunities and competitive conditions. BMW Group Financial Services mandated that certain objectives within themes had to be common across all regions and markets, but that otherwise local entities could select and manage their own objectives.

Beyond aligning each unit to the division’s priorities, the common theme architecture of every strategy map facilitated organizational synergies through horizontal alignment across regional markets and multiple business lines. For example, the Growth and Innovation theme, which describes how the division is driving significant growth in new fields of business, requires that the units share knowledge about new business line and product opportunities. The Customer Focus and Dealer Focus themes describe the customer relationship strategy of sustaining profitable growth from mature business areas by deepening relationships with customers and investing in...
dealer partnerships to grow market share. The objectives in these themes encourage units to leverage their customer bases and partnership relationships across the full financial services product range.

3. A Mechanism for Theme Ownership, Funding, and Accountability

Most strategic themes are cross-functional and cross-business-unit. They do not, therefore, fall within the existing responsibility of any senior executive. But strategic themes require strong executive-level leadership to ensure adequate resources and continued visibility, action, and review. For each strategic theme, a company will generally assign one or two executive-team members as theme owners, with responsibility for overseeing execution of their assigned theme in addition to their “day jobs” as business or functional unit heads. With this dual role, these executive team members bring to management team meetings the business and technical expertise they have from their business or functional unit responsibility, and a strategic view of and accountability for the company’s success that they gain from their theme ownership role.

The theme owner oversees a process for identifying the strategic initiatives required to execute the theme’s strategy. Initiatives are action programs designed to close the strategic performance gap for the strategic objectives. According to the original conception of the Balanced Scorecard, companies would select initiatives for each strategic objective. But selecting initiatives independently on an objective-by-objective basis ignores the integrated and cumulative impact of many related strategic initiatives. Achieving a strategic objective in the customer or financial perspective generally requires the joint efforts of different parts of the organization—that is, multiple and complementary initiatives from areas as diverse as HR, IT, and operations. For that reason, we now advocate the bundling of initiatives into portfolios associated with the objectives of each strategic theme, as shown in Figure 2. In this example (from a financial services firm), the portfolio of initiatives supporting

<table>
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<tr>
<th>Theme: Create demand through customer partnerships</th>
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<tbody>
<tr>
<td><strong>STRATEGY MAP</strong></td>
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<tr>
<td><strong>Objectives</strong></td>
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<tr>
<td>Broaden revenue mix</td>
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<td></td>
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<tr>
<td>Increase customer confidence in our financial advice</td>
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<tr>
<td>Cross-sell the product line</td>
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<tr>
<td>Create organizational readiness</td>
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<td>Strategic jobs (e.g., financial planner)</td>
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Bundling initiatives into portfolios associated with the objectives of each strategic theme helps show the integrated role that related initiatives from the different scorecard perspectives play in achieving targets.

Figure 2. Initiative Portfolio for a Strategic Theme
the objective “Increase customer confidence in our financial advice” (within the theme “Create Demand Through Customer Partnerships”) includes an initiative to better understand how to identify and exploit the targeted segment, and another initiative to develop a customer satisfaction survey that will provide feedback on the company’s success in becoming the client’s trusted financial adviser.

In addition to selecting the theme’s initiative portfolio, the theme owner must ensure that the initiative portfolio receives adequate funds in the budgeting process, and must allocate the designated funds among the multiple initiatives identified in the theme’s portfolio. Once a portfolio is funded, the theme owner monitors the performance of all of the theme’s initiatives. This is important, since if any initiative is abandoned or not executed effectively, it would hurt the performance of its associated objectives, jeopardizing the performance of the entire strategic theme.

Often, a theme owner can assign responsibility for an initiative to an existing organizational unit. For example, the chief technology officer would assume responsibility for an enterprise resource planning application, while the SVP of HR would have responsibility for the training and competency development programs specifically required for the strategic theme. Some initiatives in the portfolio, however, are likely to be cross-functional, such as one designed to execute a client segmentation strategy. The responsibility for such initiatives should be assigned to what is known as a “theme team” (see next section) or a centralized project management office.

By giving a senior executive high-level authority and accountability for a portfolio of strategic initiatives, the company can achieve holistic implementation of that portfolio while still maintaining line-of-sight accountability to functional managers or the theme team for the one or two strategic initiatives that each can fully implement within their zone of responsibility.

4. Execution Capability Through “Theme Teams”

Each theme owner has a staff, called a “theme team,” that consists of individuals drawn from multiple business and support units. A theme team is empowered to perform the operational tasks required to accomplish the objectives of a given theme. Theme team members can either be dedicated full-time to the strategic theme, or work on it part-time, in addition to their regular responsibilities. Theme teams engage a broader group of people in managing the strategy and in assessing key issues and the impact of the strategic theme for contributing to overall organizational performance. Theme team members act as informal ambassadors throughout the organization, helping to embed strategic priorities into the organization’s DNA.

For example, at Luxfer Gas Cylinders, a leading world producer and distributor of gas cylinders, theme teams are global, drawn from multiple functional areas and organizational levels. Each team consists of a cross-section of people from such functions as sales, marketing, operations, and research and development. They are appointed to the team because of their competencies and process expertise, not because of their seniority. Theme team members must be communicators, influencers, and persuaders since they have no authority over existing functions and businesses. They provide multiple perspectives, strengths, and talents through which they ensure buy-in to the strategy throughout the organization. Beyond the teams’ specific contributions, Luxfer has found that theme teams serve as a talent incubator as well as a mechanism for continuously improving strategy management competency throughout the enterprise.

Theme team members must either oversee or perform the strategic processes that are at the heart of the theme. The team decomposes the high-level strategic process objectives into more detailed and actionable subprocesses. Often the theme team performs analytic studies that identify the key performance drivers for the team’s strategic processes. These

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drivers are then formalized into operational (or “process”) dashboards that become the focus of and feedback for the team’s actions. Team members also have primary responsibility for the theme’s interorganizational initiatives, which cannot be assigned to any existing organizational unit.

5. A Framework for Reporting and Governance

At least once a month, theme owners convene with their theme teams to discuss progress and issues and share knowledge. Based on these meetings and on performance reports—the theme’s process dashboards, strategic initiatives, and Balanced Scorecard metrics—the theme owner ranks the performance of each theme objective as follows:
Green: The objective’s target is being achieved.

Yellow: The target has yet to be achieved but satisfactory progress is being made; or the objective is off track but not critically so (it does not require senior management’s immediate attention).

Red: The objective is off track and requires management attention to resolve critical issues. A red evaluation signals that time should be spent at the next strategy management review meeting to analyze the objective’s problem issues and to develop an action plan to solve them.

Gray (or Blue): The objective has not yet been assessed.

At HSBC Rail, the rail financing and service company and a unit of HSBC Group, the senior management team’s monthly meetings are structured around strategic themes. The Office of Strategy Management coordinates all the input on strategic measures and initiatives from the theme teams and prepares the briefing book for the meeting. Each theme has its own section of the briefing book, which contains the theme’s strategy map, objectives, targets, and initiatives. This section also contains the theme owner’s evaluations and commentary about current “hot” issues and their implications for achieving their theme’s strategic objectives and targets. In advance of the meeting, all management team members review and interpret the performance analyses and issues. At the meeting, little time is spent going over the data; instead, the management team conducts holistic discussions about the key issues, strategic decisions, and actions. This approach focuses the management team on the critical priorities needed to change the business to align it with shareholder and customer requirements. Operational issues are dealt with in a separate forum, so that the strategy management review meeting does not get entangled in debates on variances, functional area updates, or solutions to operational problems.

Typically, one or two strategic themes are selected for in-depth discussion, with about one hour devoted to each theme. The remaining themes are discussed briefly—for about five minutes each—just enough time to highlight issues that need to be resolved before the management team’s next in-depth theme review. The agenda also allocates time to a strategic “hot topic” to ensure that urgent strategic issues that fall outside of the theme under discussion are given the management attention they deserve. In this way, each monthly meeting takes only two to three hours, yet the senior management team ends up conducting an extensive review of the entire strategy map every quarter.

Surmounting Traditional Structural Constraints

Strategy is holistic and cross-functional. Strategic themes enable companies and divisions, whether organized by function, product, region, channel, or market segment, to create a new structure for executing their strategies. Besides describing and providing a structure for decomposing a strategy into manageable building blocks, themes provide an architecture for aligning large, complex organizations to the strategy. In addition, they facilitate the identification, selection, and funding of the theme’s strategic initiatives. They help establish accountability for executing the key components of a strategy, and help engage cross-functional teams in executing those components.

Finally, strategic themes provide a reporting framework to supply feedback about the strategy, and enable the executive team to monitor and learn about the strategy during monthly meetings.

Theme owners and theme teams are a means of transcending the organizational silos inherent in any organizational structure. The themes provide the architecture for actions and governance that drive the cross-functional and cross-business changes required for successful strategy execution—and ultimately, breakthrough performance. The themes transform senior management from a group of functional or business experts into an integrated team with the resources, empowerment, and accountability for strategy execution.

TO LEARN MORE

Articles by Robert Kaplan and David Norton on the virtues of strategic themes include: “Using Strategic Themes to Achieve Organizational Alignment,” BSR November–December 2001 (Reprint #B0111A); “Using Strategic Themes to Achieve Inter-Organizational Alignment,” BSR March–April 2002 (Reprint #B0203A); and “Why System, Not Structure, Is the Way Toward Strategic Alignment: A Historical Perspective,” BSR July–August 2006 (Reprint #B0607A).

Luxfer Gas Cylinders is profiled in the BSC Hall of Fame Report 2007 (available at www.harvardbusinessonline). See also “Managing by Theme,” an interview with Luxfer’s CEO, in BSR November–December 2005 (Reprint #B0511D).

See “Creating Organizational Alignment at the RCMP with the Scorecard,” by Andrew Pateman and Geoffrey Gruson, BSR September–October 2004 (Reprint #B0409B).