Implementing Strategic Planning with the Skandia Navigator

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The gaps between a company’s market value and the accounting reality has grown over the last decades showing a fundamental discrepancy between the story told on corporate balance sheets and the real one played out daily by organizations themselves. Skandia has tried to capture and understand this difference by developing the Skandia Navigator. The Skandia Navigator is a tool for implementing, follow up and communicating the strategy of the company. The article gives a background to how the Skandia Navigator works and a more in-depth part where requisites for a successful implementation are discussed and experiences from actual implementations are covered. This in-depth discussion is generic and does not only apply to Skandia even if the discussion primarily is based on internal experience.

Skandia Insurance Ltd. was founded in 1855 and was listed at the Stockholm stock exchange in 1863. The company has transformed itself from a traditional insurance company to one of the world’s leading companies in financial services. Skandia is active in 25 countries around the globe and had annual sales of 138 billion SEK (15.3 billion Euro) in 2001.

1. Why financial indicators are not enough

“To cope with the new business realities, we need to improve our navigational instruments. Those we have are too primitive and constrained by backward-looking notions. They deal with forms and frames of reference, but tell us too little about relations and futurizing dynamic factors. One of the weak links is the narrow time aspect. Conventional accounting can be downright misleading. Like an old magnetic compass on board a modern supertanker. Since the hull is made of iron, there’s no way of knowing if the needle is pointing at the true directions. It may just point in the direction the ship is traveling. With such an instrument, it would be impossible to establish one’s position, let alone set a course for a destination.” (Graffström/Edvinsson, p. 19).

These words describe the reason why Skandia started with the concept of the Skandia Navigator. The management of Skandia found it necessary to find a way to help them maneuver the company in the transition from being a traditional old-fashioned insurance company to an innovative world-leader of modern financial services.

There have always been occasional and temporary gaps between market perception and accounting reality, but somehow these gaps seem to have increased during the past decade. Nowadays there is a fundamental discrepancy between the story told on corporate balance sheets and the real one played out daily by organizations themselves. This fact does not necessary tell us that we should get rid of balance sheets and income statements, but rather that we need to widen our focus in order to capture a true and fair view of the company and to be prepared to meet the future. The question is: How do we do that? In the beginning of the 1990’s, Skandia developed a concept to formu-
late, follow-up and communicate Skandia’s long-term strategy in a balanced way – it was called the Skandia Navigator.

2. The Skandia Navigator

The Skandia Navigator is Skandia’s tool for implementing its vision and strategy all the way through the organization. It’s a management tool, it’s a follow-up tool and a communication tool. A management tool in order to manage the business, a follow-up tool in order to follow-up on the strategy and see if we are working accordingly and a communication tool in that sense that it creates a common language for the whole of Skandia that help us communicate where we want to be in the future and how and why we are going to get there.

The Skandia Navigator is a collection of critical measurements that all comprises a holistic view of performance and goal achievement. Divided into five focus areas or perspectives it captures different areas of interest. Each area visualizes the value creation process.

The Skandia Navigator facilitates a holistic understanding of the organization and its value creation. We need a structure to help us learn from each other and make sure that our daily efforts do contribute to Skandia’s overall strategic objectives. It is possible to know which indicators are truly strategic and thus make a difference on the bottom line. The targets defined for each indicator make it possible to apply an operational approach to the overall goals of the organization.

Financial focus

Financial focus captures the financial outcome of our activities. Some like to see it as a receipt. If we picture the domain of Intellectual Capital (IC) as a building (see Figure 1), our financial focus would be the roof, the top triangle. It is up in the attic where the recorded accounts are stored (see Grafström/Edvinsson, p. 29).

Customer focus

Customer focus gives an indication on how well the organization fills the needs of its customers via services and products. For example, how much of our sales derive from new customers when compared to old ones or how loyal are our customers? It represents a view that goes from the outside looking in. You can also see it from another perspective; how pleased are we with our customers? This can be relevant when it comes to other customers than end customers, for example distributors.

Human focus

Human focus is the heart of the organization and is essential in a value creating organization. The process of knowledge creation is visualized in this focus area. For example, how do we keep the competence of our personnel up-to-date, do we have the right competence in order to fulfill our tasks? It is also essential that the employees are pleased with their work situation; pleased employees lead to pleased customers, which lead to that the company’s sales and result improves. Regular employee satisfaction inquiries are essential for a healthy organization.

Process focus

Process focus captures the actual process of creating services and products that fulfill the customers’ desire. It covers questions like how do we handle our customer support how efficient is our sales and marketing? This focus area is also connected to the internal processes. Are we working in an efficient way? Are we working in a correct manner? Connected to this could be the importance of structural capital. Structural capital in this context means customer capital and organizational capital. In other words: What is left in the company when the human capital, the employees, have gone home, i.e. brand, customer databases, computers etc.

Renewal and development

Renewal and development aims at capturing indicators of our future performance. What steps and actions are we taking now to ensure long-term growth profitability. For example, number of new customers and their relative part of sales of new products, number of activities focused on finding new distribution.

Environment

Our surrounding environment affects Skandia’s total strategy, and that will
say all focus areas in the Skandia Navigator, which make it really important to follow-up on it. Through managing Skandia in a good way (manner) it might also affect our surrounding environment in a positive way.

3. The Process model

The implementation starts with the process model. A prerequisite to the implementation is an already defined company vision. The aim of the model is to translate the vision and strategy into measurable indicators and activities.

The model is divided into several steps to ensure and simplify the translation process.

Values

Before starting the strategic work with the process model it is important to define the company culture so it may support and enable the strategic work. Our values should permeate everything we do, from strategic work to our daily work. For example, Skandia has worked a lot with its values, which has resulted in five common values for the whole company. The Skandia-values are passion, commitment, contribution, courage and creativity.

Step 1 – Vision

In a future situation when the organization has reached its vision – what will it be like? That statement is captured in the vision. The vision is a picture of a desired future state of the company.

Step 2 – Strategic objectives

Strategic objectives describe how the vision will be achieved; what strategy will the organization adopt in order to support vision fulfillment? These statements can be short and “catchy” or richer descriptions of the future state, and it is positive if they are “stretch goals”.

Step 3 – Success factors

A success factor captures critical conditions that are crucial to the organization’s ability to reach the strategic objectives in order to reach the vision. There are probably a large amount of factors that would qualify as success factors, but finding the really crucial factors and keeping the number to a minimum is greatly beneficial. There are success factors in every focus area. The creation and documentation of success factors is an important step in the process, therefore Skandia work with trying to make them concrete and usable. This analysis should identify both internal and external risks and opportunities and might include Market analysis, Competitor analysis and SWOT-analysis (Strength/Weakness/Opportunities/Threats).

Step 4 – Indicators

The fourth step is to create indicators that indicate that the organization reaches or works accordingly to the defined success factors. An indicator is a measurement. Each success factor should deliver one or several indicators, which also secure that we have indicators in all focus areas. There is a risk of becoming too ambitious with measurements that the organization cannot collect, which results in loss of momentum in the implementation of the Skandia Navigator. Indicators have to be both measurable and comprehensive. The number of indicators should be approximately three to four indicators per focus area. Indicators should be divided into lead and lags (see Mattson, 2001, pp. 47–52). Leading indicators are indicators that affect the outcome of the lagging indicator such as Customer Satisfaction Index. Skandia has a few mandatory indicators that we follow-up on corporate level. Aside from this each unit/company defines their own indicators connected to their local business.

Step 5 – Visualizing the indicators

When you have created an indicator it is important that you set a target for it as well as a target date. This is important for the follow up work to create sustainability. In order for indicators to be useful they must be acted upon and they are used as instruments to follow performance. The act of measuring will make it more understandable to the entire organization how the long-term goals are to be fulfilled. It will be easier to act on the right signals.

Step 6 – Action plans

Indicators are used as a diagnostic instrument, visualizing a situation at a given point in time. This information may very well be valuable in itself but the real leverage comes when acting upon the indicators, using action plans. They consist of documented activities that act upon stimulating indicators in a desired direction. If we secure that we reach the set target for the indicators we secure that our organization is directed towards the success factors and thus the success factors are necessary to reach the strategic objectives.

Step 7 – Cause and effect

One of the most important steps in the creation of the process model is the existing relations. First we have got the relations between the leading and lagging indicators which show you how different activities and resources spent really create result. When following the different development of the indicators it will show you what affects what and this will in the end show you what really makes a difference on the bottom line. Another relation we can see in the process model is the one in the different focus areas from the strategic objectives to the success factors to the indicators. This shows if we are following our strategy or not. Another relation is the one between the financial focus and the other focus areas (see Mattson, 2001, pp. 47–52). If the processes work, if we have good contact with our customers, if we take care of our employees and if we look to renewal and development in all these areas, we will end up with a healthy organization, which might improve the financial focus. The financial focus is also very much affected by external macro economical factors which is important to take into account when managing all focus areas. For example cut downs in the wrong area during an economical down turn might have devastating effects in the long-term. The
Skandia Navigator can help us avoid situations like this and thus contribute to profitability in the long-term.

4. Communicating the strategy

To make the Skandia Navigator concept work in full effect it is crucial to implement the concept through the whole organization.

Planning process

In order to manage and communicate a company strategy it is necessary to have a planning process in place that supports knowledge sharing. Traditionally the planning process is equivalent with the budget process. In its worst apparition this basically means that department heads get to ask for money based on how much they spent last year. No connection is made between planning and strategy and thus a very inefficient organization is created that does not support any kind of strategic work. Luckily these organizations get more and more rare, primarily because these companies can’t survive in a modern competitive business environment, but there are still examples or variations of this to be found. A good planning process must involve a link between the strategic work – the company’s vision – and the actual numbers and actions planned for next year. If the process is structured well enough it will be able communicate the strategy to all departments for their internal planning, thus ensuring that the bottom-up plans support the top-down plans.

Staff involvement

There is a need to involve people outside of the boardroom in the strategic planning. There are enormous and obvious advantages to the company if it manages to involve each employee in the strategic work. If all employees understand their role in the company and how it is aligned with the company’s objectives there will be:

- Less mistakes and errors will be made because of misunderstandings.
- Decisions can be made faster and more accurate on a lower level in the organization thus saving time and money.
- If everybody understands and is involved in the strategy the amount and quality of the input for improvements will increase.
- If more employees „feel” for the company, productivity will improve.

Bonus schemes

A further way to strengthen the understanding of the company strategy is to align personal bonus schemes with the strategic planning. If the individual bonus is dependent on goals that are the result of the strategic planning there will be an automatic link from the overall company vision to the tasks of an individual employee thus securing that the strategy is communicated through the company to all levels.

At Skandia in Germany the individual bonus is dependent both on the financial result of the company and on a number of personal goals that are set to correspond to the strategic objectives. The financial result determines the size of the potential bonus and the personal goals determine the degree of fulfillment.

The personal goals are set through an assessment of the employee where weight is given to personal strengths and weaknesses, the function, development possibilities and to the team. The goals should be set to strive for personal development aligned to the company strategy. Team goals are encouraged since these lead a department towards the same goal.

The Skandia Navigator supports personal bonus schemes. Ideally the bonus for one employee can be set as a combination of key ratios or activities from all focus areas of the Navigator and as a combination of personal goals and department goals.

Many organizations still pay compensations (salary) without any variable part. This is a rigid way of looking at compensations and does not utilize the compensation as a way to motivate the staff and to communicate the strategy. At the same time many companies pay bonuses that have no connection to personal achievements. This is thought to motivate the staff but in reality it is difficult for an employee to see how he can earn his bonus when there is no direct connection to his tasks.

The risk when setting up personal goals as a part of the bonus is that these are not aligned with the company and that they are not followed up upon. It is very important that personal goals are discussed over the year. A result of setting goals with no follow up can be that an employee prioritizes an activity that will give him a bonus over an urgent activity that has emerged after the bonus goals were set.

It is also important to make the employees perceive the bonus as a bonus and not a guaranteed part of the salary. A bonus has to be earned. Fixed or expected compensations should be paid out as a salary, not a bonus.

To summarize; a staff bonus scheme can be a very good way to link the company’s strategy to the individual employees, thus communicating the strategy in an efficient way. To make it work though, the scheme has to build on the strategy and it has to be followed up on.

Interactive or written communication

Many companies have made a large mistake when they try to implement a
balanced scorecard or when communicating a strategy; they have focused on the tools that support the process instead of focusing on the concept. However, this does not mean that tools are not a good idea; on the contrary they can be a vital support when communicating a strategy. As long as the tools are not the means to build the strategy and the employees are the center of attention a number of interactive, written or graphic tools can be used.

- Written articles in company newsletters or magazines that explain the strategic planning and how it works is an easy way of communication.

- An Intranet is an excellent way to publish information about your strategy. You can present the company vision, strategy, business plans and other projects on your Intranet. There is also the chance to follow up on the business here by publishing key ratios, sales figures and perhaps the balanced scorecard here. At Skandia in Germany all employees can find extensive information over the company vision and strategic objectives, the annual strategic planning process and all key ratios on the Intranet. Some departments have their department goals on the Intranet so they can follow up on their personal bonus goals on a regular basis.

- There are a number of special tools on the market that are supposed to manage the strategy for the company. Skandia uses its self-developed tool called Dolphin that manages the strategic process as described by the Skandia Navigator above. Many of these tools are good but it is very important to realize that an expensive tool will not solve the company’s problems unless the employees can understand them and act on them.

- Posters that show the company vision or posters that regularly show different key ratios is a good and easy way to make information accessible to everyone without even looking for it actively.

- Screen savers can also be a source of automatic communication of company statements.

The only risk with this approach is when the company doesn’t fulfill what they have communicated. If you don’t walk the talk, mistrust to the concept will quickly emerge.

**Live communication**

A way of communication that is absolutely necessary is oral communication. Staff or department meetings are one way to do this, but more efficient is to have regular follow up meetings with all employees. This is especially important if you work with personal bonus schemes. Since it is not possible to involve all staff in all strategic meetings or discussions, it is the responsibility of each participant to communicate strategic information to his staff and to get feedback from the staff. This may sound obvious but there are many companies that fail with this.

**Requisites for success**

I have already mentioned different ways to communicate strategic issues to the employees but that doesn’t mean that you will automatically succeed in improving your company. Based on experiences made in Skandia and on the Skandia Navigator philosophy I will discuss a few issues that need to work.

**Company culture**

Perhaps the most important aspect of a successful implementation of a strategic planning process is that the company culture must support the process. Mentioned above are the needs for employee involvement and ways to communicate. However, to inspire the staff to work actively towards a goal and take part in the strategic planning, there needs to be an honest wish from the management to involve all staff.

If a company wants its employees to be able to make correct decisions themselves in order to speed up the decision process and to work proactively, it has to give its employees responsibility. Mistakes need to be allowed – to learn from – and trust must replace micro management.

When changing a company culture in this direction there will always be some resistance and there will be people that cannot cope with this culture. In Skandia the experience is that the people that will not accept the new company culture will leave the company by themselves. It may sound dramatic but this is not a bad thing – people who can’t cope with a culture that does support efficient strategic planning may not belong in that culture. Some will learn and perhaps change their ways but those who don’t accept the culture can make themselves and their company a favor – change jobs.

Another vital thing is that management “walk their talk”. If management supports the idea of a new company culture they must act accordingly. It is also the task of the management to make sure that middle and lower management adapt to the culture and that they apply it in all departments. With the help of professional staff satisfaction surveys it is often fairly easy to see if there are exceptions to the general culture. However, these deviations must be acted on and changed.

**Strategic process focus**

A strategic process can be extremely time consuming and thus expensive if it is not coordinated. There is little to be won from a process that involves too many people and too much of their time. Instead the goal should be that the strategic planning is a natural part of the working day. If people know the company strategy they know how to act. There has to be some sort of structured planning process as well and it has to be coordinated and involve the right people. The end result of a planning cycle should be a revised business plan, which is understood and accepted by the whole company.

If the strategic planning follows a known structure year after year and if results are presented according to a well-known format, the strategic planning process will be more and more efficient over time. At Skandia we use...
the Skandia Navigator to drive the process and to present the results. It is important though, that the process is the focus and not the output. A balanced scorecard is like a dashboard of a car; you can build it to look fancy but that will not change the fact that it only presents the output of a mechanical process and the performance of the motor. In a business the balanced scorecard can also be made to look fancy but without well functioning processes the results will never improve.

**Communication strategy**

A company needs to work with its communication strategy in order to secure that all people are reached by all relevant information. At the same time it is important to avoid information overload. Too many e-mail, too many articles in too many newsletters and too much information on the Intranet will lead to a lack of focus and confusion.

Communication mustn’t be only one way. At Skandia in Germany the strategic planning process is started every year with departmental blue-sky meetings where all staff is given the chance to influence by giving suggestions for how to drive the company forward. The meetings encourage new ideas and everyone is given a chance to give his opinion. Without the input from all levels of the hierarchy the information and the basis for decisions that the management receives will not be complete.

**5. Experiences & Summary**

As Skandia has worked with the concept of the Skandia Navigator for some years now, we have collected our experiences from different parts of the organization. The most important aspect is that the work with implementing a balanced scorecard really is worthwhile. It can greatly improve your business’ chances of success and help to manage the business through difficult market situations.

The experience also shows that if you want a successful implementation you have to go all the way. Many companies try to implement this by just getting a balanced scorecard and type key ratios into it and as discussed above, this does not work.

The work will not change your business over a day. It is hard work that needs a lot of patience and especially the management has to be dedicated – they have to “walk their talk”. It is also a good idea to have an active spokesperson in the company and to take outside professional help when performing planning meetings (it is much more complex than most people think). You also need to start in the right end. If your company does not have a vision and strategic objectives, these have to be created before beginning with anything else.

Try to involve as many people as you can in the process. A good idea is to take the strategic planning down to departmental level. In theory each department can have its own vision and strategic objectives and its own planning process (that is aligned with the company of course). We have tried this in a number of instances at Skandia and it has always come out very good.

You will also encounter resistance on the way. Never put these “disbelievers” outside the process though since that will only make them more convinced that they are right. Instead you should engage them in the process and make them influence the way it is structured. This will improve the process as well, since something in it obviously did not work perfectly.

Another crucial part is to have managerial back up, acceptance and understanding. Without this you will have a very hard time to manage a strategic process. It will take some time, resources and money so without the support from management it will not succeed.

An implementation never stops at a certain point in time. Eventually it becomes a natural part of the work tasks in the company. You will not be talking about “doing strategic planning”, you will be doing it automatically and incorporating it into the company culture.

**Keywords**

- Balanced scorecard
- Bonus schemes
- Communication strategy
- Intellectual capital
- Strategic planning

**Zusammenfassung**


**Stichwörter**

- Anreizsysteme
- Balanced Scorecard
- Intellektuelles Kapital
- Kommunikationsstrategie
- Strategieplanung

**Literature**
