

**RESOURCE PAPER
ON
BALANCED SCORECARD**

1. BACKGROUND AND INTRODUCTION

Business growth is a continuous challenge for the modern day organisations in the competitive environment. From time to time, new management and other initiatives such as CRM, SCM, Six Sigma, TQM, Competency building etc. have been resorted to. However, it was observed that these initiatives address specific areas but were found to be not enough as they were not addressing the most important things – Strategy execution.

The Management consultants after a lot of research found out that only Financial measures or Goals are not sufficient for driving the growth of the business. Further, Financial indicators have limitations in that the same are known only after a certain period is over. Dr. Robert Kaplan and Dr. David Norton in USA developed the methodology called '**Balanced Scorecard**' in early - nineties as a performance measurement framework.

It was also observed in a survey by Fortune Magazine that '**less than 10 % of the strategies effectively formulated are effectively executed**'. The organisations fail to implement their strategies effectively for the following reasons:

- 85 % of Executive teams spend much less time on a month on month basis for discussing strategy
- 95 % of the workforce does not understand the strategy as the same is not communicated to them
- 60 % organisations do not link their budgets to strategy
- 70 % organisations do not link middle management incentives to strategy

Successful organisations have created "**Strategy Focussed Organisations**" using Balanced Scorecard methodology. Successful strategy execution creates big value for the stakeholders.

Today, the organisations are looking forward to achieving break through results as they want to create wealth and are also accountable to various stakeholders including the shareholders, lenders, customers, employees etc.

The **Balanced Scorecard** is one of the world's top-ten^[1] management frameworks and has been one of the most used framework for **Strategic Performance Management** since early 1990's. Today, many of the Fortune 500 and other large companies in USA, Europe, Asia and South America are using this methodology. In India also, many companies like Tata Motors, HPCL, RIL, M & M, Dr Reddy's etc. have been using for last more than 10 to 15 years.

2. WHAT IS BALANCED SCORECARD

The **Balanced Scorecard** is a strategic planning and management methodology that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to **the vision and strategy** of the organization and monitor organization performance against strategic goals.

Balanced scorecard methodology is an analysis technique designed to translate an organization's mission statement and overall business strategy into specific, quantifiable goals and to monitor the organization's performance in terms of achieving these goals.

3. WHY BALANCED SCORECARD

The **Balanced Scorecard** framework added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organisational performance.

The **Balance Scorecard** approach overcomes the following gaps:

- Limitations of managing only with Financial measures
- No communication of Drivers of Future performance – **Lead** indicators
- No clue on Value Propositions for the Existing and New customers – **Differentiation**

It promotes:

- Creating Excellence and Core Competency
- Corporate Climate that supports Change, Innovation and Growth

4. WHY IT IS CALLED 'BALANCED SCORECARD'

It provides balance between:

- Financial and Non-financial measures
- Short term and Long term Objectives
- Lagging and Leading indicators
- Internal and External customers
- Harder objective measures and Softer subjective measures

5. BALANCED SCORECARD METHODOLOGY

The **Balanced Scorecard** is developed using four strategic perspectives viz.:

- **Finance** – How do we look against the Financial objectives set by the Owners?

The Financial Perspective provides the tangible definition of value. It covers like Return on Investment, Financial performance, focus on future cash flows etc.

- **Customer** – How do we look to the Customers whom we want to attract?

The Customer Perspective deals with creating a sustainable differentiated value proposition to customers. It covers market share, quality and delivery performance, customer satisfaction and customer retention.

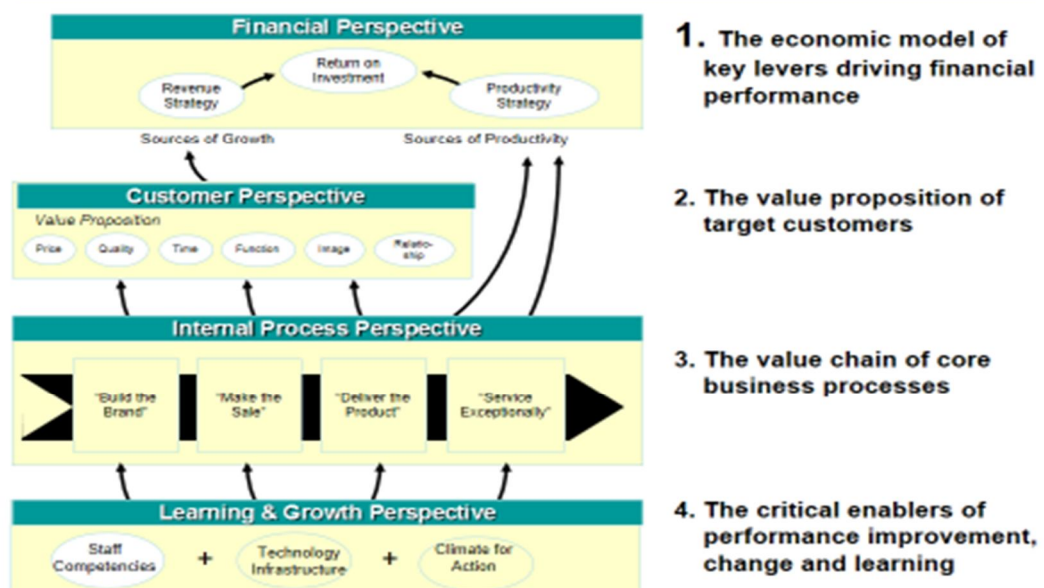
- **Internal Processes** – What must we excel at for our Customers?

Internal processes deal with **how to deliver** various objectives in the financial and Customer perspectives to create value to customers and stakeholders.

- **Learning and Growth** – How do we improve the Human capital and leverage the Information Capital?

This perspective is the building block of the whole Balanced Scorecard process. It deals with **aligning and leveraging intangible assets** with the strategy for value creation. Thus, the Human Resources, the Organisational culture, the Information technology set-up work as the enablers for value creation.

The Balanced Scorecard Is Based on an Understanding of the Basic Building Blocks of the Strategy



Source: KPMG

The **Balanced Scorecard Translates** strategy or **Corporate Objectives** into actionable objectives and measurable targets.

Various Objectives under each **Perspective** get connected by **the Cause and Effect relationship** and form a **'Strategy Map'**.

It **Cascades** from top to down and across the Organisation so that every employee knows the key objectives of the organisation and can contribute for the same.

6. COMPONENTS OF BALANCED SCORECARD

For each **theme** of the strategy, various objectives under the four perspectives are ascertained thru management discussions and deliberations. Accordingly, the components of the **Balanced Scorecard** are:

- Objectives and Strategy Map
- Measures / Initiatives for various objectives
- KPI Dictionary
- Targets
- Review Mechanism

A typical KPI Dictionary showing Objectives, Measures and Targets is given below:

OBJECTIV REF.	OBJECTIVES	MEASURE/ METRICS	FR.	TARGET	COMMENTS
Corporate	INCREASE VALUE AND GROWTH	EVA	H	POSITIVE	
Finance 1	INCREASE VALUE AND GROWTH FROM EXISTING BUSINESS	PBDIT	M	5 % YoY	
Finance 2	INCREASE VALUE AND GROWTH FROM NEW BUSINESS	PREMIUM PRODUCT RATIO	Q	AT LEAST 20 %	
Finance 3	REVENUE CONTRIBUTION FROM NEW BUSINESSES (PRODUCT P/L)	NPV OF NEW BUSINESSES	Q	AT LEAST X CRORES	NEW BUSINESSES PLANNED
Customer 1	IMPROVE MARKET SHARE	% ACROSS KEY BUSINESSES	M	MORE THAN IND. AVERAGE	
Processes 1	EFFECTIVE RESOURCE ALLOCATION	EMPLOYEE COST AS % OF VALUE ADDED	M	LOWER THAN YoY MONTH	

The Review mechanism is the most important aspect of the **Balanced Scorecard** as it affords getting meaningful feedback and learning at regular intervals.

The review in a predefined format is done monthly / quarterly as required with industry numbers wherever available for comparison purposes. The internal system or database will provide the targets and actuals but the same is also required to be compared with the industry. The feedback is captured in terms of analysis of positive or negative developments and the next steps are then discussed and decided for the course correction.

7. STRATEGY FOCUSED ORGANISATIONS –

Five Principles of Strategy Focussed Organisations:

- **Translate Strategy**

The strategy is formulated and expressed as vision / mission statements for very clear understanding and communication. Then Balanced Scorecard methodology is used thereby strategy maps are created using themes and objectives, targets and initiatives are agreed upon.

- **Organisation Alignment**

The role of the corporate is formalised in a corporate scorecard. Accordingly, the expectations by the corporate from the Strategic Business Units (SBUs) viz. manufacturing, operations, sales, marketing etc. gets finalised. In turn, the roles of shared Service Units (SSUs) viz. Finance, IT, Purchase, HR and the other units divisions are linked to the corporate requirement and the whole Organisation is thus aligned to a common set of goals.

- **Everyone's Job**

The corporate scorecard having drilled down to the SBU / Division / unit level, then gets drilled down to individuals thereby clearly establishing the role of each SBU / Unit / Individual. Accordingly, the Goals / KRAs and the incentives are linked to everyone and hence the scorecard implementation becomes everyone's job.

- **Continuing Process**

The Balanced Scorecard is then linked to key Management Processes viz. Budgeting, Operations Management and becomes the basis of Management meetings. The IT and HR also get aligned to the requirements of the Balanced Scorecard.

- **Executive Leadership**

The role of top management is very crucial for the success of the Balanced Scorecard process. The top management provides leadership and formulates a team for designing, implementing and review of the Balanced Scorecards. The required seriousness comes when the top management is involved. The reallocation of budget etc. is possible as the top management reviews the projects / initiatives and thus quick actions can be taken. The need for change gets established and the new way of management is communicated to all.

ALIGNING ALL MANAGEMENT PROCESSES TO THE BALANCED SCORECARD:



8. CASCADING FOR STRATEGIC ALIGNMENT

The balanced Scorecard needs to be cascading down from the highest level to the lower levels of management to bring the corporate alignment with the corporate strategy.

Cascading scorecard involves:

- Translating Corporate scorecard into SBU & Department / Division scorecards
- Lower level scorecards with respective Objectives & Measures flowing from higher level scorecards
- Aligning and translating Corporate Strategy throughout the Organization
- Making Balanced Scorecard a communication media and a Strategy Management System as there will be clear understanding of Strategic Objectives and measures

For Successful Cascading, one has to ensure that:

- ❖ The highest Level Scorecards are understood by lower level supervisors / officers
- ❖ The Cause & Effect relationship is understood amongst all objectives on the Card
- ❖ Common understanding of Measures - Common definitions
- ❖ Willingness of Employees & Positive Mind-Set

9. GOAL SETTING FOR MAKING STRATEGY EVERYONE'S JOB

For making strategy everyone's job, goal setting for individuals is a key. The goals should be such that the individual feels motivated that his actions are contributing towards achieving the corporate strategy. The Strategy Focused Organisation (SFO) needs to ensure that the performance measurement and the reward systems are aligned with the corporate strategy. The Goals and targets setting template is shown below:

**Setting targets:
SMART framework**

Ensure that all targets are...

S	M	A	R	T
Specific	Measurable	Achievable	Realistic	Time-bound
<p>Ensure clear and unambiguous meaning to objective</p> <p>State what you are committing yourself to achieve</p> <p>Begin with an action word (e.g. increase, reduce, design, establish etc.)</p>	<p>Provide a measure/ metric to answer "Was the objective achieved?"</p> <p>Measure in as quantitative terms (money, %, #, time) as possible</p> <p>Focus on observable outcomes</p>	<p>Ensure realistic but challenging (stretch) goals</p> <p>Consider ability (knowledge, skills & experience) and willingness</p> <p>Consider confidence and motivation to determine appropriate stretch</p>	<p>Describe an outcome rather than an activity</p> <p>Ensure alignment with current division/ department strategy</p>	<p>Have a deadline or a target date</p> <p>Include checkpoints/ milestones to review progress</p>

10. BENEFITS OF BALANCED SCORECARD

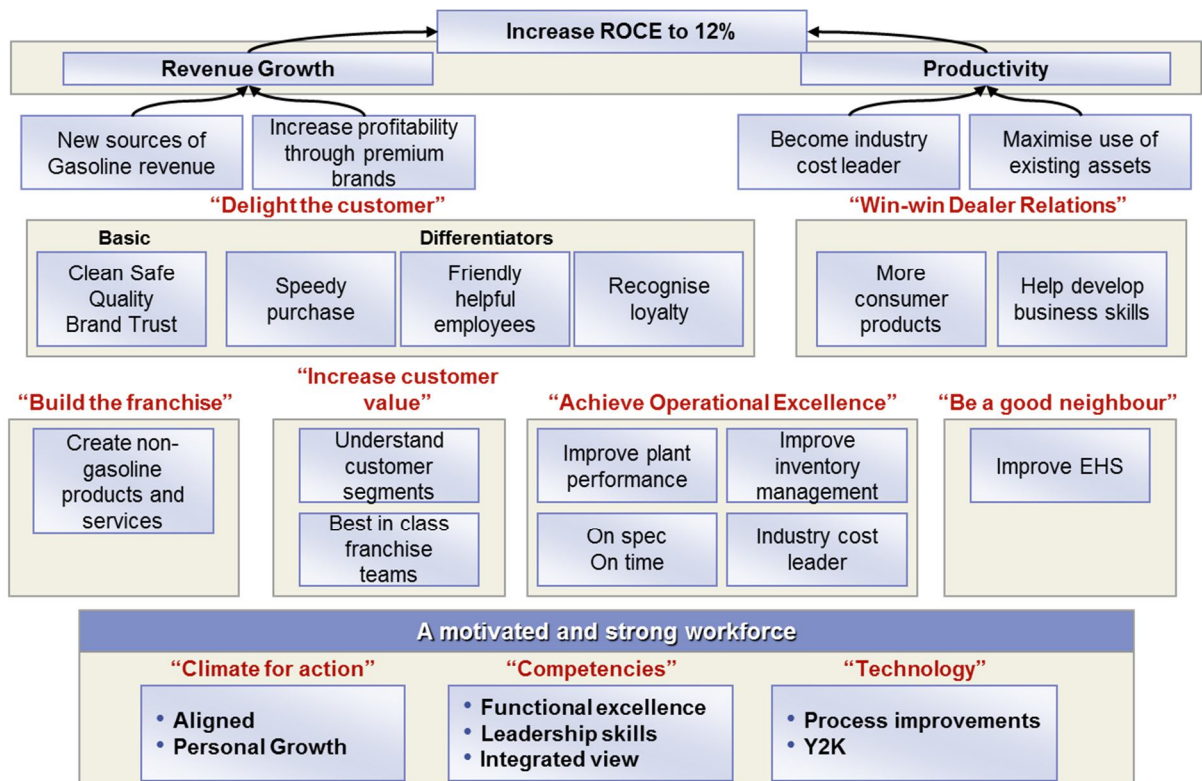
- Provides **focus** for strategy execution
- **Communicates** corporate strategy to employees
- Gives importance to **lead factors** like Internal Processes and Human Capital which in turn ensure Customer delight and future Financial achievements
- **Aligns** SBUs / Departments with Organisational objectives.
- **Aligns** individual performance to that of the SBU / Department

11. THE MOBIL EXPERIENCE

MOBIL ^[2] is one of the initial success stories and a well-rounded example of virtually all Strategy Focused Organisation principles with:

- Multi-level scorecard implementation
- Alignment of SBUs and SSUs
- Making strategy continuous through scorecard centered planning, budgeting, feedback and learning
- Making it everybody's job by linking pay cheques and through awareness campaigns.
- Executive leadership with continued CEO support

MOBIL Scorecard is illustrated below:



MOBIL Before introduction of Balanced Scorecard:

- ▶ In 1992 and 1993, they ranked the last in profitability (92 % and 14 % below industry respectively)
- ▶ Even with US \$ 15 billion in sales, they needed 500 million of cash from parent corporation to survive
- ▶ It was inwardly focussed and bureaucratic

MOBIL after introducing Balanced Scorecard :

- ROCE increased from 6 % to 16 %
- Competitive position from last in 1993 to 1st in 1995, 1996, 1997 and 1998
- Volume growth exceeds industry by 2 – 2.5 % every year
- Industry cost leadership by reducing cost of Refining and Marketing by 20 %
- Motivated and prepared workforce

Balanced Scorecard transformed MOBIL into:

- ❖ Organisation capable of sustaining competitive environment in a mature, commodity and fiercely competitive industry and
- ❖ From a direction giving organisation to a service provider

Some interesting aspects emerged while implementing scorecard at MOBIL :

- ❖ **Truck drivers** were a critical part of the **frontline Market Research** which was unexpected
- ❖ MOBIL's IT group developed '**Speedpass**', a small device carried on a key chain which was one of the drivers of rapid service
- ❖ '**Mystery Shopper**' concept for Convenience stores - a part of value proposition

12. RESOURCES

Designing and implementing the **Balanced Scorecard** has developed into a professional field of expertise and a lot of material and books are available on various aspects of the **Balanced Scorecard**.

Key books:

1. The Balanced Scorecard by Dr Robert Kaplan and Dr David Norton
2. The Strategy Focussed Organisations by Dr Robert Kaplan and Dr David Norton
3. Strategy Maps by Dr Robert Kaplan and Dr David Norton

Other key resources:

1. Palladium Group – where Dr Robert Kaplan and Dr David Norton, the founders of Balanced Scorecard methodology, are partners
2. Harvard Business Review – who pioneered the spread of the Balanced Scorecard
3. Balanced Scorecard Institute (www.balancedscorecard.org)
4. www.mbaknol.com/modern-management-concepts/balanced-scorecard

DUSHYANT SHAH / 15.06.2016

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References: [1] Bain & Company Report
[2] Balanced Scorecard Collaborative

Attachments:

1. **Bain & Company Report : Management Tools & Trends 2015 - Reference [1]**
(Separate attachment in pdf)
2. **Balanced Scorecard Collaborative : Mobil experience – Reference [2]**
(Separate attachment in pdf)
3. **HPCL Corporate Scorecard**

