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**ThinkTank Mentoring Initiatives**  
**36<sup>th</sup> Round Table - BFSI and Capital Market**  
**Balanced Scorecard**  
**18<sup>th</sup> June, 2016**

# Balanced Scorecard (BSC) – An Overview

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- **Why Balanced Scorecard**
- **What is a Balanced Scorecard**
- **Strategic fit and Balanced Scorecard Framework**
- **Why is it called *a Balanced Scorecard***
- **Features of Balanced Scorecard**
- **Components of Balanced Scorecard**
- **Cascading Balanced Scorecard**
- **Benefits of Balanced Scorecard**

# Successful execution of strategy is elusive.

“Less than 10% of strategies effectively formulated are effectively executed.”

– *Fortune Magazine*

# Why do organizations fail to execute strategy?

## **Awareness**

**95% of the typical workforce does not understand the strategy**

## **Resources**

**60% of organizations do not link budgets to strategy**

**They Don't  
Manage Strategy!**

## **Incentives**

**70% of organizations do not link middle management incentives to strategy**

## **Executive Agenda**

**85% of executive teams spend less than one hour per month discussing strategy**

## **Other Initiatives being taken by the Corporates.....not enough**

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- Quality Initiatives like Malcolm Baldrige in US, Deming Prize in Japan, Six Sigma etc.**
- Customer Relationship Management (CRM)**
- Business Process Re-engineering (BPR)**
- Supply Chain Management (SCM)**
- Enterprise Resource Planning (ERP)**
- Human Resources Management**

**All these initiatives were touching upon a key aspect of the business  
and at best were Strategic Initiatives but not Strategy**

# **A New Approach to Performance Management**

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

**A framework to look at the Strategy for Value Creation  
from four different perspectives**

# BSC – One of the top Management Tools

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As per one survey done by Bain & Company on

**‘Management Tools and Trends 2015’**

**Balanced Scorecard is the 6<sup>th</sup> Most popular  
Management Tool**

The other Tools being:

- Customer Relationship Management
- Benchmarking
- Employee Engagement Surveys
- Strategic Planning
- Outsourcing
- Mission and Vision Statements
- Supply Chain Management
- Customer Segmentation

This reemphasises the relevance of Balanced Scorecard  
in the corporate world even today

# What Is Balanced Scorecard?

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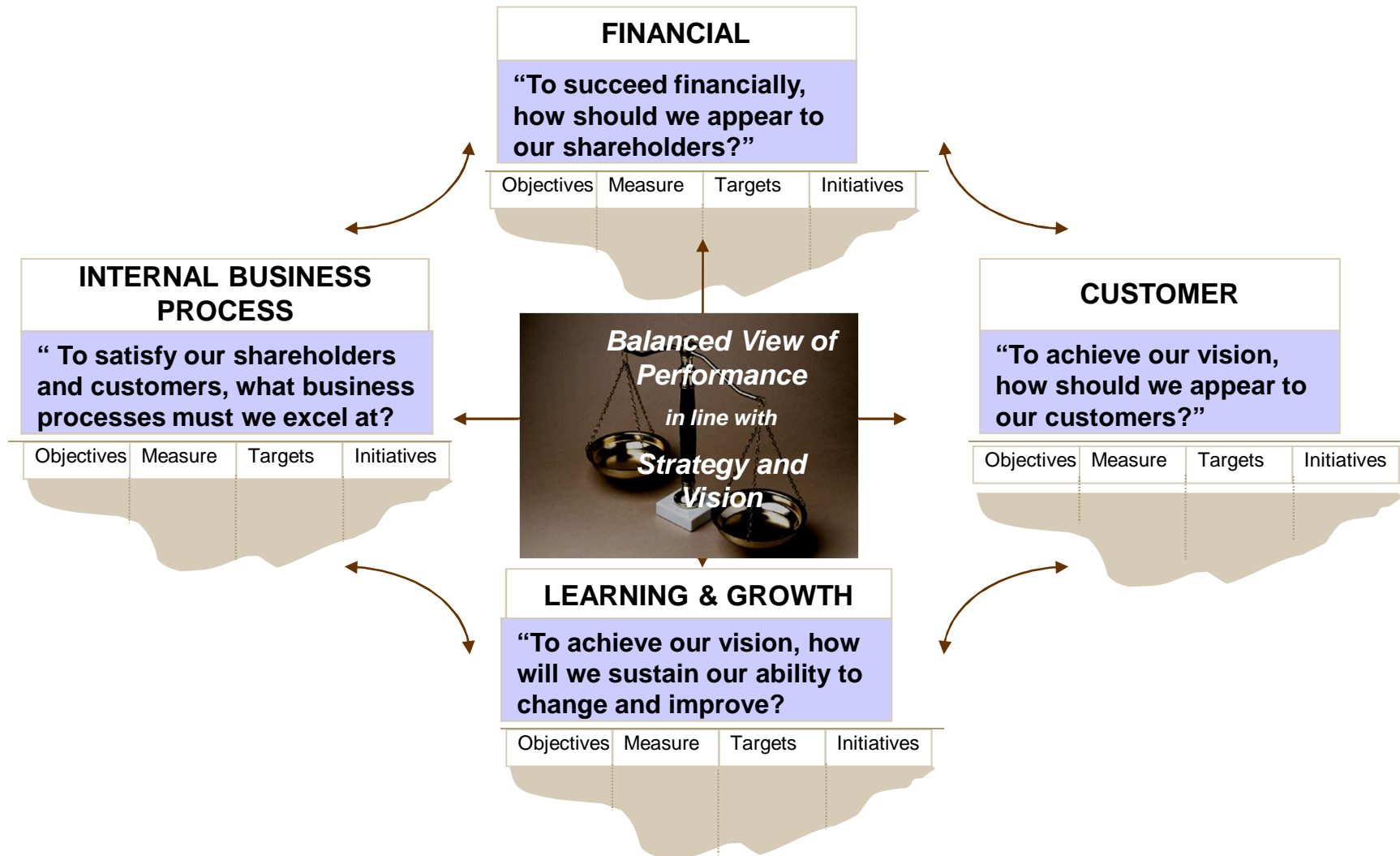
*Balanced Scorecard is  
A framework that helps organizations  
translate strategy into operational objectives  
that drive both behavior and performance.*



# Strategic Fit And Balanced Scorecard Framework



BSC complements traditional financial measures of past performance with measures of drivers of future performance . . .



It does so by using a “4 Box” approach to measuring organizational performance across four perspectives: financial, customers, internal business processes and learning and growth.

# Setting targets: SMART framework

Ensure that all targets are...

## S

### Specific

Ensure clear and unambiguous meaning to objective

State what you are committing yourself to achieve

Begin with an action word (e.g. increase, reduce, design, establish etc.)

## M

### Measurable

Provide a measure/ metric to answer "Was the objective achieved?"

Measure in as quantitative terms (money, %, #, time) as possible

Focus on observable outcomes

## A

### Achievable

Ensure realistic but challenging (stretch) goals

Consider ability (knowledge, skills & experience) and willingness

Consider confidence and motivation to determine appropriate stretch

## R

### Realistic

Describe an outcome rather than an activity

Ensure alignment with current division/ department strategy

## T

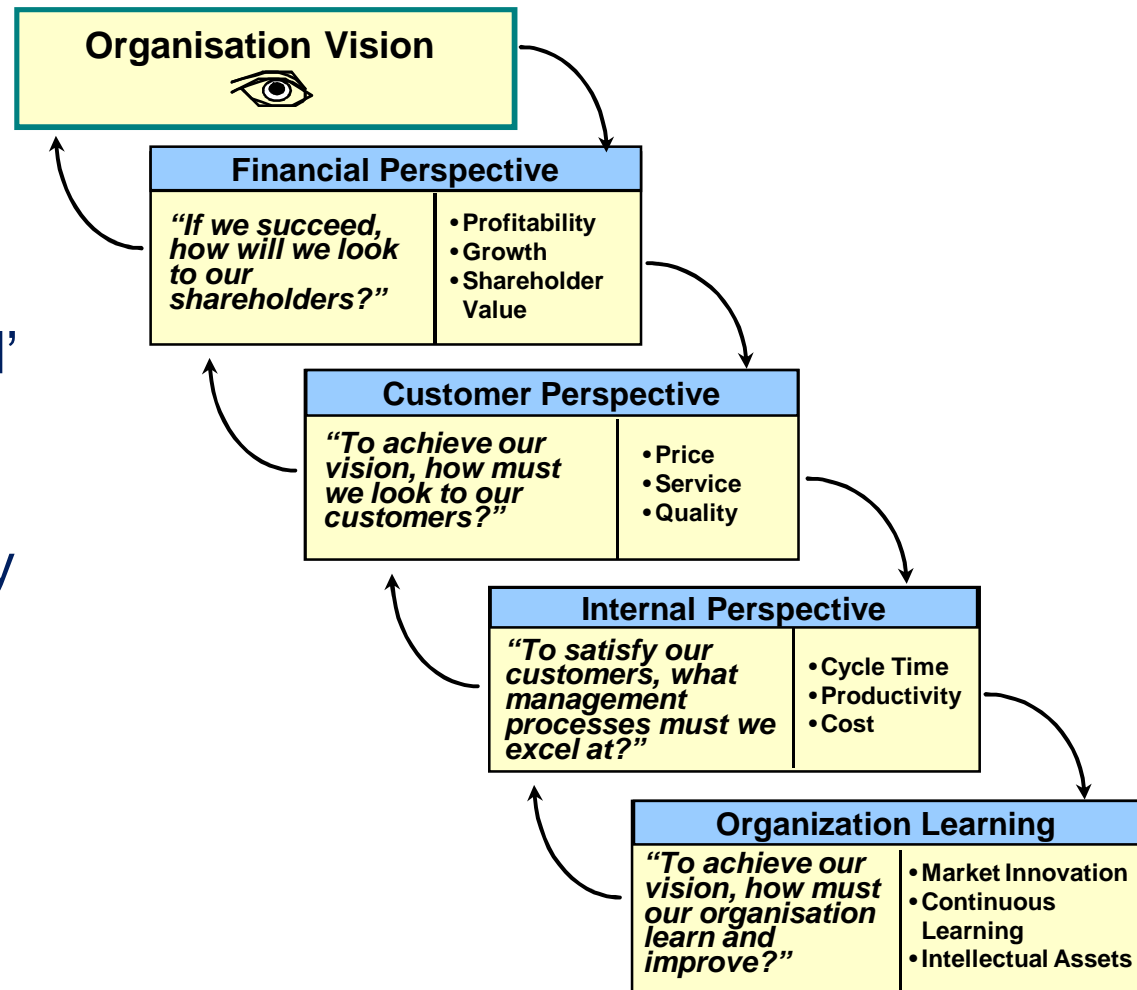
### Time-bound

Have a deadline or a target date

Include checkpoints/ milestones to review progress

# Balanced Scorecard provides a framework to translate vision into operational terms

- Strategies are 'described' using four 'perspectives'
- Cause and effect is a key element
- Measures are developed to monitor performance



# Why is it called *Balanced* ?

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Because it provides a **balance** between-

- **Financial** and **non financial** measures
- **Short term** and **long term** objectives
- **Lagging** and **leading** indicators
- **Hard** objective measures and **softer** subjective measures
- **Internal** and **external** performance perspectives
- **Internal** customer and **external** customer

# Features of Balanced Scorecard

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- ✓ Translates strategy into actionable objectives and measurable targets
- ✓ Cascades from top to down and across the organisation
- ✓ Links financial and non-financial objectives and establishes cause and effect relationship
- ✓ Addresses interdependencies and encourages cross functional synergy
- ✓ Recognition and fulfillment of internal customer needs
- ✓ Creates focus, momentum and a sense of urgency

# Components of Balanced Scorecard

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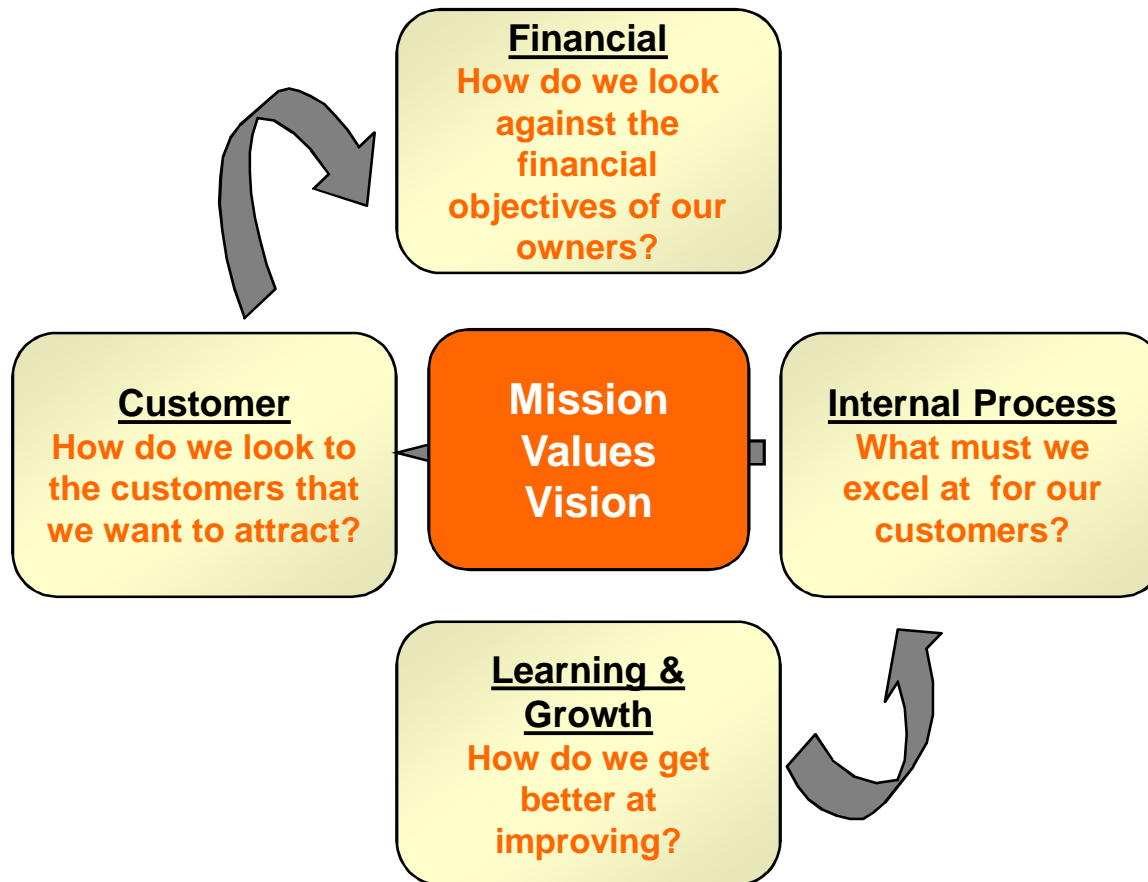
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- **Strategy Map**
- **Measures / Initiatives**
- **KPI Dictionary**
- **Targets**
- **Review Mechanism**

# How to develop a strategy map...?

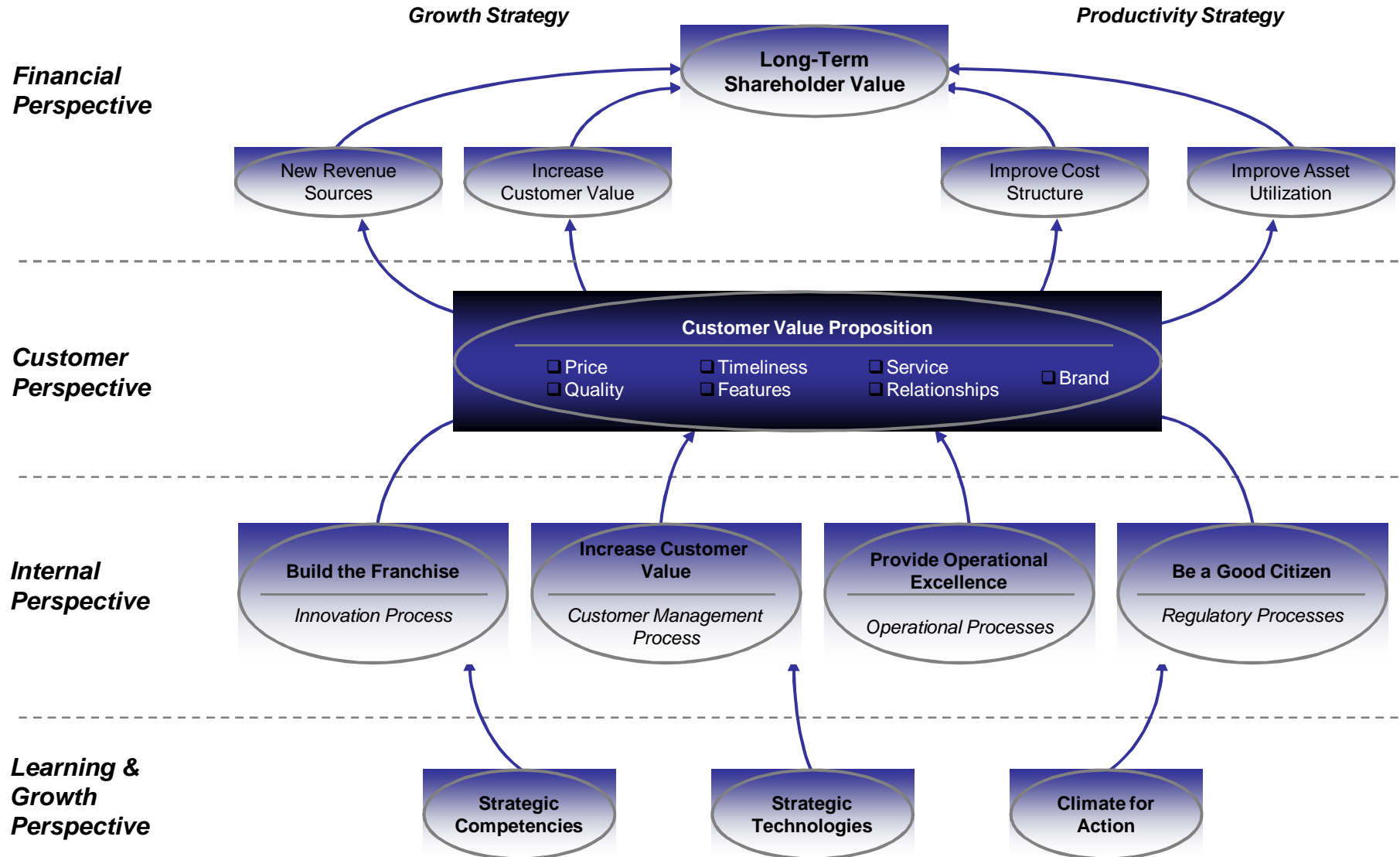
Identify the cause and effect relationship...

Illustrative

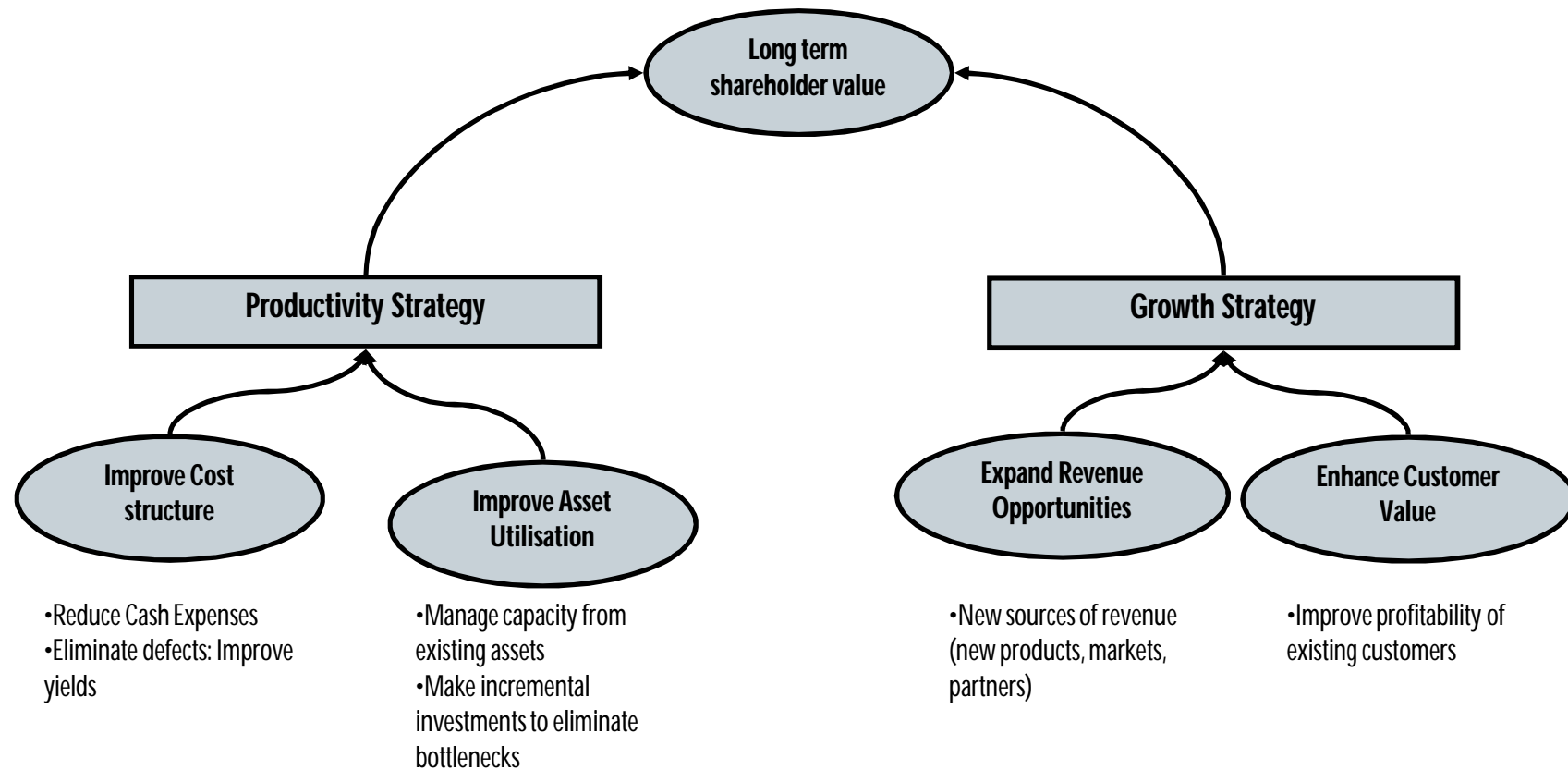




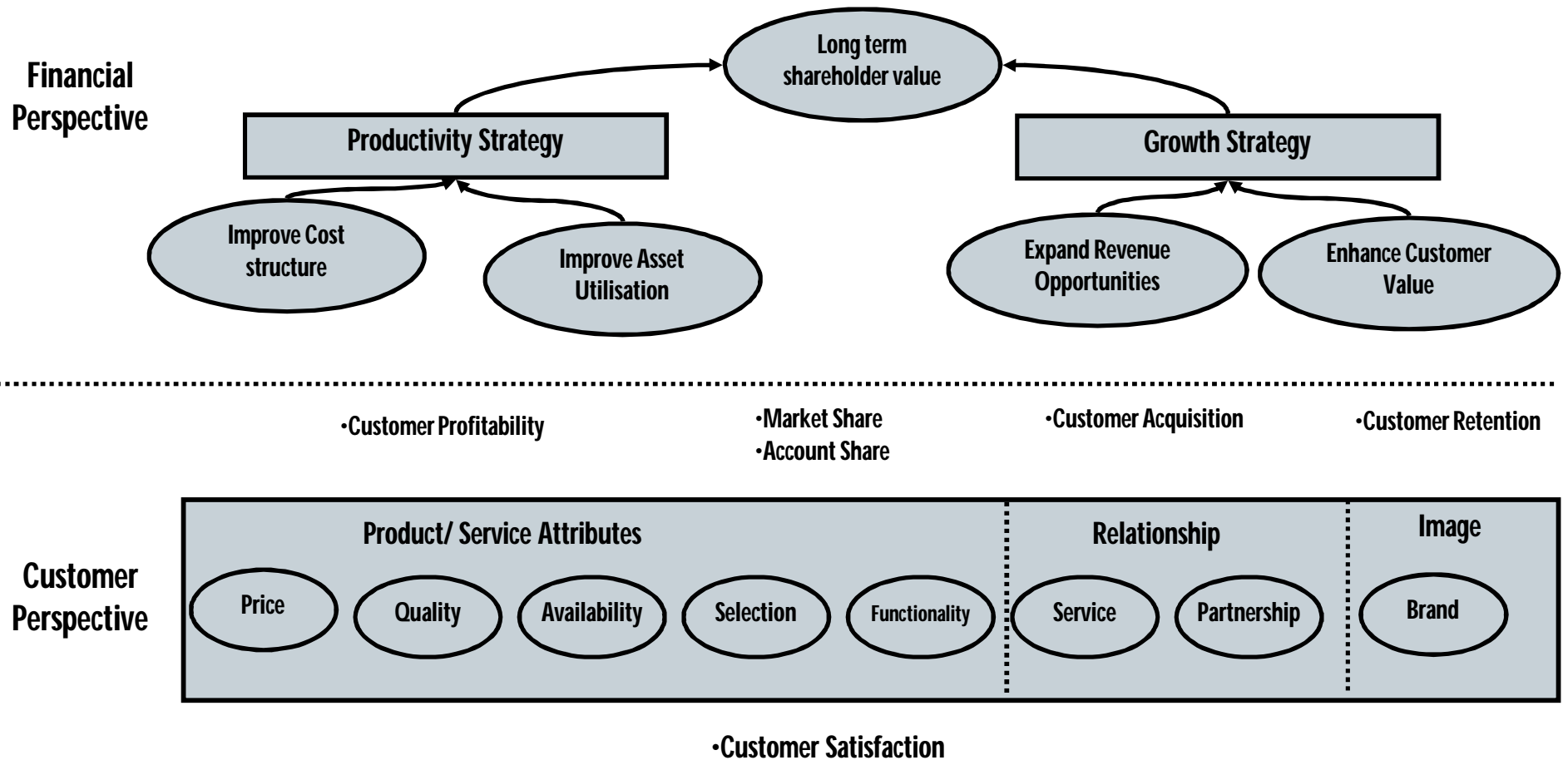
# Describing the Strategy: The Balanced Scorecard Strategy Map



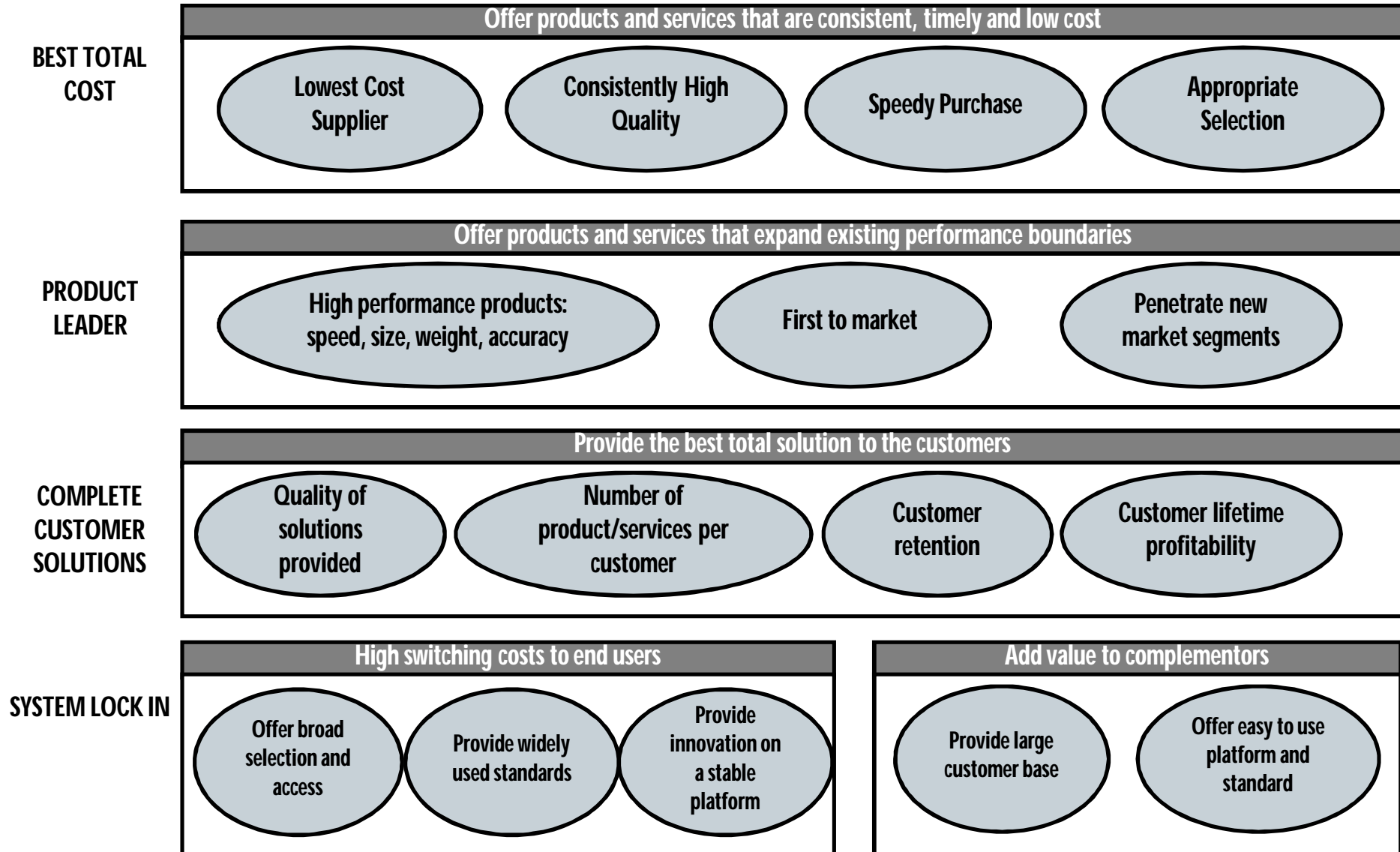
# The financial perspective provides the tangible definition of value



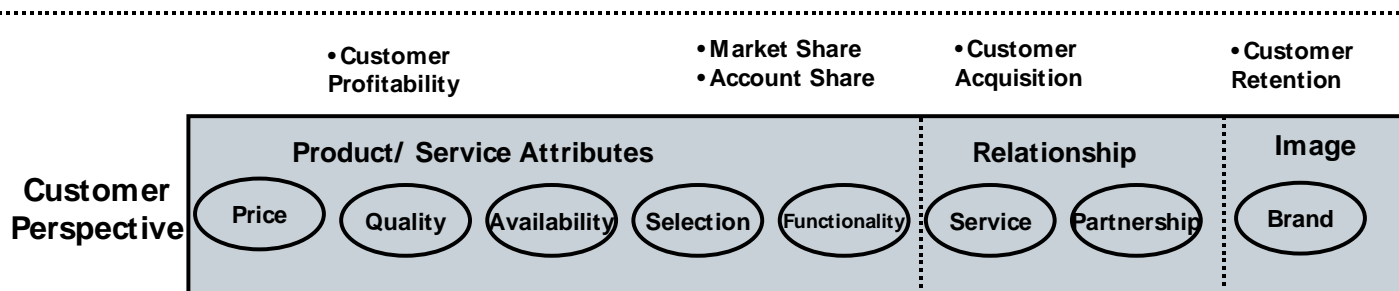
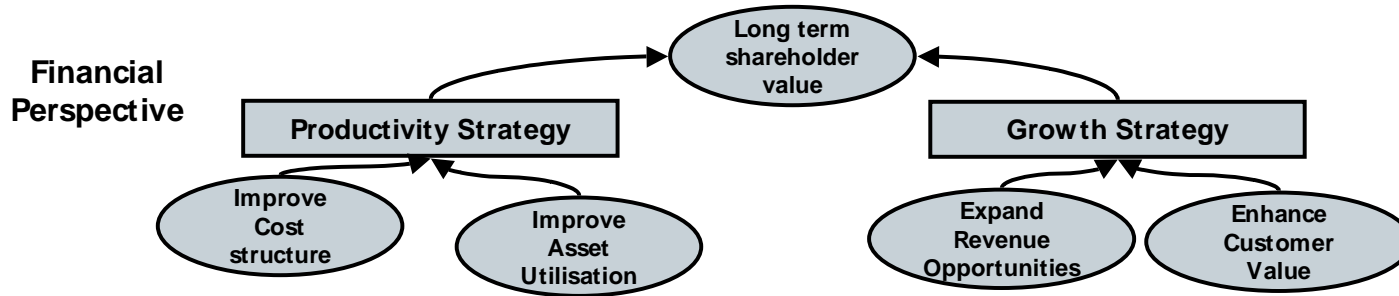
# Customer Perspective: Creating a sustainable differentiated value proposition is the heart of strategy



# Customer objectives for different value propositions

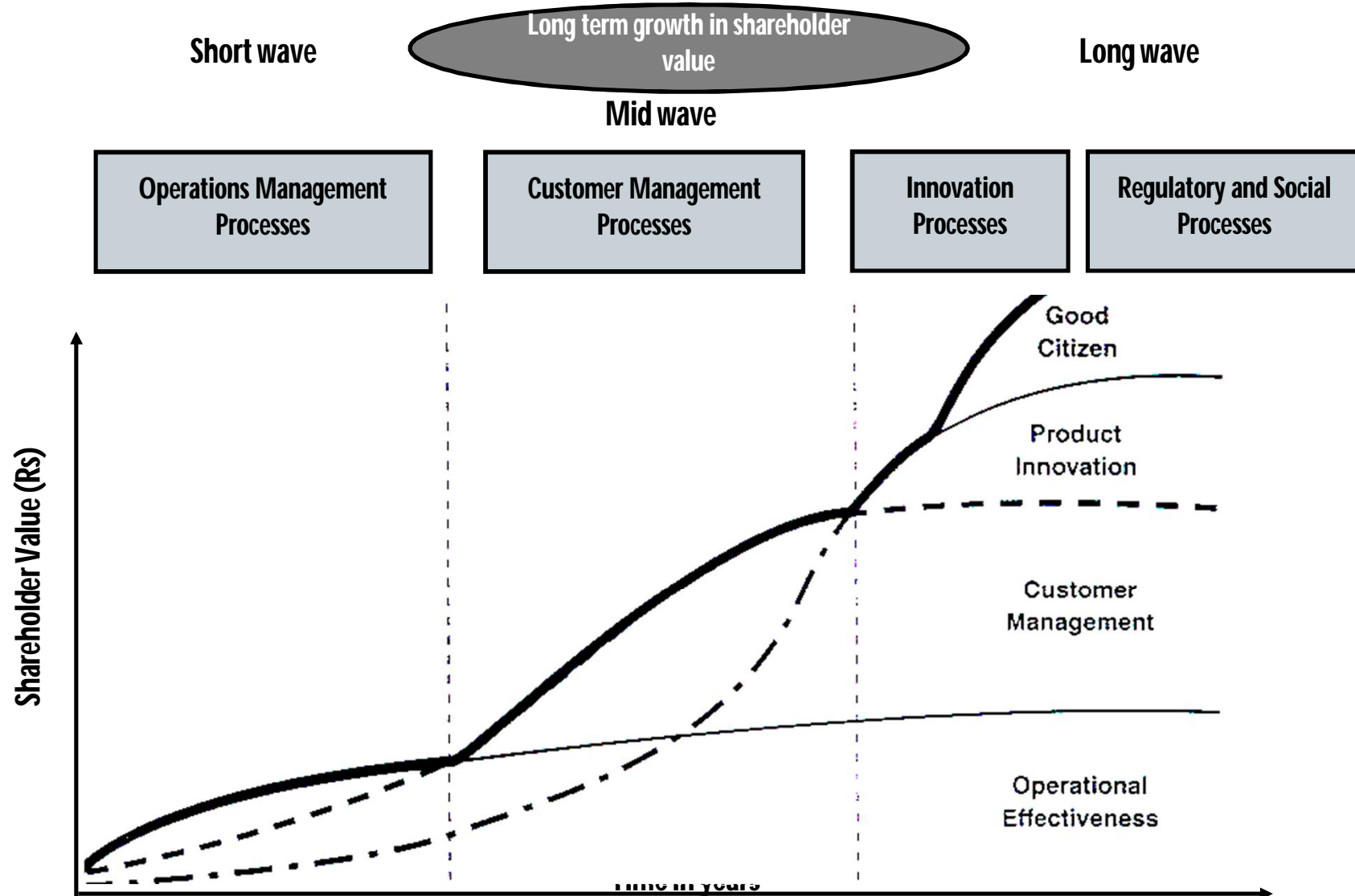


# Internal processes create value for customers and shareholders

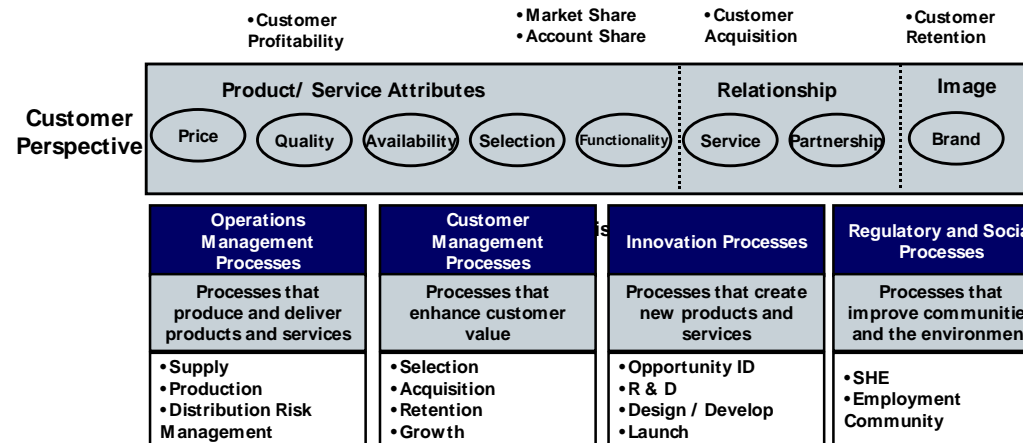
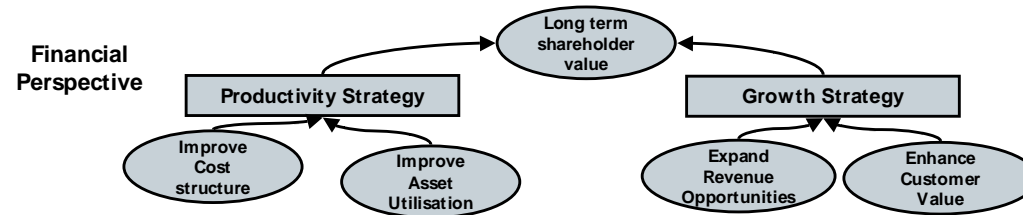


Operations Management Processes	Customer Management Processes	Innovation Processes	Regulatory and Social Processes
Processes that produce and deliver products and services	Processes that enhance customer value	Processes that create new products and services	Processes that improve communities and the environment
<ul style="list-style-type: none"> <li>•Supply</li> <li>•Production</li> <li>•Distribution Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>•Selection</li> <li>•Acquisition</li> <li>•Retention</li> <li>•Growth</li> </ul>	<ul style="list-style-type: none"> <li>•Opportunity ID</li> <li>•R &amp; D</li> <li>•Design / Develop</li> <li>•Launch</li> </ul>	<ul style="list-style-type: none"> <li>•SHE</li> <li>•Employment Community</li> </ul>

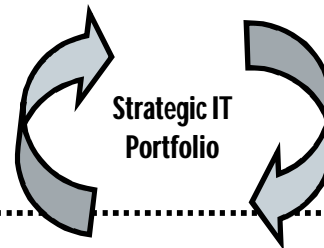
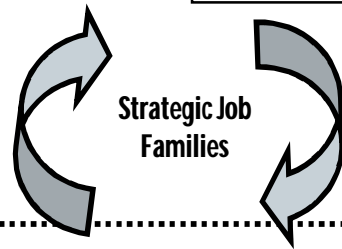
# Internal processes deliver value of different time horizons



# Intangible assets must be aligned with the strategy to create value

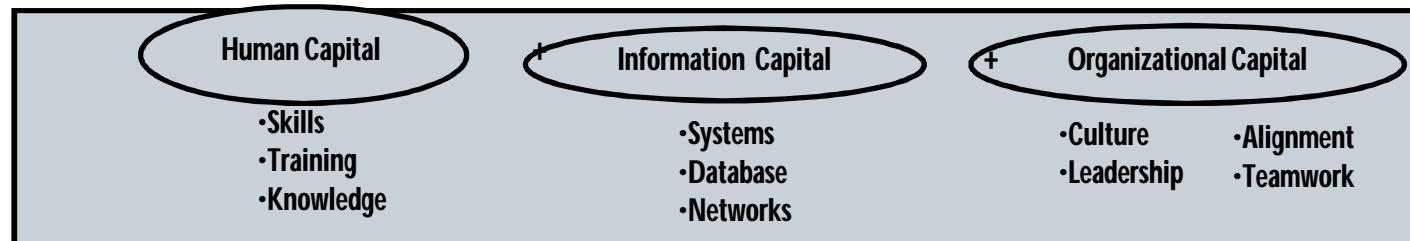


**CREATING ALIGNMENT**



**CREATING READINESS**

**Learning and Growth Perspective**



# Cascading for Strategy Alignment

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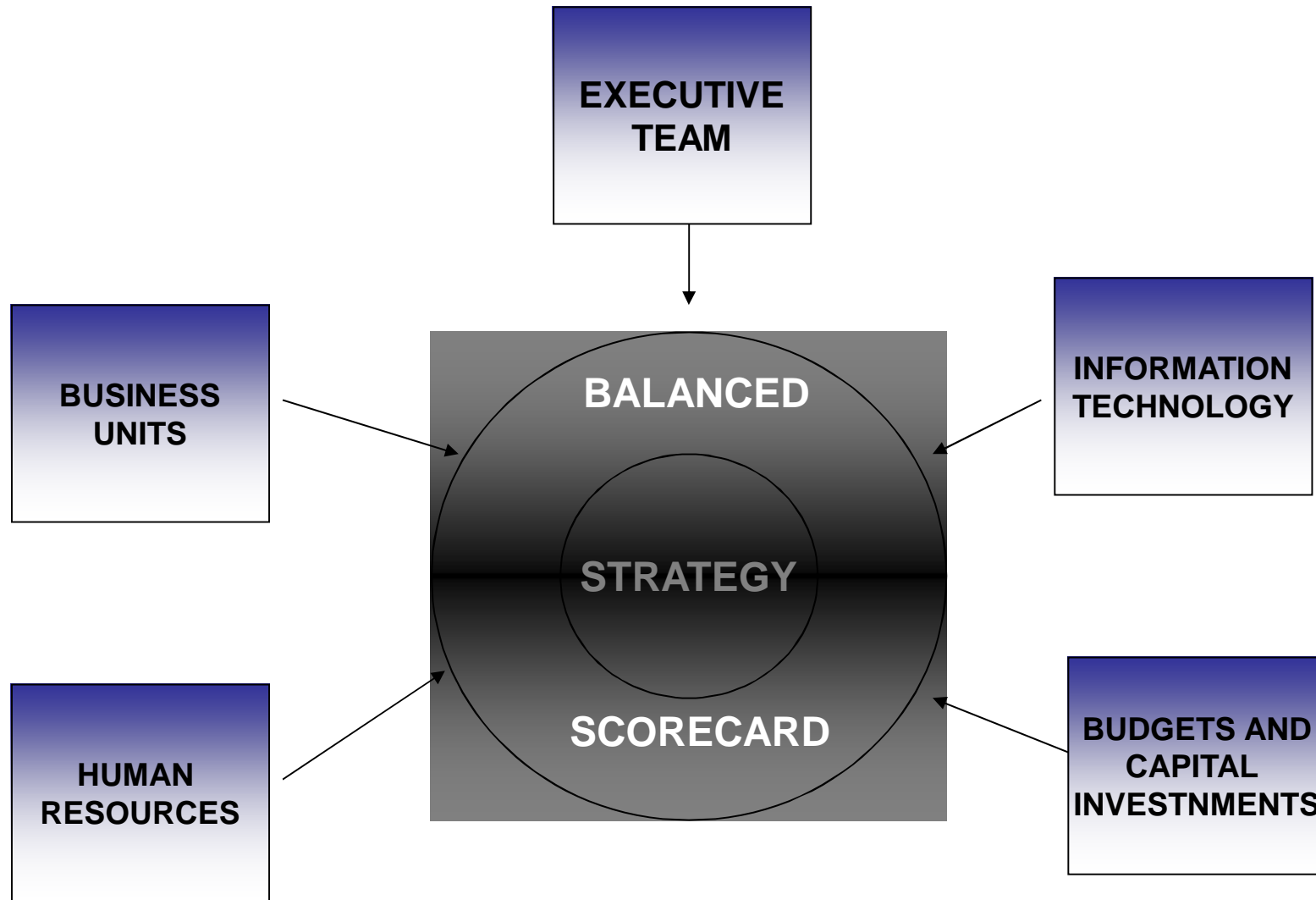
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Cascading Balanced Scorecard aligns the organisation with the strategy.

It involves:

- Translating Corporate scorecard into SBU & Department / Division scorecards
- Objectives & Measures from Higher level scorecards flow into the Lower 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





**ALIGNING ALL MANAGEMENT PROCESSES TO BSC  
AND FOCUSING RESOURCES ON STRATEGY**

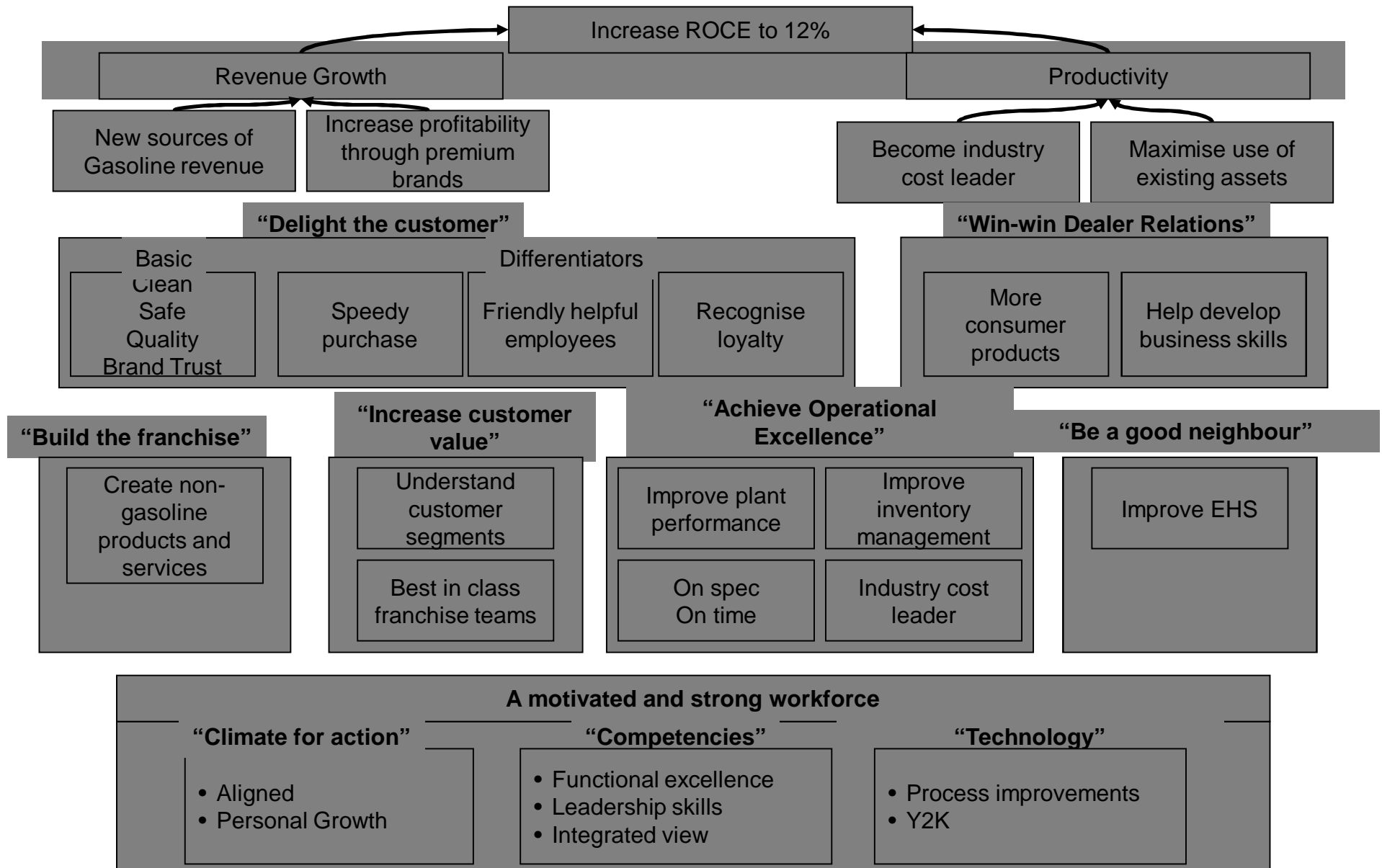
# Benefits of Balanced Scorecard

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- 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 future financial achievements and customer delight
- **Aligns** SBUs / Departments with organisational objectives.
- **Aligns** individual performance to that of the SBU/Department

# Mobil – Turnaround Strategy



# MOBIL Experience

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## 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 exceeded industry by 2 – 2.5 % every year
- Industry cost leadership by reducing cost of Refining and Marketing by 20 %
- Motivated and prepared workforce

# MOBIL Innovations

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Key things MOBIL did:

1. Customer Segmentation
2. MOBIL IT group developed 'Speedpass' for processing quick payments
3. As apart of customer Value Proposition, introduced the concept of 'Mystery Shopper'
4. Truck Drivers identified as critical part of front Line Market Research

# FIVE PRINCIPLES OF STRATEGY- FOCUSED ORGANISATION

## TRANSLATE STRATEGY

- Mission / Vision
- Strategy Maps
- Balanced Scorecard
- Targets
- Initiatives

## ORGANISATION ALIGNMENT

- Corporate Role
- Corporate – SBU
- SBU – Shared Services
- External Partners

## STRATEGY- FOCUSED ORGANISATION

## EVERYONE'S JOB

- Strategic Awareness
- Goal Alignment
- Linked Incentives

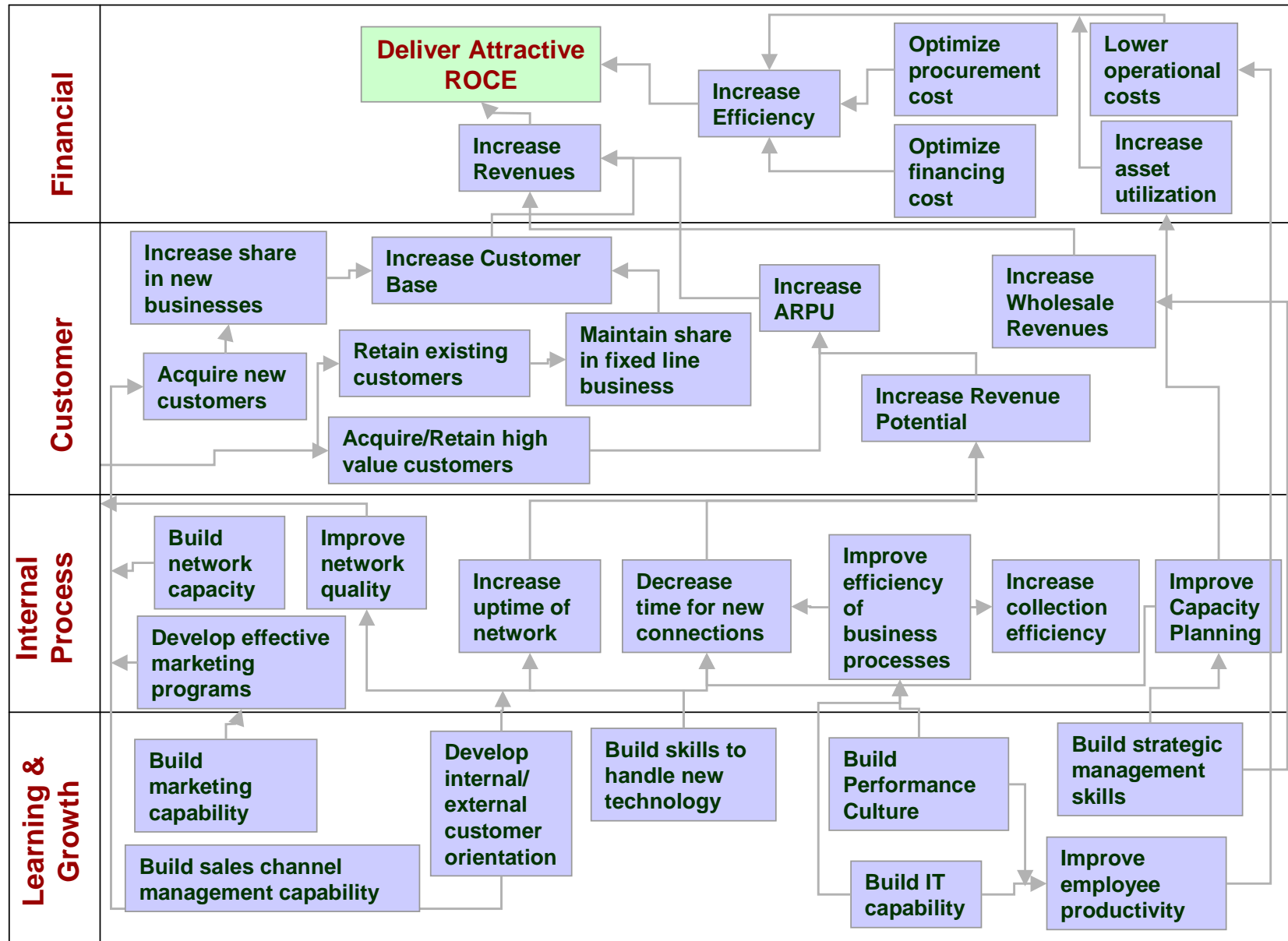
## EXECUTIVE LEADERSHIP

- CEO Sponsorship
- Executive Team Engaged
- Need For Change
- Vision / Strategy
- New Way of Managing

## CONTINUAL PROCESS

- Linked to Budgeting
- Linked to Operations
- Management Meetings
- Feedback system
- Learning Process

# A Telecom Company



# **Balanced Scorecard Initiative in HPCL**



# Phases of the Project

**Phase A 1**  
Revalidating  
Strategy

**Phase A 2**  
Designing  
Scorecards

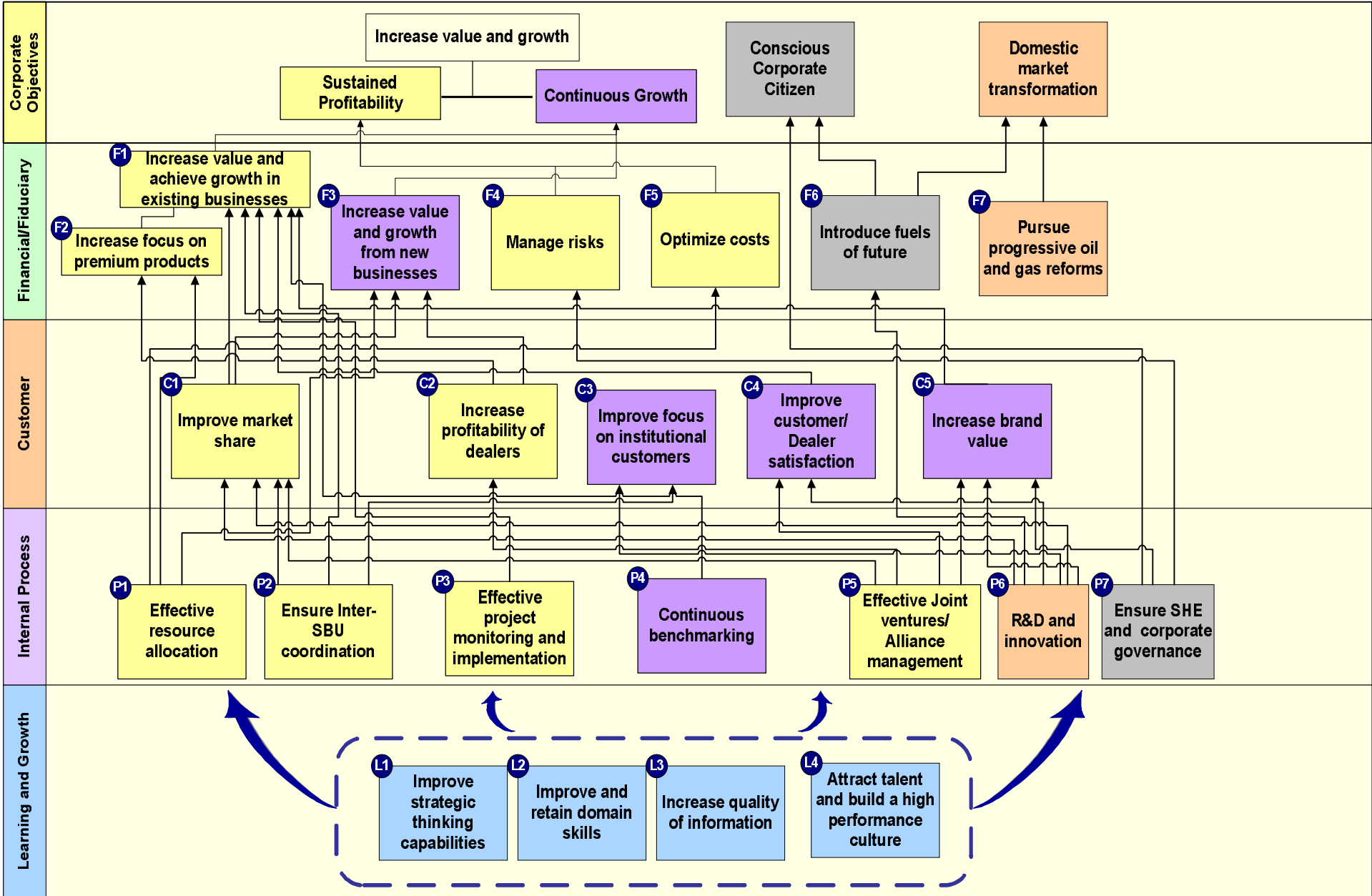
**Phase B**  
Implementation

**Phase C**  
IT & ERP  
Assessment

# Project Timeframe

<u>Activity</u>	<u>Phase</u> <u>Weeks</u>	No. of
• Revalidating Corporate Strategy	A – 1	4 - 5
• Designing BSCs	A – 2	12 – 15
• Implementation Support	B	55 – 60
• Assessment of IT / ERP and Best Fit solution	C	7
<b>TOTAL</b>		<b><u>75 - 80</u></b>

# HPCL – Corporate Strategy Articulation Map



## Financial Measures- Performance Dictionary

Scorecard key	Strategic Objectives	Metrics	Description
CO1	Increase value and growth	<b>EVA</b>	Economic value-added (EVA) is the after-tax cash flow generated by a business (NOPAT) minus the cost of the capital it has deployed to generate that cash flow
CO2	Increase value and growth	<b>Year on Year Growth</b>	Metric measures growth in top line compared to previous year
F1	To increase value and growth from existing businesses	<b>PBDIT</b>	Metric measures the PBDIT for the corporation
F2	Increase focus on premium products	<b>Premium Products Ratio</b>	Metric measures the proportion of revenues from premium product groups (defined on parameters of gross profit margins and product sensitivity), e.g. Branded fuels, ARB, commercial LPG, Lubes, Specialized products, ATF
F3a	Increase value and growth from new businesses	<b>Revenue Contribution of new business lines</b>	Metric measures the contribution of new businesses viz. E&P, Gas, Petrochem, etc. to HPCL's top line

## Financial Measures- Performance Dictionary

Scorecard	Strategic	Metrics	Description
F3b	Increase value and from new	NPV of approved new related projects	Metric measures the net present value of the approved new businesses after hurdle rate which is a function of risk and
F4	Manage risk	Risk index	Metric measures the overall risk profile for commodity, environmental, operational and
F5a	Optimize cost	Crude and product effectiveness	Metric measures optimization of cost of and products
F5b	Optimize cost	Operating Costs	Metric measures key business costs, i.e. (incl. refinery operations cost, fuel loss etc.) cost
F6	Introduce fuels of	Share of new age	Metric measures the share of new age fuels alternate fuels, etc. introduced by HPCL in
F7	Pursue gas sector reforms	No. of policy submitted	Metric measures the number of policy HPCL submitted to the government

# Measures and Performance Dictionary in Customer, Internal Processes, Learning and Growth perspectives

Scorecard	Strategic Objectives	Metrics	Description
C1	Improve market share	Market share across	Metric measures aggregate market businesses
C2	Increase dealer	Dealer Profitability	Metric measures the profitability distributor
P1	Effective resource	Employee cost as added	Metric measures the employee of value added
P2	Effective Inter-SBU	Exception to SLAs	Metric measures deviations to agreed upon amongst the various
L1	Improve strategic capabilities of the senior	Score on Leadership global and strategic	Metric measures the competency mgmt on strategic thinking
L2	Improve and retain	Improvement in scores demonstrating business decision making, focus and TCFs	Metric measures overall financial/ technical/ customer

# Balanced Scorecard Linkage to Performance Management

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- From F.Y. 2005-06, KPIs for all the officers are finalised based on Balanced Scorecard format
- For senior officers up to DGM / GM level, respective scorecards are the base for KPIs
- For officers in Grade A / B / C / D, the KPIs have been finalised in KPI workshops for various SBUs / Functions

**Thank You**