Building Strategy Focused Organizations with the Balanced Scorecard

Dr. Robert S. Kaplan
Marvin Bower Professor of Leadership Development
HARVARD BUSINESS SCHOOL

and

Chairman
BALANCED SCORECARD COLLABORATIVE
The Balanced Scorecard: A Good Idea in 1992

“The Balanced Scorecard — Measures that Drive Performance”

Harvard Business Review, 1992
The Balanced Scorecard: A Great Idea by 2002

Balanced Scorecard by 2002

50% usage in Fortune 500
Harvard Business Review “Hall of Fame”
50,000+ BSC on-line members

21 translations
17 translations
Balanced Scorecard Hall of Fame Implemented Strategies and Achieved Breakthrough Results… Fast

- **Saatchi & Saatchi**
  - + $2b
  - 3 years

- **Mobil**
  - Last to first
  - Cash flow +$1.2b
  - ROI 6% --> 16%
  - 2-5 years

- **ATT Canada**
  - + $7b
  - 3 years

- **Cigna**
  - + $3b
  - 2-5 years

- **City of Charlotte**
  - Customer Satisfaction = 70%
  - Public Official Award
  - 3 years

- **Southern Garden**
  - Least Cost Producer
  - 3-5 years

- **Chemical Bank**
  - 99% Merged Target Asset Retention
  - 3 years

- **Hilton Hotels**
  - Customer Satisfaction
  - Market Revenue Index
  - 2 years

- **Brown & Root**
  - #1 in growth & profitability
  - 3 years

- **Duke Children’s**
  - Customer Satisfaction #1
  - Cost/Case ↓ 33%
  - 3 years

- **Wells Fargo**
  - # Customers ↑ 450%
  - Best Online Bank
  - 3 years

- **UPS**
  - Revenues ↑ 9%
  - Net Income ↑ 33%
  - 2 years

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.
The Balanced Scorecard process allows an organization to align and focus all its resources on its strategy.

Question:
How can complex organizations achieve results like this in such short periods of time?

Answer:
Alignment!
A Gap Exists Between Mission-Vision-Strategy and Employees’ Everyday Actions

- MISSION
  - Why we exist

- VALUES
  - What’s important to us

- VISION
  - What we want to be

- STRATEGY
  - Our game plan

- TOTAL QUALITY MANAGEMENT
  - What we must improve

- EMPOWERMENT / PERSONAL OBJECTIVES
  - What I need to do
The Principles of a Strategy-Focused Organization

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

- Executive Leadership
  - CEO Sponsorship
  - Executive Team Engaged
  - “New Way of Managing”
  - Accountable for Strategy
  - A Performance Culture

- Organization Alignment
  - Corporate Role
  - Corporate - SBU
  - SBU - Shared Services
  - External Partners

- Continual Process
  - Linked to Budgeting
  - Linked to Ops. Mgmt.
  - Management Meetings
  - Feedback System
  - Learning Process

- Everyone’s Job
  - Strategic Awareness
  - Goal Alignment
  - Linked Incentives
Measurement is the language that gives clarity to vague concepts.

Measurement is used to communicate, not to control.

Building the scorecard develops consensus and teamwork throughout the organization.
Mobil NAM&R Strategy Map

Financial Perspective

Increase ROCE to 12%

Revenue Growth Strategy
- New Sources of Non-Gasoline Revenue
  - Non-Gasoline Revenue & Margin
- Increase Customer Profitability Through Premium Brands
  - Volume vs. Industry Premium Ratio

Productivity Strategy
- Become Industry Cost Leader
  - Cash Expense (cpg) vs. Industry
- Maximize Use of Existing Assets
  - Cash Flow

Customer Perspective

“Delight the Consumer”
- Speedy Purchase
- Friendly Helpful Employees
- Recognize Loyalty

“Win-Win Dealer Relations”
- More Consumer Products
- Help Develop Business Skills

“Build the Franchise”
- Create Non-Gasoline Products & Services
  - New Product Acceptance Rate

“Impress Customer Value”
- Understand Consumer Segments
- Best-In-Class Franchise Teams
  - Dealer Quality Rating

“Achieve Operational Excellence”
- Improve Hardware Performance
  - Yield Gap
- Unplanned Downtime
- On-Spec On-Time
- Industry Cost Leader
  - Activity Cost vs. Competition

“Be a Good Neighbor”
- Improve Environmental, Health and Safety
  - Environment Incidents
  - Safety Incidents

Internal Perspective

Create a Motivated and Prepared Workforce
- Aligned Personal Growth
- Functional Excellence Leadership Skills Integrated View

Learning & Growth Perspective

Climate for Action
- Personal BSC Employee Feedback
- Strategic Skill Coverage Ratio

Competencies
- Systems Milestones

Technology
- Processes/Improvements

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.
New Source of Revenues and Customer Loyalty
Attractive Convenience Store
The Balanced Scorecard Framework Is Readily Adapted to Non-Profit and Government Organizations

The Mission

"If we succeed, how will we look to our taxpayers (or donors)?"

"To achieve our vision, how must we look to our customers?"

“To satisfy our customers, financial donors and mission, what business processes must we excel at?"

“To achieve our vision, how must our people learn, communicate, and work together?”

The Mission, rather than the financial / shareholder objectives, drives the organization’s strategy.
Our mission is to ensure the long-term future of opera in Boston and New England by (1) producing the highest quality professional productions of diverse opera repertoire that are artistically excellent as well as musically and theatrically innovative; (2) developing the next generation of opera talent; (3) engaging and educating a diverse community about opera to become enthusiastic audience members, educators, supporters, and volunteers.

(HBS Case #9-101-111)
Medical Readiness for the Transformed Army

Core Competencies
- Protect and Sustain A Healthy and Medically Protected Force
- Deploy a Trained and Equipped Medical Force that Supports Army Transformation
- Manage the Care of the Soldier and Military Family

Battlefield
- Performing Our Mission in Any Environment

Home Station
- Focus on Customers / Sound Business Practices

Enable Mission Readiness
Achieve Fiscal Accountability
**Goal 1: Project and Sustain a Healthy and Medically Protected Force**

<table>
<thead>
<tr>
<th>Strategic Theme:</th>
<th>Objective Statement</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Healthy Soldiers C-1</strong></td>
<td>C-1 Improve and sustain the general health of soldiers to ensure medically-ready deployable forces.</td>
<td>C-1 Percent of units reporting medical readiness.</td>
</tr>
<tr>
<td><strong>Protected From Disease and Injury C-2</strong></td>
<td>C-2 Sustain the health and fitness of the deployed forces, preventing casualties from disease, injuries, and stress reactions.</td>
<td>C-2 Number of Man-Years Lost Due to Disease, Injury, Stress Reactions.</td>
</tr>
<tr>
<td><strong>Provide State of the Art Health Risk Assessments and Countermeasures IP-1</strong></td>
<td>IP-1 Enhance health and performance through strategies, tools, products and other countermeasures to reduce risks of disease, non-battle injury, chemical and biological warfare casualties, and stress reactions. Promote the use and assess the effectiveness of these countermeasures throughout their life cycle.</td>
<td>IP-1 Percent of threats (Infectious Disease, chemical and biological warfare) on the validated, prioritized threat lists for which effective countermeasures are available to deployable and deployed forces.</td>
</tr>
<tr>
<td><strong>Monitor Medical Threats and the Fitness of the Force IP-2</strong></td>
<td>IP-2 Improve monitoring and reporting on demand the medical risk assessments and the health status of units and individuals.</td>
<td>IP-2 Percent of requested medical threat/risk assessments and health status reports delivered electronically on demand to operational commanders and their staffs.</td>
</tr>
<tr>
<td><strong>Lower Army’s Medically Related Costs F-1</strong></td>
<td>F-1 Identify, Target &amp; Reduce the Army’s Medically-Related Costs and Increase Return to Duty Rates Through Improved Management</td>
<td>F-1a Number of injury/illness driven claims (Rate per 100 employees); F-1b Cost of injury/illness driven claims.</td>
</tr>
</tbody>
</table>
Several Different Types of “Balanced Scorecards” Have Emerged in Practice
A KPI Scorecard: The Four “P’s”

• Profits

• Portfolio (loan volume)

• Process (ISO certification)

• People (diversity)
What’s missing from the 4P’s KPI scorecard?

• Where are the customers?

• What is the value proposition?

• How does ISO certification lead to increases in loan volume?

• How does a more diverse work force lead to ISO certification?

• Is there no role for information technology?

• Is innovation not important?
A Good Balanced Scorecard Tells the Story of Your Strategy

• Every measure is part of a chain of cause and effect linkages

• All measures eventually link to organizational outcomes

• A balance exists between outcome measures (financial, customer) and performance drivers (value proposition, internal processes, learning & growth)
The Principles of a Strategy-Focused Organization

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

**Organize Alignment**
- Corporate Role
- Corporate - SBU
- SBU - Shared Services
- External Partners

**Executive Leadership**
- CEO Sponsorship
- Executive Team Engaged
- “New Way of Managing”
- Accountable for Strategy
- A Performance Culture

**Continual Process**
- Linked to Budgeting
- Linked to Ops. Mgmt.
- Management Meetings
- Feedback System
- Learning Process

**Everyone’s Job**
- Strategic Awareness
- Goal Alignment
- Linked Incentives
Principles of the Strategy-Focused Organization: LINK AND ALIGN THE ORGANIZATION AROUND ITS STRATEGY

Strategies Are Executed Through Business Units. The Strategies of the Business Units Must Be Integrated If Organization Purpose and Synergies Are to Be Achieved.
Principles of the Strategy-Focused Organization: LINK AND ALIGN THE ORGANIZATION AROUND ITS STRATEGY

1. A Corporate Scorecard defines overall strategic priorities.

2. Each SBU develops a long-range plan and BSC consistent with corporate strategic agenda.

3. Each Support Unit develops a plan and BSC for "best practice" sharing to create synergies across SBUs.

4. Plans and BSC’s define relationships with external partners consistent with SBU strategy.

<table>
<thead>
<tr>
<th>CORPORATE SCORECARD (Shared Strategic Agenda)</th>
<th>LINE BUSINESSES</th>
<th>SUPPORT UNITS</th>
<th>EXTERNAL PARTNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Themes</td>
<td>Measures</td>
<td>SBU A</td>
<td>SBU B</td>
</tr>
<tr>
<td>1. Financial Growth</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>2. Delight the Consumer</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>3. Win-Win Relationships</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>4. Safe &amp; Reliable</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>5. Competitive Supplier</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>6. Good Neighbor</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>7. Motivated &amp; Prepared</td>
<td>XXX</td>
<td>XX</td>
<td>XX</td>
</tr>
<tr>
<td>8. Quality</td>
<td>XXX</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

- Finance
- Marketing
- Distribution
- Procurement
- Purchasing
- Safety
- Human Resources
- Information Technology

- Customer Scorecards
- Distributor Scorecard
- Joint Venture Scorecard
- Vendor Scorecard
- New Venture Scorecard
- Outsourcer Scorecard
Washington State: The Salmon Recovery Problem

• Endangered Species Listing of 18 Species
• Federal Approval of Recovery Plans -- or
  – no government or private entity make “take” any salmon -- thus
  – forestry, agriculture, hydro power production, transportation improvements and land use changes stopped or curtailed
  – i.e., A train wreck
• Fractured governance
  – six states, another country (Canada) and 27 Indian tribes
  – eight US agencies, 12 state agencies, 39 counties, 277 cities
  – 300 water and sewer districts, 170 local water suppliers
Many Regulations and Constituents Influence Salmon Recovery Projects

U.S. & State Agencies

Water Legislation

HB2514 WRIA Planning

Watershed Councils

US/Canada Treaty

Tribes

Independent Science Panel

HB2496 Restoration Projects

SRF Board

Salmon, Bull Trout, Environmental Quality, and Hydropower Development

SSHIAP

NGO's and Enhancement Groups

NMFS Recovery Team

Salmon Sec 7 Consultation

Early Action Package

Bull Trout Sec 7 Consultation

Bull Trout Sec 4(d) Rules

FWS Bull Trout “Definable Population Segments”

NMFS Salmon “Evolutionarily Significant Units”

Tri-Co

Bull Trout Sec 4(d) Rules

US/Canada Treaty

Salmon Legislation

HB2496 Restoration Projects

Tri-Co

Many Regulations and Constituents Influence Salmon Recovery Projects
Salmon Recovery Scorecard

Goal: Restore salmon, steelhead, and trout populations to healthy and harvestable levels and improve habitats on which fish rely.

Customer: To protect an important element of Washington’s quality of life
  • We will have productive and diverse wild salmon populations.
  • We will meet the requirements of the Endangered Species Act/Clean Water Act.

Processes: Our habitat, harvest, hatchery, and hydropower activities will benefit wild salmon.
  • Freshwater and estuarine habitats are healthy and accessible
  • Rivers and streams have flows to support salmon.
  • Water is clean and cool enough for salmon
  • Harvest management actions protect wild salmon.
  • Enhance compliance with resource protection laws.

Collaboration: We are engaged with citizens and our salmon recovery partners.
  • We will reach out to citizens
  • Salmon recovery roles are defined and partnerships strengthened.

Financial and Infrastructure: Our building blocks for success include
  • Achieve cost-effective recovery and efficient use of government resources
  • Use best available science and integrate monitoring and research with planning and implementation
  • Citizens, salmon recovery partners and state employees have timely access to the information, technical assistance, and funding they need to be successful.
Summary: Top-to-Bottom Strategy Alignment Unleashes Full Organization Potential

- The Corporate Strategy is communicated to business units and agencies through key themes, opportunities for integration and synergies, and shared measures.

- Cooperation and greater synergy between business units, staff and shared service functions, and across diverse organizational units becomes formalized through the Scorecard.
The Principles of a Strategy-Focused Organization

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

**Executive Leadership**
- CEO Sponsorship
- Executive Team Engaged
- “New Way of Managing”
- Accountable for Strategy
- A Performance Culture

**Organization Alignment**
- Corporate Role
- Corporate - SBU
- SBU - Shared Services
- External Partners

**Continual Process**
- Linked to Budgeting
- Linked to Ops. Mgmt.
- Management Meetings
- Feedback System
- Learning Process

**Everyone’s Job**
- Strategic Awareness
- Goal Alignment
- Linked Incentives
Principles of the Strategy Focused Organization:
MAKE STRATEGY EVERYONE’S EVERYDAY JOB

HR Processes Are Essential for Moving Strategy From the Top to the Bottom

• EDUCATION
• PERSONAL GOAL ALIGNMENT
• BALANCED PAYCHECKS

The Strategy Focused Workforce

Top-Down “Bridging Process” To Share the Strategy & Align the Workforce
Bottom-Up Process to Internalize & Execute the Strategy

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.
Making Strategy Everyone’s Job

Creating a Climate to Support Strategic Change

1. Create Strategic Awareness
   - Insure that each individual has sufficient understanding of the strategy (You can’t execute what you don’t understand)

2. Align Personal Objectives
   - Insure that each individual knows where they fit into the overall game plan

3. Align Incentive Compensation
   - Reinforce desired behavior and increase intensity of awareness
USM&R Strategic Themes ... will guide us to our vision and are defined above each graph.

USM&R Strategic Measures that will keep us focused on achieving USM&R’s strategic themes are explained in the graphs and the bulleted text accompanying them.

Win/Win Relationship
Improve Dealer/Wholesale Marketer profitability through customer-driven products and services and by developing their business competencies.

- Total profit earned at Mobil outlets and split between our dealers/whole-s ale marketers and Mobil.

Good Neighbor
Protect the health and safety of our people, the communities in which we work, and the environment we all share.

- Composite of:
  - reportable releases to air and water
  - reportable spills
  - community reported incidents.

Financially Strong
Reward our shareholders by providing a superior long-term return which exceeds that of our peers.

- Income divided by capital employed including all allocations.

Safe & Reliable
Maintain a leadership position in safety while keeping our refineries fully utilized.

- Composite of:
  - product off spec
  - order shipped late
  - business process errors
  - customer complaints
  - cost of rework.

On Spec On Time
Provide quality products supported by quality business processes that are on time and done right the first time.

- Composite of:
  - reportable releases to air and water
  - reportable spills
  - community reported incidents.

Delight the Customer
Understand our consumers’ needs better than anyone and offer them products and services which exceed their expectations.

- The Mystery Shopper program rates how well each of our stations is delivering the “best buying experience.”

Competitive Supplier
Provide product to our terminals at a cost equal to or better than the competitive market maker.

- Our cost to deliver product to the terminal vs. lowest cost provider.

Motivated & Prepared
Develop and value teamwork and the ability to think Mobil, act locally.

- Survey of employees to measure how people perceive the Mobil workplace environment.
Employee Innovations: Mobil Speedpass™
Creating a Climate to Support Strategic Change

1. Create Strategic Awareness
   - Insure that each individual has sufficient understanding of the strategy (You can't execute what you don't understand)

2. Align Personal Objectives
   - Insure that each individual knows where he or she fits into the overall game plan

3. Align Incentive Compensation
   - Reinforce desired behavior and increase intensity of awareness
Ultimately, Team and Individual Goals and Objectives Are Aligned to the Strategy

A performance model provides the framework for cascading and aligning personal goals.

A personal scorecard focuses individuals on the part of the performance model they can impact.

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.
Creating a Climate to Support Strategic Change

1. Create Strategic Awareness
   - Insure that each individual has sufficient understanding of the strategy (You can’t execute what you don’t understand)

2. Align Personal Objectives
   - Insure that each individual knows where he or she fits into the overall game plan

3. Align Incentive Compensation
   - Reinforce desired behavior and increase intensity of awareness
## Mobil USM&R Incentive Plan

<table>
<thead>
<tr>
<th></th>
<th>Poor</th>
<th>Average</th>
<th>Best-in Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Pay</td>
<td>90%</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>Corporate Award (Return-on-Capital, Earnings Growth)</td>
<td>0-1</td>
<td>3-6</td>
<td>10</td>
</tr>
<tr>
<td><strong>USM&amp;R/SBU</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;R (30%)</td>
<td>0</td>
<td>5-8</td>
<td>20</td>
</tr>
<tr>
<td>SBU (70%)</td>
<td>______</td>
<td>______</td>
<td>______</td>
</tr>
<tr>
<td><strong>Total Pay (% of Market)</strong></td>
<td>91%</td>
<td>98-104%</td>
<td>120%</td>
</tr>
</tbody>
</table>
## Linking Compensation to the Balanced Scorecard

*Experience with successful BSC users indicates that linking the BSC to incentive compensation is essential to success*

<table>
<thead>
<tr>
<th>Executive Perspectives</th>
<th>Supported by Research</th>
</tr>
</thead>
</table>
| “People got that scorecard out and did the calculations to see how much money they were going to get. We could not have got the same focus on the scorecard if we didn’t have the link to pay.”  
*Brian Baker, Mobil* | *Mercer survey of compensation practices in 214 companies (1999)* |
| “It would be hard to get people to accept a totally different way of measurement - which the BSC is - if you don’t reinforce that change through incentive compensation.”  
*Gerry Isom, CIGNA* | • 88% of responding companies consider the use of balanced scorecard measures linked to reward systems to be effective. |
The Principles of a Strategy-Focused Organization

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

ORGANIZATION ALIGNMENT
- Corporate Role
- Corporate - SBU
- SBU - Shared Services
- External Partners

EVERYONE’S JOB
- Strategic Awareness
- Goal Alignment
- Linked Incentives

EXECUTIVE LEADERSHIP
- CEO Sponsorship
- Executive Team Engaged
- “New Way of Managing”
- Accountable for Strategy
- A Performance Culture

CONTINUAL PROCESS
- Linked to Budgeting
- Linked to Operational Improvements
- Management Meetings
- Feedback System
- Learning Process
Making Strategy a Continual Process

Imbed the Strategy in Ongoing Management Processes

1. Integrate Strategy with Planning and Budgeting
   • Establish stretch targets; Select initiatives, Align operational improvement programs (TQM, Six Sigma, Activity Based Management); Allocate resources to projects

2. Introduce the New Reporting System
   • Develop systems for data collection, analysis, and reporting

3. Conduct the New Management Meeting
   • Open discussion of performance shortfalls; team problem-solving; adapting and learning
Mobil NAM&R: Setting Targets and Performance Factors

How to think about performance factors:

† Objective:

- External Benchmark
  - 1.00 means target equals the average of competition
  - 1.25 means target equals the top of the competitive group

† Subjective:

- Internal Benchmark
  - 1.00 means the difficulty of the dive is average

### Business Group Variable Pay Opportunity

<table>
<thead>
<tr>
<th>Variable Pay Percent</th>
<th>Performance Factor</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>1.25</td>
<td>BEST IN CLASS</td>
</tr>
<tr>
<td>1.20</td>
<td></td>
<td>Well</td>
</tr>
<tr>
<td>1.15</td>
<td></td>
<td>Average</td>
</tr>
<tr>
<td>1.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.09</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.06</td>
<td></td>
<td>Above Average</td>
</tr>
<tr>
<td>1.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>1.00</td>
<td>Average</td>
</tr>
<tr>
<td>0.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>0.75</td>
<td>Below Average</td>
</tr>
</tbody>
</table>
Achieving Stretch Target Performance May Require

- Strategic Initiatives
- Capital Investments
- New Products/Services
- New Customers
- New Regions
- New Partners
The Scorecard Process Provides Rigor for Selecting and Managing Initiatives

1. Identify All Potential Candidates for Strategic Initiative Consideration

2. Screen Candidates to Identify Those That Qualify as “Strategic”

3. Select Strategic Initiatives

Criteria

<table>
<thead>
<tr>
<th>Area</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Importance</td>
<td>8</td>
</tr>
<tr>
<td>Cost</td>
<td>-2</td>
</tr>
<tr>
<td>Benefit</td>
<td>4</td>
</tr>
<tr>
<td>Required for Other Initiatives/Dependents</td>
<td>-1</td>
</tr>
<tr>
<td>Time to Implement</td>
<td>-2</td>
</tr>
<tr>
<td>Overall Score</td>
<td>9</td>
</tr>
</tbody>
</table>

Prioritized List of Strategic Initiatives
The Principles of a Strategy-Focused Organization

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

- **CEO Sponsorship**
- **Executive Team Engaged**
- **“New Way of Managing”**
- **Accountable for Strategy**
- **A Performance Culture**

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

- **Linked to Budgeting**
- **Linked to Operational Improvements**
- **Management Meetings**
- **Feedback System**
- **Learning Process**

- **Strategic Awareness**
- **Goal Alignment**
- **Linked Incentives**
Using the BSC to Link Strategy to Operational Management

Activity-Based Costing
- Cost of Internal Processes
- Customer Profitability

Shareholder Value
- Explicit Value Proposition
- Path for Revenue Growth Strategy

Quality Programs
- Link to Customer and Financial Outcomes
- Identify New Processes; Set Priorities
- Integrated Strategic Management Approach
BSC Adds to Total Quality Programs

• Explicit Causal Links from Operational Improvements to a Customer-Based Value Proposition

• Explicit Linkages to Productivity Enhancements and Financial Outcomes

• Identify Entirely New Processes for Improvement

• Set Priorities among Processes to Improve
The Principles of a Strategy-Focused Organization

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

EXECUTIVE LEADERSHIP
- CEO Sponsorship
- Executive Team Engaged
- “New Way of Managing”
- Accountable for Strategy
- A Performance Culture

ORGANIZATION ALIGNMENT
- Corporate Role
- Corporate - SBU
- SBU - Shared Services
- External Partners

CONTINUOUS PROCESS
- Linked to Budgeting
- Linked to Operational Improvements
- Management Meetings
- Feedback System
- Learning Process

EVERYONE’S JOB
- Strategic Awareness
- Goal Alignment
- Linked Incentives
The New Management Meeting: Strategic Learning Replaces Control

The Shift In Focus (At City of Charlotte)

Control

Is the project…
on-time?
on-budget?

Learning

What is the impact of the project on…
– neighborhoods
– jobs
– transportation
Effective Strategic Management Is Based Upon a “Double Loop” Learning Approach

Strategic Learning Loop

1. Test hypotheses about your strategy
2. Assess changes in the environment
3. Identify emerging strategies

Operational Control Loop

- Test hypotheses about your strategy
- Assess changes in the environment
- Identify emerging strategies
Store 24 Introduced an Innovative Strategy to Build Customer Intimacy: “Ban Boredom”

GROWTH
Sales Growth*

PRODUCTIVITY
Gross Profit $ / Labor $

Financial Perspective

ROI
ROCD* 

EBITDA
EBITA*

Gross Profit
Gross Profit Growth*

Customer Value Proposition

Basic Requirements
Quality, Value, Cleanliness, Selection

Friendly

Differentiators
Enjoyable Experience
Interesting Promotions

Internal Perspective

Build the Franchise
Continually develop and successfully roll out new and innovative programs

Increase Customer Value
Enhance the customer experience with flawless implementation

Operational Excellence
Focus on store, in stock, and associate productivity

Learning & Growth Perspective

Competencies
Required competencies are built on tenure and capability rating

Technology
Focus on technology is on information systems use

Climate for Action
Ability to implement relies heavily on employee satisfaction

Tenure*
Capability evaluation*

Technology evaluation sheet*

Gallup poll*

* Measures

Survey: Enjoyable experience

Net gross profit from concepts <2 years old*

Growth in core categories* Customer count*

Contribution $ And % change*

Inventory turns* Hurdle rate on projects*

Gross Profit $ / Labor $

Gross Profit $ / Labor $*

Gross Profit $ / labor $*

Gross Profit $ / labor hour*

New Concepts

New Customers

Contribution

Asset Utilization

Gross Profit Growth*

Survey:
Enjoyable experience
Testing the Strategy in Real Time Leads to Strategic Learning

Updated Strategy: “Cause You Just Can’t Wait”

- Financial Perspective
  - Gross Profit
    - Net sales from new items
    - Growth in core categories
    - Contribution
      - Net sales from new items
      - Contribution $
      - And % change
    - ROCD
    - ROCD*
    - EBITDA
    - EBITDA*
  - ROCD
  - ROI
  - ROCD
- Customer Value Proposition
  - Basic Requirements
    - Quality, Value, Cleanliness, Selection
  - Differentiators
    - Friendly
    - Fast & Efficient
  - Competitive comparison
- Internal Perspective
  - Build the Franchise
    - Rapid rollout of new merchandise
    - New item program rating
  - Increase Customer Value
    - Enhance the customer experience of speed and efficiency
    - Average in/out time
  - Operational Excellence
    - Focus on store, in stock, and associate productivity
    - In stock average
  - In stock average
  - Gross profit $ / labor $
  - Gross profit $ / labor hour
- Learning & Growth Perspective
  - Competencies
    - Required competencies are built on tenure and capability rating
    - Capability evaluation
  - Technology
    - Focus on technology is on information systems use
    - Technology evaluation sheet
  - Climate for Action
    - Ability to implement relies heavily on employee satisfaction
    - Gallup poll
- * Measures
The Principles of a Strategy-Focused Organization

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

ORGANIZATION ALIGNMENT
- Corporate Role
- Corporate - SBU
- SBU - Shared Services
- External Partners

EVERYONE’S JOB
- Strategic Awareness
- Goal Alignment
- Linked Incentives

EXECUTIVE LEADERSHIP
- CEO Sponsorship
- Executive Team Engaged
- “New Way of Managing”
- Accountable for Strategy
- A Performance Culture

CONTINUOUS PROCESS
- Linked to Budgeting
- Linked to Operational Improvements
- Management Meetings
- Feedback System
- Learning Process
To Succeed, the Executive Leader Must be Engaged in the Strategic Change Process…

Unfreeze

Achieve commitment and momentum at the top

Change

Align and focus the organization on change

Breakthrough and Sustain

Institutionalize capabilities and culture required for breakthrough results

“The Case for Change”  “Early Wins”  “Irreversible Momentum”

“A successful Balanced Scorecard program is a transformation process not a “metrics” project.”
Pitfalls

• Middle Management Team: Lack of Senior Management Commitment ("Bacon and Eggs Breakfast")

• Done Only by One or Two Individuals

• Held at the Top: For Senior Management Only

• Too Long a Development Process: "Best Becomes the Enemy of the Good"
  "Just Do It!"

• Treating the Balanced Scorecard as a Systems Project

• Just a “checklist” for compensation purposes (the 4 P’s)
### Typical Balanced Scorecard Project Schedule

| Task 1: Define Strategic Architecture | Project Kickoff | 2 Wks |
| Task 2: Draft the Balanced Scorecard Workshop I | | 4 Wks |
| Task 3: Develop Measures, High Level Targets & Initiatives Workshop II | | 4 Wks |
| Task 4: Develop Implementation Plan Workshop III | | 2 Wks |
An Effective Balanced Scorecard Development Process
Encourages Focused Participation by Leadership Team and
Leverages Knowledge Within the Organization

The Balanced Scorecard Design Program

Workshop No. 1
- Establish executive consensus on strategic issues
- Review draft Balanced Scorecard objectives and strategy map

Workshop No. 2
- Finalize objectives and measures
- Review strategic initiatives and high level targets

Workshop No. 3
- Review implementation plan
- Discuss implications on change management

Leadership Team Workshops

Core Team Analysis & Preparation

Task 1
Define Balanced Scorecard Architecture

Task 2
Develop Objectives and Strategy Map

Task 3
Develop Measures, Targets and Initiatives

Task 4
Develop Implementation Plan
Balanced Scorecard Project Team

- **Executive Sponsor/Steering Committee**
  - Overall project ownership
  - Consultations/pre-presents as needed
  - 2 days/week

- **Client Project Leader**
  - 1-2 staff
  - 2-3 days/week
  - Briefings with others as needed

- **Executive Leadership Team**
  - 3 half- to full-day workshops
  - One 90-minute briefing/interview
  - Consultations/pre-presents as needed

- **BSCol Engagement Officer/Principal (part-time)**

- **BSCol Project Leader (full-time)**

- **BSCol Project Team**

- **Client Core Team**
  - Staff knowledgeable of business strategies and organization

- **1-2 Consultants (full-time)**
BSCol’s Framework for Building the SFO

Phase I: BSC Design and Mobilization

- Assessment
- 4–6 Weeks

12-16 Weeks

Phase II: Build the SFO

- Rapid BSC Cascading and Deployment
- Planning and Budgeting
- Governance
- Feedback and Learning
- Performance Management
- 1–2 Years

Business Process Improvements

- Stream 1: Order Fulfillment
- Stream 2: Customer Service/CRM
- Stream 3: Product Innovation
- Stream 4: Infrastructure
  - HR
  - IT
  - Etc
- 0.5–2 Years

Phase 0

- 12-16 Weeks

Assessment

- 4–6 Weeks
### How are Organizations Doing on the Journey?

A survey of online members of the BSCol:
500 responses; 250 reported, “Yes, we have BSC.”
50% of these: too early to tell about impact.

Of the 125 who had sufficient experience with the program:

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Percentage</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achieved breakthrough results</td>
<td>15%</td>
<td>(n = 19)</td>
</tr>
<tr>
<td>Some progress</td>
<td>64%</td>
<td>(n = 80)</td>
</tr>
<tr>
<td>No or limited results</td>
<td>21%</td>
<td>(n = 26)</td>
</tr>
</tbody>
</table>
What Separates the Winners from the Losers?

<table>
<thead>
<tr>
<th></th>
<th>Breakthrough Results</th>
<th>Some Progress</th>
<th>No Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Team has created a</td>
<td>84%</td>
<td>53%</td>
<td>20%</td>
</tr>
<tr>
<td>sense of urgency</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy translated to a strategy</td>
<td>84%</td>
<td>41%</td>
<td>0%</td>
</tr>
<tr>
<td>map and Balanced Scorecard</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate/Business Unit measures</td>
<td>72%</td>
<td>39%</td>
<td>0%</td>
</tr>
<tr>
<td>are linked &amp; aligned</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees are aware of the</td>
<td>56%</td>
<td>32%</td>
<td>0%</td>
</tr>
<tr>
<td>strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual and team goals are</td>
<td>42%</td>
<td>26%</td>
<td>0%</td>
</tr>
<tr>
<td>aligned with the strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The BSC is an integral part of the</td>
<td>100%</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td>strategic planning process</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The budget is driven by the</td>
<td>42%</td>
<td>29%</td>
<td>0%</td>
</tr>
<tr>
<td>strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Based On What You Have Learned in This Conference, Rate Your Organization’s Readiness to Execute Its Strategy

EXECUTIVE LEADERSHIP

- CEO Sponsor
- Executive Team Engages
- “New Way of Managing”
- Accountable for Strategy
- A Performance Culture

ORGANIZATION ALIGNMENT

- Corporate
- Corporate – SBU
- SBU – Shared Services

TRANSLATE STRATEGY

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

EVERYONE’S JOB

- Strategic Awareness
- Goal Alignment
- Linked Incentives

CONTINUAL PROCESS

- Linked to Budgeting
- Linked to Ops. Mgmt.
- Management Meetings
- Feedback System
- Learning Process

Rate Yourself

E “Best Practice”
D We’re OK
C Moving Slowly
B Thinking About It
A Clueless
The SFO Readiness Profile: Plot Yourself

TRANSLATE STRATEGY
- Develop strategy maps and Balanced Scorecards

EXECUTIVE LEADERSHIP
- Mobilize the organization

CONTINUAL PROCESS
- Feedback systems to facilitate learning

ORGANIZATION ALIGNMENT
- Cascade the scorecard to create linkage

EVERYONE’S JOB
- Mobilize Change through Executive Leadership

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.
Building the SFO: Some Thoughts on Priority and Sequence

- TRANSLATE STRATEGY
- EXECUTIVE LEADERSHIP
- ORGANIZATION ALIGNMENT
- CONTINUAL PROCESS

EVERYONE’S JOB

Clueless Thinking Moving Slowly OK Best Practice
Building the SFO: Some Thoughts on Priority and Sequence

TRANSLATE STRATEGY

EXECUTIVE LEADERSHIP

ORGANIZATION ALIGNMENT

CONTINUAL PROCESS

EVERYONE’S JOB

Top-down

First Wave of Results

Clueless

Thinking

Moving Slowly

OK

Best Practice

A

B

C

D

E

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.

65
Building the SFO: Some Thoughts on Priority and Sequence

TRANSLATE STRATEGY

EXECUTIVE LEADERSHIP

ORGANIZATION ALIGNMENT

CONTINUAL PROCESS

EVERYONE’S JOB

Top-down
First Wave of Results

Bottoms-up
Sustained Results

Clueless
Thinking
Moving Slowly
Best Practice

OK

©2002 Balanced Scorecard Collaborative, Inc and Robert S. Kaplan. All rights reserved.
Our Mission:

“To facilitate the worldwide awareness, use, enhancement, and integrity of the Balanced Scorecard as a value-added management process”