

Achieving Breakthrough Performance Using the Balanced Scorecard

Here are some interesting figures, hard to believe: more than 90% of effectively formulated strategies do not get successfully implemented. A Fortune cover story on success of strategy implementation concluded that in about 70% of the cases the real problem is not bad strategy but bad execution. In the Asian region, we estimate the failure rate of the best strategies to be between 70% and 90%. Our joint survey with the CFO Magazine on how many people understand their company's strategy, threw up alarming figures. While 60-70% of the top management understood their strategy, when it came to the middle management, the figure dropped to about 40% and further to less than 10% for line employees! Now, these figures were for the US / EU companies, so imagine what it would be like for companies operating in the Asia/Middle East!

Most management systems revolve around a budget. How often is the question asked, "Is this in our strategic plan?" rather than the often heard one, "Is this within this year's budget?" Organizations often give up activities as the year goes by if the budget needs to be pruned without realizing that some of those activities may be necessary to reach

strategic objectives. Linkages between strategic objectives and action plans are often weak.

When the organization get into the strategic planning cycle one or more of these usually happen:

- Not all key people participate in finalizing strategy
- Divisions/SBUs do not finish their strategic plans or even action plans in time for corporate strategy to reflect all key priorities comprehensively
- The long term strategic planning exercise does not end on time
- The budget is treated as the strategic plan

The problem is not that organizations can't formulate strategies. Rather the issue is that the task of implementing strategy is time consuming, and riddled with vested interests, ambiguity, even lack of acceptance of the strategic plan. The strategy document remains isolated, 'for your eyes only'. The above research indicates that 85% of senior management teams spend less than an hour per month to discuss strategy. 95% of the typical workforce does not understand strategy.

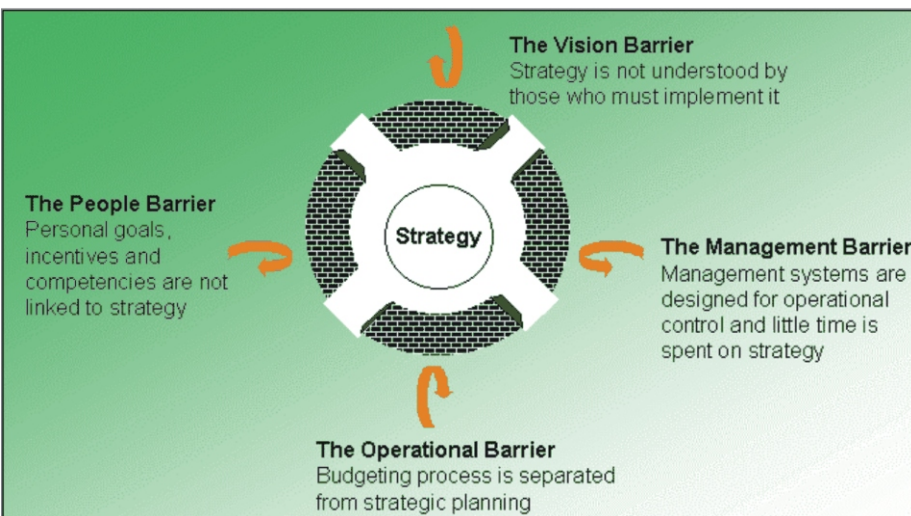
Research has identified that there are typically four barriers to strategy implementation viz. Vision Barrier, People Barrier, Operational Barrier and Management Barrier. The challenge most companies have today is to build a robust and balanced strategic management process.

shareholder, customer, internal and learning requirements of a business in order to create a system of linked objectives, measures, targets and projects which collectively describe the strategy of an organization and how that strategy can be achieved. In the process of creating a BSC, four perspectives

financial, customer, internal process and learning and growth capture the roles, tasks and priorities of the various divisions and individuals.

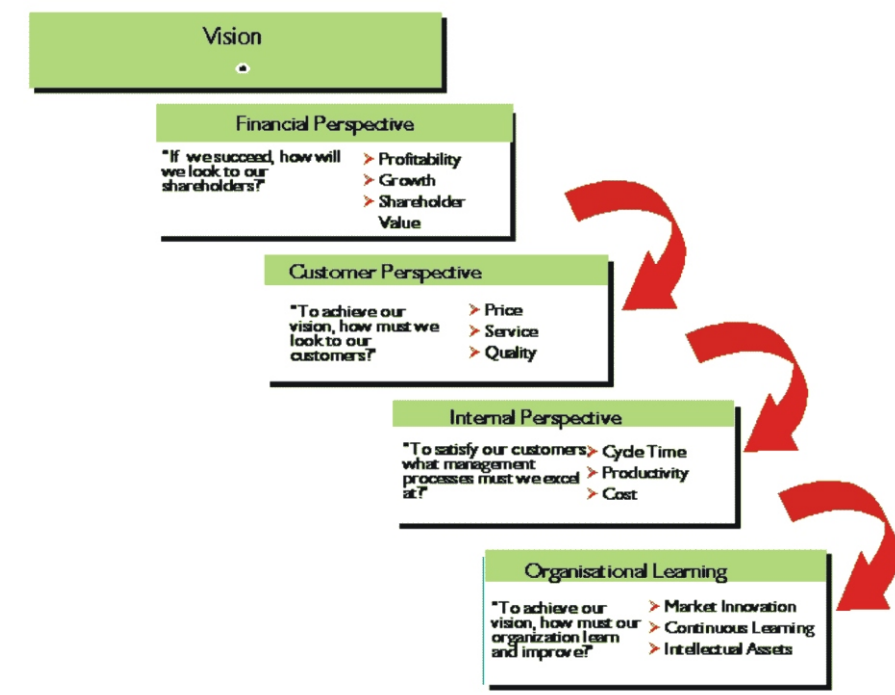
Three Steps in Building a Balanced Scorecard

I. Build a strategy map: The first output of a BSC project is a strategy map. It shows the top 15-20 objectives that the organization needs to focus on to deliver its strategy.



The Balanced Scorecard (BSC) framework successfully addresses these problems. It is a framework that focuses on

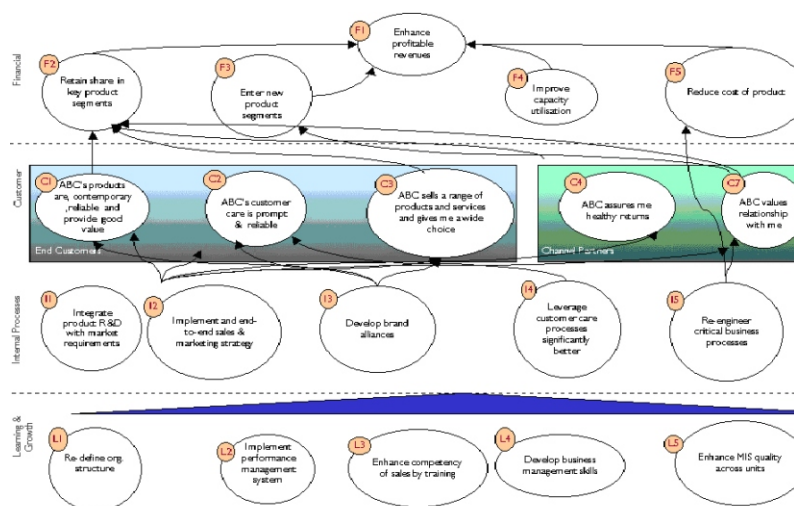
Financial objectives are critical to the existence of all organizations. However, to deliver these



financial outcomes, the organization must determine what customer needs have to be met, and what internal processes are critical for delivering their expectations. Finally, managers need to work out what the organization must learn in order to carry out the core processes efficiently and effectively. Even though the concept of the BSC is simple, it's difficult to develop. This is because managers are used to thinking operationally and for the short-term rather than strategically. The development of a BSC usually reveals

gaps in strategy. An illustrative strategy map would look like:

2. Create a BSC: The next step is to define the metrics



needed to measure the success of a strategy. Both financial and non-financial measures are identified. Approximately 30-40 lead and lag measures are identified, and a significant effort is made to ensure that there are enough lead measures so that the BSC created allows the organization to actively manage the delivery of the strategy. Owners are identified within the management team so that there is

collective ownership and responsibility in delivering the strategy. Actual performance is computed, and the targets for delivering the strategies are set. Care is taken to set

breakthrough and stretch targets in select areas where benefits could be significant, balancing it out with more realistic targets for other objectives. Lastly, internal projects that tend to often lose sight of what business objectives they need to achieve are identified, prioritized and aligned to the business objectives they will help deliver. BSCs are created at the corporate/ group level but many organizations that want to ensure that the corporate strategy is detailed at the operational level will build cascaded scorecards for all business

units, and some or all support functions.

3. Use the BSC:

Once a scorecard is designed, it takes about 60-90 days to take it

'live'.

Actual

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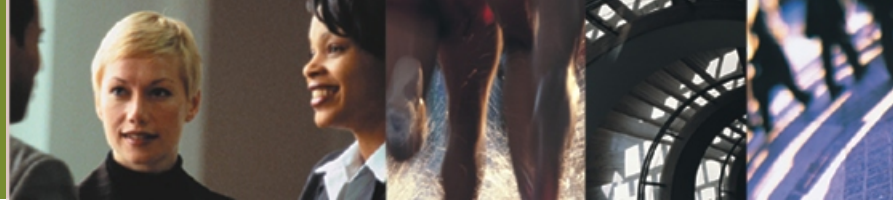
targets

need to be set, and internal Balanced Scorecard Co-ordinators need to get organized for monthly reporting of the scorecards. The BSC is then used actively in the monthly management committee / operational committee meetings to find solutions and improve performance in areas

Criteria for a Good Balanced Scorecard

- 1. Cause and Effect Relationships**
Every objective selected should be part of a chain
- 2. Linked to Financials**
Every measure selected can ultimately be related to financial results
- 3. Performance Drivers**
A balance of outcome measures and performance drivers
- 4. Measures that create change**
Some measures that cause the organisation change behaviour or its processes

Illustrative Balanced Scorecard									
OBJ NO.	OBJECTIVE	MEASURE	UNIT	FREQ	OBJ RES	ACC RES	ACTUAL 99-00	TARGET 00-01	INITIATIVES
F1	Continue to be the primary revenue & profit contributor to the SBU	Revenue contribution	%	M	MP	AA	XY%	XX%	
F2	Improve Occupancy Profitably	RevPAR	Rs	M	JA	JA	BX	AB	P5
F3	Drive restaurant & banquet F&B revenues & profits aggressively	Growth in F&B revenues Growth in F&B profits Growth in revenue per sq.ft	%	M	AM	SW, PS	Y1%, 13%, TBD	XX%, 23%, TBD	P5,P9,P13,P16
F4	Reduce costs & improve operating efficiency	Reduction in energy consumption Raw material cost as % total revenue	%	M	AA	AG	XU	TBD	P18,P20,P21
C1	Reach for new global business travellers	FRIT market share New bookings as % of total bookings	%	TBD	SK	JA	TBD	TBD	P6,P8,P22
C2	Luxury rooms is my first choice as a global business traveller	GSTS Customer complaints	Index	Q	KM	RV	TBD	TBD	P1,P2,P3,P4,P7
C3	Luxury rooms is the first choice for corporate conferences	Revenue from business conferences	Rs cr	M	PA	PP, JA	XX	YY	P15,P16
C4	Luxury rooms offers innovative cuisine and continues to be a trendsetter	GSTS Revenue Contribution from new items in restaurants	Index	Q	HO	RV	TBD	TBD	P9,P12,P13
I1	Significantly leverage central & SBU level sales & marketing organization	No. of restaurants upgraded/renovated % Target achievement for Luxury rooms	No.	Q	HO, ST	ST	Y	X	P22
I2	Effectively manage customer loyalty program processes	No. of guests using loyalty program No. of complaints	No.	Q	ST	RD	TBD	TBD	P2,P10,P11
I3	Provide best-in-class service in key customer facing processes	GSTS No. of SLAs Adherence to SLAs	Index	Q	MP	RV	TBD	TBD	P1,P2,P3,P18
I4	Improve F&B ownership across the hotel	Restaurant revenue from resident guests	Rs cr	M	SB	AM	TBD	TBD	P14,P23
I5	Leverage central purchasing process and implement energy efficient systems	Raw material cost savings Energy cost savings	Rs cr	M	GB	LG	YT	TBD	P20,P21
L1	Retain key trained manpower	Key employee turnover	%	TBD	VV	VV	TBD	TBD	P17,P19,P24
L2	Close basic skill gaps & develop multi-skilled employees	No. of employees on targeted basic skills program No. of cross trained employees	No.	M	VS	VS	TBD	TBD	P23,P25
L3	Effectively implement performance management system	Key milestone achievement	%	TBD	VV	VV	TBD	TBD	P26
L4	Manage manpower rationalisation	Key milestone achievement	%	TBD	KS	VV	TBD	TBD	P27
L5	Motivate employees primarily through performance recognition	No. of rewards ESI	No.	Q	RV	RV	TBD	TBD	P17,P19,P24



where the BSC identifies where business targets are not being met.

In some cases, scorecard automation software is purchased to improve the ease and quality of reporting, but in many cases, for the initial period, companies use simple excel formats. Abbreviated versions can also be created for quarterly reports to the board of directors, and key themes can be identified for communication across the organization. The BSC should be reviewed yearly, in the third quarter of the financial year.

So what's in it for your organisation?

The Balanced Scorecard will benefit your organisation in more ways than one. First and foremost, it will make the Vision and Mission of your organisation operational. The BSC then has a dual role to play in helping your organisation.

• **As a Strategy Management / Implementation Tool** it will help your organisation in validation / enhancement of Strategy and Business Plan and help evolve clear consensus on the same. It will also allow articulation and communication of the Vision and Mission into key strategic objectives and creation of Strategy Maps at Corporate and Departmental levels, thereby aligning the entire organization to the strategy. This ensures clarity and transparency in understanding and realization of implications of the Vision on the key operating and support departments.

Experience has shown that this will ensure that your organisation remains a Customer Focused Organization,

which is so very important especially in today's competitive world. It has also helped organisations in identification of new customer segments and articulation of their expectations, as a part of their customer service strategy. This helped in prioritization and alignment of all strategic action plans that would help implement the strategy and made Strategic Planning a continual process.

• **As a Performance Management Tool** it will help your organisation remain pro-active by ensuring an adequate balance between “lead” and “lag” measures (Performance Drivers vis-à-vis Outcome Measures). Adopting a BSC framework also ensures that the senior management no longer works in their own functional “silos” thereby giving a “macro” perspective to them. BSC also provides clear linkage and alignment of individual performance with enterprise performance and provides flexibility in Key Result Areas (KRAs) depending on the business needs of the organisation. Most importantly, it helps deliver financial measures by managing non-financial measures.



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