



Balanced Scorecard Initiative

The Five Principles of a Strategy-Focused Organization

The Overarching Objective of an Organization

“ The Creation of Value for its Stakeholders Consistent with Its Mission”

Strategy describes how an organization intends to create value

What is Value?

A recent study concluded that 35% of corporate value can be attributed to non-financial factors

The Non-Financial Factors That Influence Shareholder Valuations

1. Strategy Execution
2. Management Credibility
3. Quality of Strategy
4. Innovation (New Products)
5. Attract Talented People

Executing strategy is the source of value

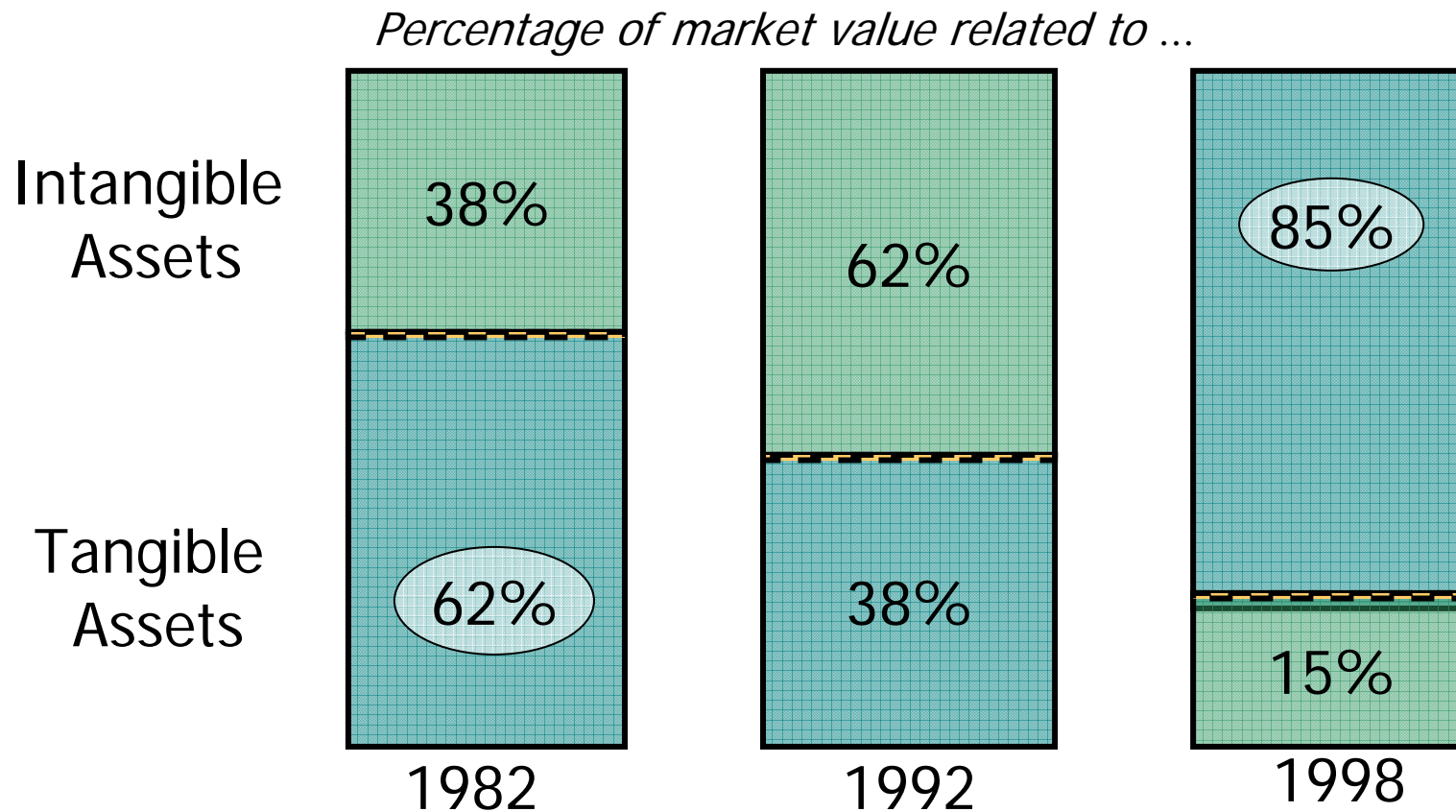
Why is the Execution of Strategy So Important?

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

Fortune Magazine

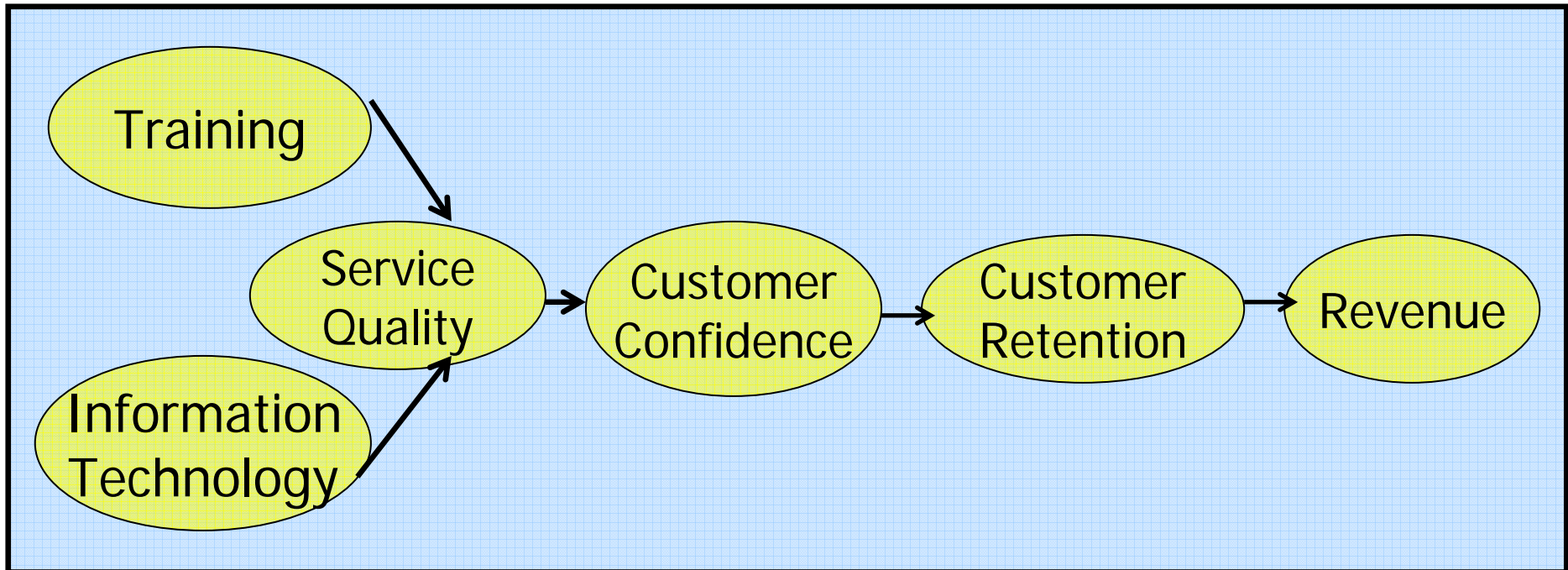
Why is it so difficult to Execute Strategy?

The source of Value Has Shifted From tangible to Intangible Assets



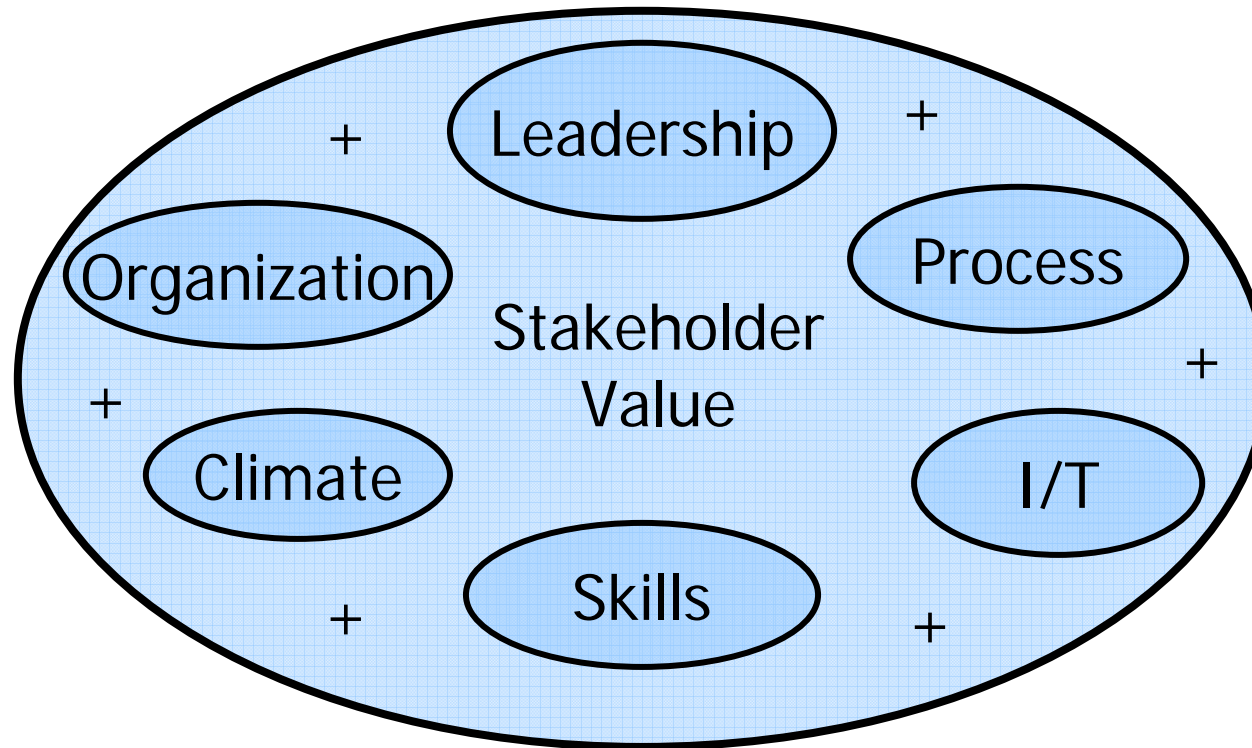
Creating Value from Intangible Assets is Time Consuming

Intangible Assets Do not Have A Direct Impact on Financial Results it is Usually a Second-order or Third-Order Impact



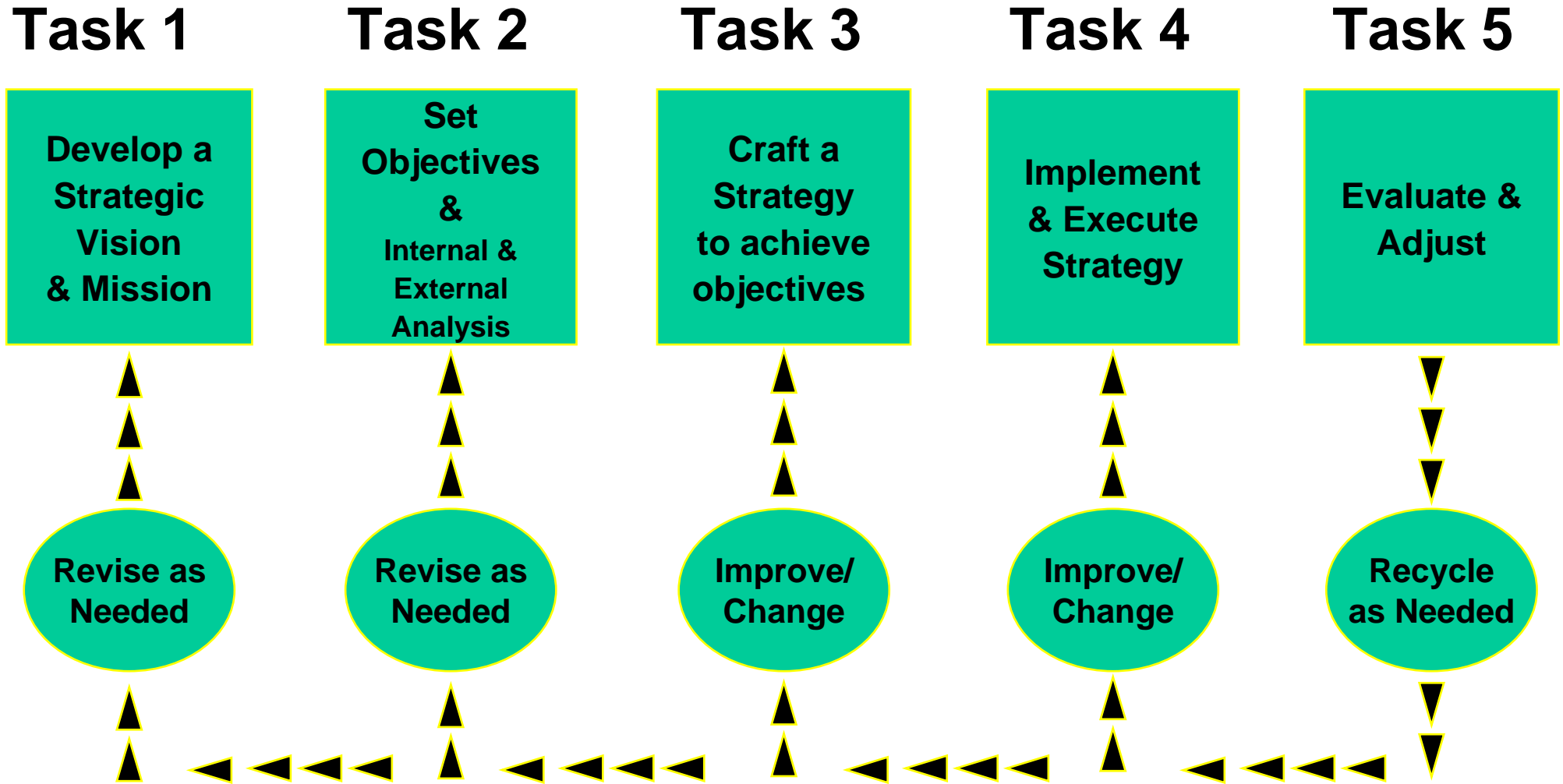
Creating Value from Intangible Assets is Different

Intangible Assets Require Several Interdependent
Ingredients for Value Creation

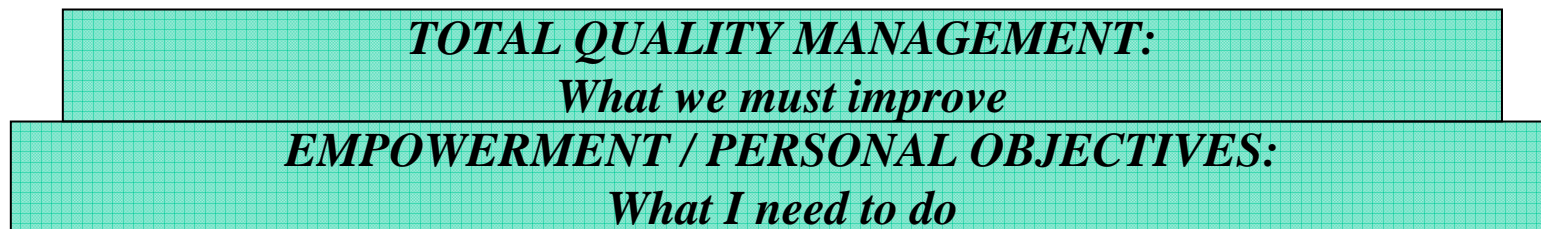


Strategic Investments Must Be Bundled

Typical Strategic Management Process



A Gap Existed Between Mission-Vision-Strategy and Employees' Everyday Actions



The Balanced Scorecard (BSC) Links Vision and Strategy to Employees' Everyday Actions



Balanced Scorecard Users Have Been Executing their Strategies Rapidly and Reliably

- AT&T Canada
- BOREALIS
- Brown & Root
- Charlotte
- Du Pont
- DUKE CHILDREN'S
- Chemical
- CIGNA
- GTE
- Hilton
- NOVA SCOTIA POWER
- Skandia
- SOUTHERN GARDENS
- UPS
- Mobil
- Saatchi & Saatchi
- SIEMENS
- WELLS FARGO

BSC Hall of Fame: Wells Fargo OFS

Strategy: *Lead the industry in the internet
Banking Revolution*

Number of Customers			
<input type="checkbox"/>	1997	---	186,000
<input type="checkbox"/>	1998	---	450,000
<input type="checkbox"/>	1999	---	1,000,000

Awarded “Best On-line Bank”

BSC Hall of Fame: Southern Citrus Gardens

Strategy: *become the industry's least Cost Producer*

Shipments on Spec
- 1995 --- 70%
- 1997 --- 97%
- 2000 --- 99.1%

Rework
-1995 --- 6%
-1998 --- 2%
-2000 --- 0.8%

Kroger Outstanding Supplier Award
-1996
-1998
-1999

Profitably
- Five Straight Years of Increased Profitability
-2000/2001 Most Profitable Year Ever

Industry Least Cost Producer
-1995 --- 29 ¢/lb
-1998 --- 19 ¢/lb

BSC Hall of Fame: Duke Children's Hospital

Strategy: *Improve Communications to Improve Quality of Care While Lowering Cost*

Parents Awareness Of Medical Plan

-1995 --- 47%
-1998 --- 94%

Cost Per case

-1995 --- \$14,889
-1998 --- \$11,146

Length of Stay

-1995 --- 8 days
-1998 --- 6 days

Operating Margin

-1995 ... - \$50m
-1998 ... +\$10m

Readmission rate (Intensive Care Unit)

- 1995 --- 11%
- 1998 --- 4%

BSC Hall of Fame: AT&T Canada

Strategy: *Streamline to participate in Industry Growth*

-1995	---	\$300m Loss
-1998	---	Customer Base Doubles
-2000	---	\$7b Spin-off

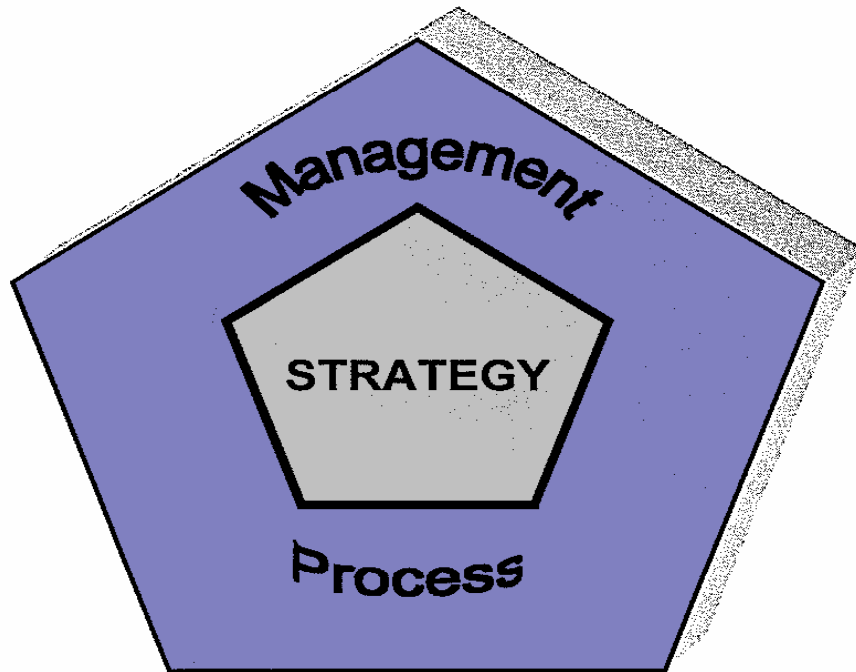
BSC Hall of Fame: Saatchi & Saatchi

Strategy: *Lead the Industry in Innovation*
(“Big Fabulous Ideas”)

Shareholder value		
- 1997	---	\$500m
- 2000	---	\$2.5b

How Did They Do It?

They Created “Strategy Focused Organizations”



STRATEGY:

They made strategy the central organization agenda

FOCUSED:

They created incredible focus on the strategy

ORGANIZATION:

They mobilized their employees to act in fundamentally different ways, guided by the strategy

The Balanced Scorecard Is a Performance Management Program That Puts Strategy at the Center of the Process

#1

Principles of the Strategy-Focused Organization: EXECUTIVE TEAM LEADERSHIP TO MOBILIZE STRATEGIC CHANGE

A successful Balanced Scorecard program starts with a recognition that it is not a “metrics” project, it’s a “change” process

Leadership Roles

1. Creating the Climate for Change
 - Unfreeze the organization
 - Show the need for change
2. Creating the Leadership Team
 - Breaking down functional bias
3. Creating the Vision and Strategy
 - BSC as a “visioning process”
 - BSC to clarify the strategy
4. Creating Team Accountability
 - Accountability for cross-functional
 - strategic themes as Executive Team level
5. Change the culture

#2

principles of the Strategy-Focused Organization:
TRANSLATE THE STRATEGY TO OPERATIONAL TERMS

The Objective

Link Management
Process to strategy

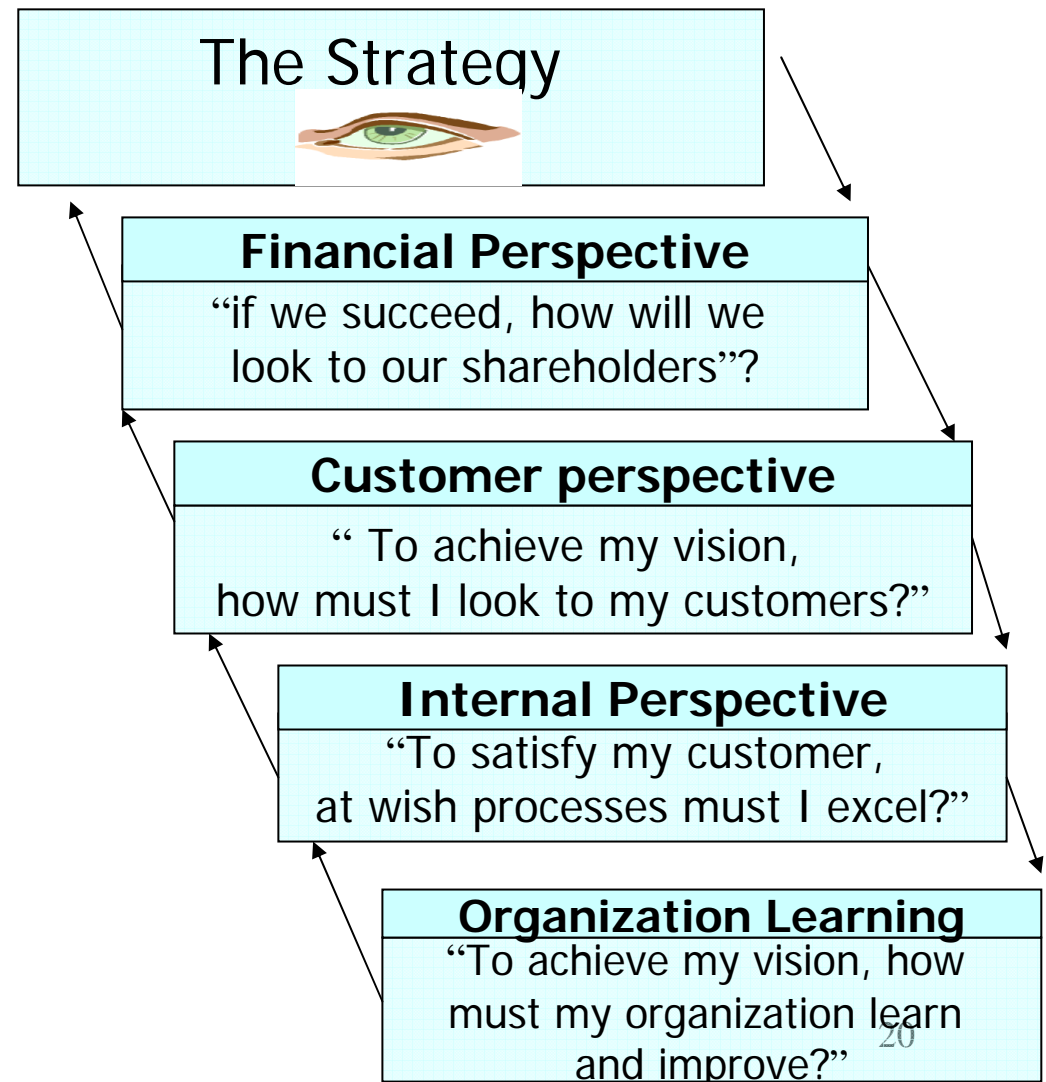
The Problem

How do you
describe a strategy?

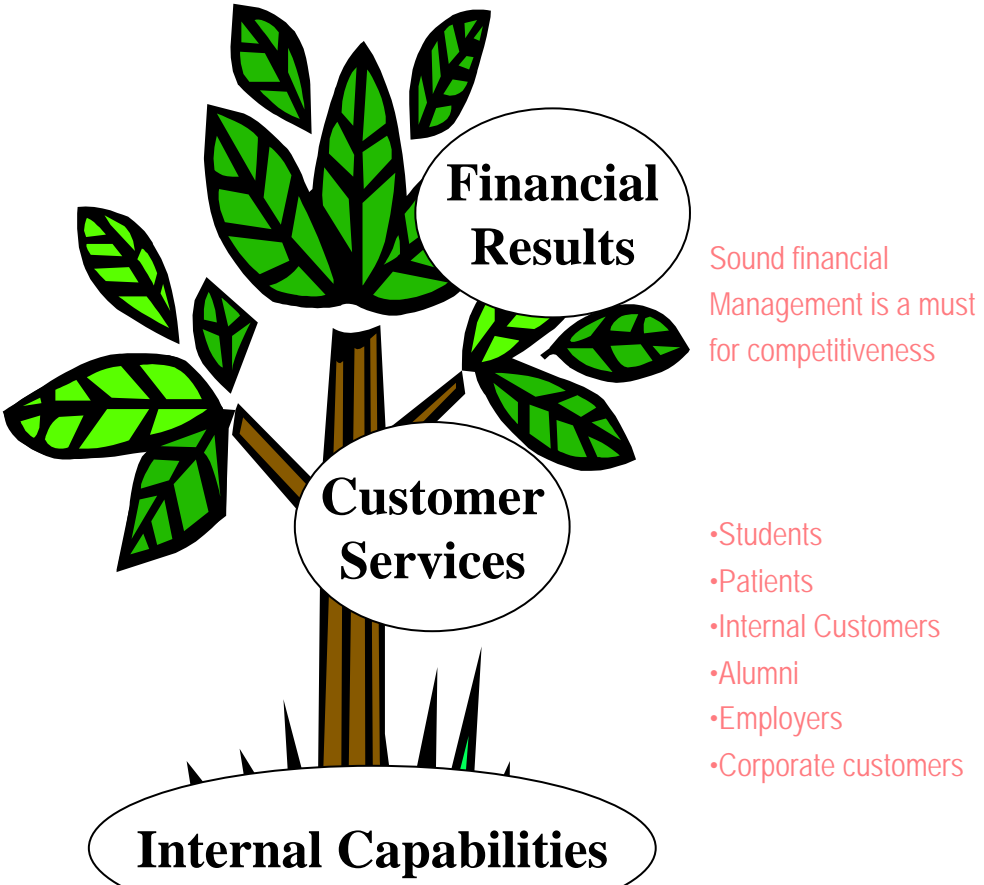
You can't manage
something
that you
can't describe

The Balanced Scorecard Provides a Framework to Translate the Vision & Strategy into Operational Terms

- Measurement is the language that gives clarity to vague concepts
- Measurement is used to communicate, not to control
- Strategy can be described as a series of cause and effect relationships



Nature Cause and Effect Logic



Knowledge, Skills, Systems, and Tools



To Drive Financial Success Ensuring our Sustainability ...



Needed to Deliver Unique Sets of Services to Customers...



To Build The Strategic Capabilities

At the individual, Unit and group /corporate levels



Equip Our people...

The Balanced Scorecard (BSC) is a process and a set of tools that help companies translate strategy into operational objectives that drive both behaviour and performance. BSC proved successful in aligning the organization with the Strategy

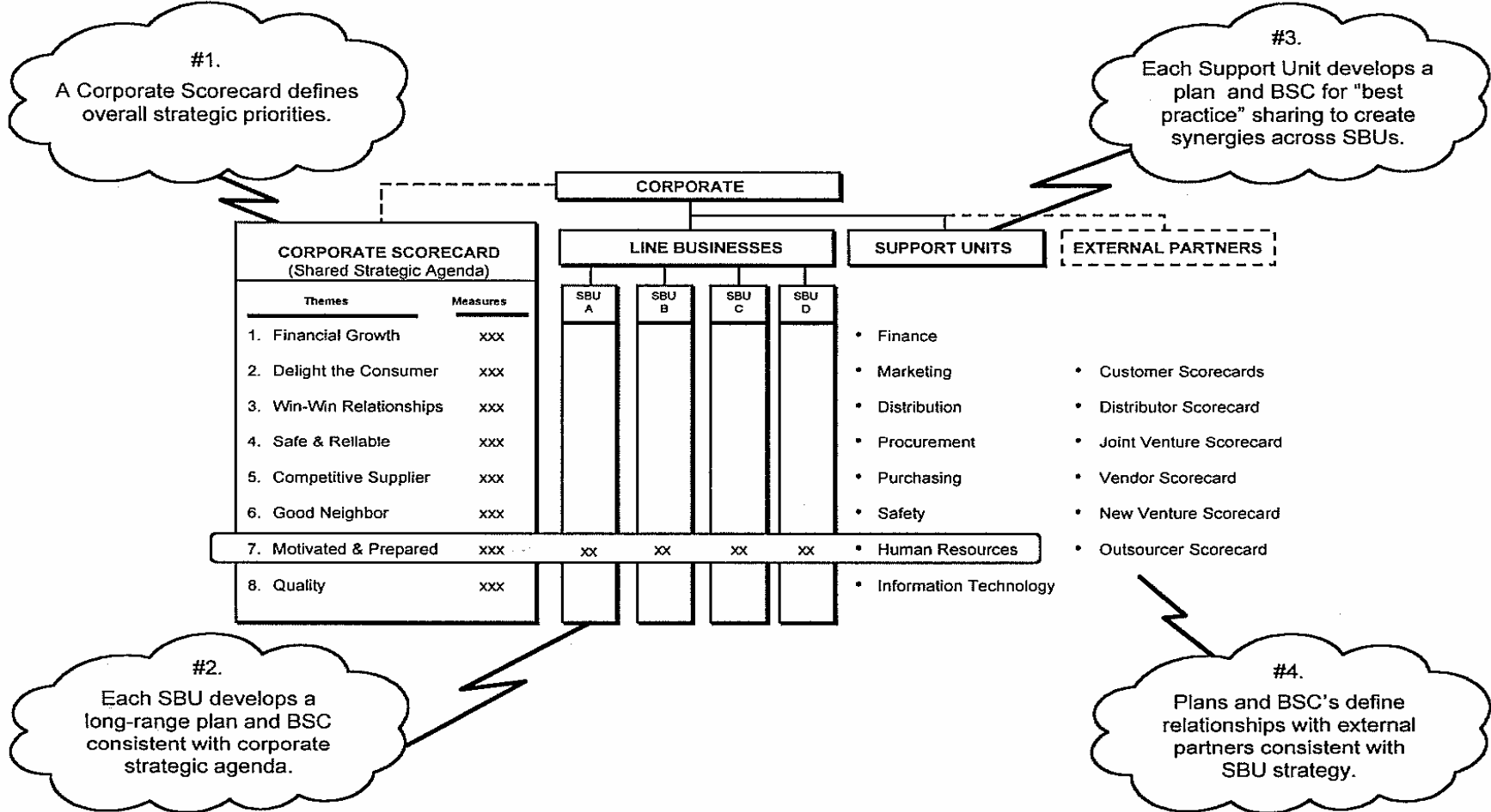
(Norton & Kaplan, 92)

Elements of a Balanced Scorecard

- Vision
- Strategic themes
- Four Linked Perspectives
- Strategic objectives
- Measures
- Targets
- Initiatives

#3

**Principles of the Strategy-Focused Organization:
LINK AND ALIGN THE ORGANIZATION AROUND
ITS STRATEGY**

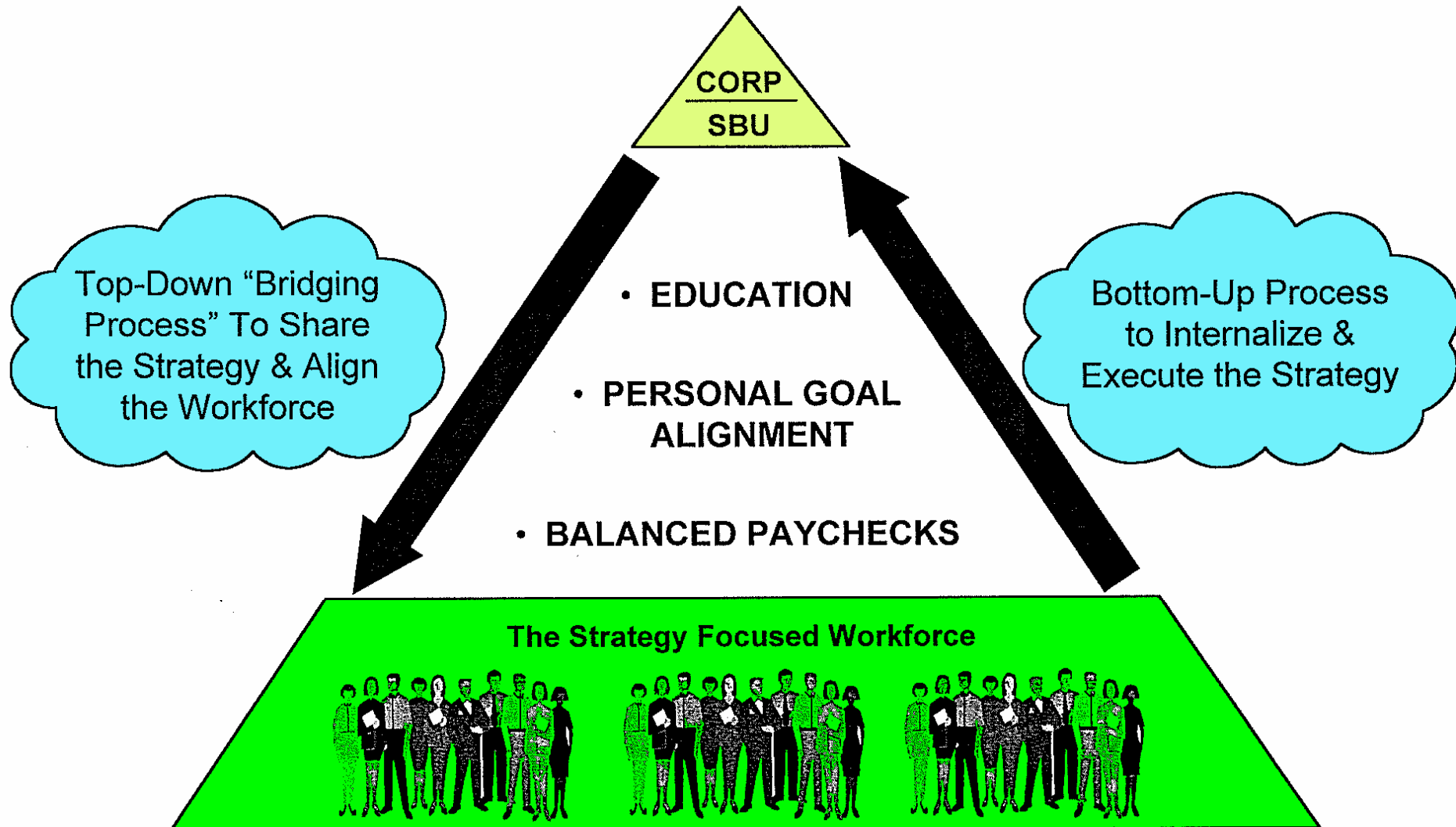


Strategies Are Executed Through Business Units. The Strategies of the Business Units Must Be Integrated If Organization Purpose and Synergies Are to Be Achieved.

#4

Principles of the Strategy-Focused Organization: **MAKE STRATEGY EVERYONE'S JOB**

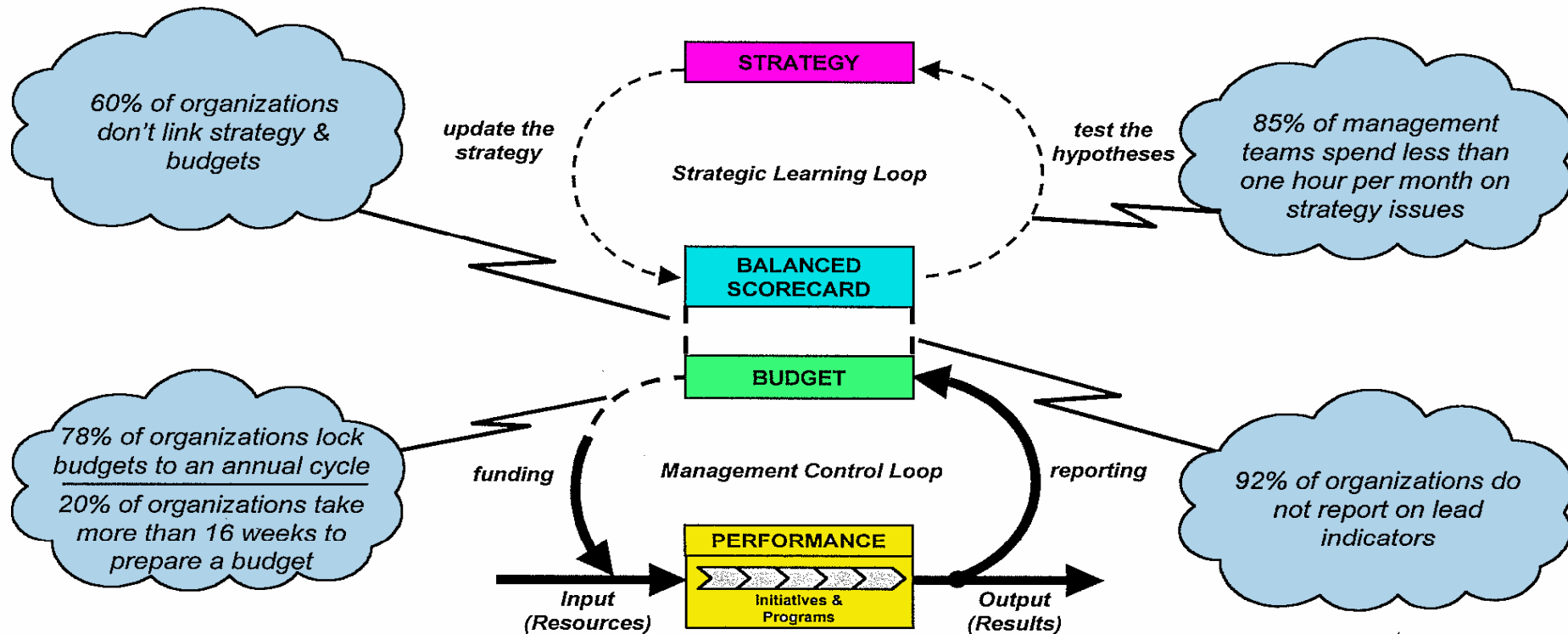
HR Processes Are Essential for Moving Strategy From the Top to the Bottom



#5

Principles of the Strategy Focused Organization: MAKE STRATEGY A CONTINUAL PROCESS

The Problem: The Strategic Management Process Is Missing in Most Organizations



Summary: The Balanced Scorecard Provides a Framework to Build STRATEGY-FOCUSED ORGANIZATIONS

TRANSLATE STRATEGY

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

ORGANIZATION 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