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

Percentage of market value related to...

<table>
<thead>
<tr>
<th>Year</th>
<th>Intangible Assets</th>
<th>Tangible Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>1992</td>
<td>62%</td>
<td>38%</td>
</tr>
<tr>
<td>1998</td>
<td>85%</td>
<td>15%</td>
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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

Leadership + Organization + Climate + Skills + Process + I/T + Stakeholder Value

Strategic Investments Must Be Bundled
Typical Strategic Management Process

Task 1: Develop a Strategic Vision & Mission
- Revise as Needed

Task 2: Set Objectives & Internal & External Analysis
- Revise as Needed

Task 3: Craft a Strategy to achieve objectives
- Improve/Change

Task 4: Implement & Execute Strategy
- Improve/Change

Task 5: Evaluate & Adjust
- Recycle as Needed
A Gap Existed 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 Balanced Scorecard (BSC) Links Vision and Strategy to Employees’ Everyday Actions

**MISSION:**
Why we exist

**VALUES:**
What’s important to us

**VISION:**
What we want to be

**STRATEGY:**
Our game plan

**BALANCED SCORECARD:**
Translate, Focus and Align

**STRATEGIC INITIATIVES:**
What are the priorities

**TOTAL QUALITY MANAGEMENT:**
What we must improve

**EMPOWERMENT / PERSONAL OBJECTIVES:**
What I need to do
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

<table>
<thead>
<tr>
<th>Company</th>
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<tbody>
<tr>
<td>Hilton</td>
</tr>
<tr>
<td>NOVA SCOTIA POWER</td>
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<tr>
<td>Skandia</td>
</tr>
<tr>
<td>SOUTHERN GARDENS</td>
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<tr>
<td>UPS</td>
</tr>
<tr>
<td>Mobil</td>
</tr>
<tr>
<td>Saatchi &amp; Saatchi</td>
</tr>
<tr>
<td>SIEMENS</td>
</tr>
<tr>
<td>WELLS FARGO</td>
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</table>
BSC Hall of Fame: Wells Fargo OFS

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Customers</th>
</tr>
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<tbody>
<tr>
<td>1997</td>
<td>186,000</td>
</tr>
<tr>
<td>1998</td>
<td>450,000</td>
</tr>
<tr>
<td>1999</td>
<td>1,000,000</td>
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Awarded “Best On-line Bank”
BSC Hall of Fame:
Southern Citrus Gardens

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

<table>
<thead>
<tr>
<th>Shipments on Spec</th>
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<tbody>
<tr>
<td>- 1995 --- 70%</td>
</tr>
<tr>
<td>- 1997 --- 97%</td>
</tr>
<tr>
<td>- 2000 --- 99.1%</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Rework</th>
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<tbody>
<tr>
<td>- 1995 --- 6%</td>
</tr>
<tr>
<td>- 1998 --- 2%</td>
</tr>
<tr>
<td>- 2000 --- 0.8%</td>
</tr>
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<table>
<thead>
<tr>
<th>Kroger Outstanding Supplier Award</th>
</tr>
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<tbody>
<tr>
<td>- 1996</td>
</tr>
<tr>
<td>- 1998</td>
</tr>
<tr>
<td>- 1999</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Industry Least Cost Producer</th>
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<tbody>
<tr>
<td>- 1995 --- 29 ¢/lb</td>
</tr>
<tr>
<td>- 1998 --- 19 ¢/lb</td>
</tr>
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**Profitably**
- Five Straight Years of Increased Profitability
- 2000/2001 Most Profitable Year Ever
BSC Hall of Fame:
Duke Children’s Hospital

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

<table>
<thead>
<tr>
<th>Parents Awareness Of Medical Plan</th>
<th>Length of Stay</th>
<th>Operating Margin</th>
<th>Readmission rate (Intensive Care Unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1995 --- 47%</td>
<td>-1995 --- 8 days</td>
<td>-1995 ... -$50m</td>
<td>- 1995 --- 11%</td>
</tr>
<tr>
<td>-1998 --- 94%</td>
<td>-1998 --- 6 days</td>
<td>-1998 ... +$10m</td>
<td>- 1998 --- 4%</td>
</tr>
<tr>
<td>Cost Per case</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-1995 --- $14,889</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-1998 --- $11,146</td>
<td></td>
<td></td>
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BSC Hall of Fame:
AT&T Canada

**Strategy:** Streamline to participate in Industry Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
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<tbody>
<tr>
<td>1995</td>
<td>$300m Loss</td>
</tr>
<tr>
<td>1998</td>
<td>Customer Base Doubles</td>
</tr>
<tr>
<td>2000</td>
<td>$7b Spin-off</td>
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BSC Hall of Fame:  
Saatchi & Saatchi

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

<table>
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<tr>
<th>Shareholder value</th>
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<tr>
<td>- 1997 --- $500m</td>
</tr>
<tr>
<td>- 2000 --- $2.5b</td>
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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
A successful Balanced Scorecard program starts with a recognition that it is not a “metrics” project, it’s a “change” process.

### Leadership Roles

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

The Strategy

Financial Perspective
“if we succeed, how will we look to our shareholders”?

Customer perspective
“To achieve my vision, how must I look to my customers”?

Internal Perspective
“To satisfy my customer, at which processes must I excel”?

Organization Learning
“To achieve my vision, how must my organization learn and improve”? 
Nature Cause and Effect Logic

Financial Results

Sound financial management is a must for competitiveness

Customer Services

- Students
- Patients
- Internal Customers
- Alumni
- Employers
- Corporate customers

Internal Capabilities

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...

Knowledge, Skills, Systems, and Tools
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
# 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.

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: MAKE STRATEGY EVERYONE’S JOB

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

- EDUCATION
- PERSONAL GOAL ALIGNMENT
- BALANCED PAYCHECKS

Top-Down “Bridging Process” To Share the Strategy & Align the Workforce

Bottom-Up Process to Internalize & Execute the Strategy

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

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

60% of organizations don’t link strategy & budgets
85% of management teams spend less than one hour per month on strategy issues
78% of organizations lock budgets to an annual cycle
20% of organizations take more than 16 weeks to prepare a budget
92% of organizations do not report on lead indicators
Summary: The Balanced Scorecard Provides a Framework to Build STRATEGY-FOCUSED ORGANIZATIONS

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