Implementing the Balanced Scorecard

Translating Strategy to Action

July 2012

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Execution is a discipline, and integral to strategy

Execution is the major job of the business leader

Execution must be a core element of an organisation’s culture

Strategy Isn’t The Problem, Execution Is!

**Vision Barrier**
Only 5% of the typical workforce understands the strategies and, therefore, 95% of the team are not aware of their role in implementation.

**People Barrier**
Only 25% of managers have incentives linked to strategy (e.g. appraisals, bonuses, or other rewards).

**Resource Barrier**
Less than 40% of organizations link their budgets to strategy.

**Management Barrier**
Only 15% of executive teams spent an hour or more a month discussing strategy at their meetings.

**LESS THAN 10% OF STRATEGIES ARE IMPLEMENTED EFFECTIVELY**

Pure financial measures have proven to be inadequate in measuring and monitoring a company’s performance.

Source: Literature review

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The Balanced Scorecard Has Been One Of The Most Enduring Management Tools

- Outlined by Kaplan and Norton in the Harvard Business Review in 1992, the Balanced Scorecard (BSC) has been one of the most enduring management tools of the last twenty years.

- Surveys have revealed that more than 60% of Fortune 500 companies have implemented the Balanced Scorecard framework. One study suggests that it is the most widely adopted performance management tool used by companies.

- In 2011, the BSC continued to be listed among the most important business tools for organisations across the world.

- A survey by IIM Ahmedabad of 53 leading Indian corporates indicated that 45% have adopted the Balanced Scorecard – including Tata Motors, Infosys, Godrej, Philips and TCS.

Source: Vikalpa; Literature review
Many Leading Companies Have Adopted the BSC

Source: Literature review

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The Scorecard Links Performance Measures Across Four Dimensions

Financial perspective
GOALS | MEASURES
--- | ---
If we succeed, how will we look to our shareholders?

Customer perspective
GOALS | MEASURES
--- | ---
To achieve our vision, how must we look to our customers?

Internal perspective
GOALS | MEASURES
--- | ---
To satisfy our customers, what must we excel at?

Innovation and learning perspective
GOALS | MEASURES
--- | ---
How must we continue to improve and create value?

Source: Kaplan & Norton, HBR; Literature review

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The Tool Has Several Strengths

- Visually well packaged and simple to understand by people across the organisation – most middle management employees are able to grasp the core concepts of the tool in one workshop

- Focuses attention on the importance of non-financial measures – and causes companies to take a 360 degree perspective of the business

- Adaptable to different business environments and organizations – Fortune 500 Corporations, NGOs, Utilities and Social Sector Enterprises have all gained strong performance improvements from the Balanced Scorecard

- Companies that have been struggling with growth, have often used the balanced scorecard to re-align organisational resources towards the company vision

Source: Literature review; MXV Case Experience

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Multiple Benefits Realised By Indian Companies Using The Balanced Scorecard

1. Facilitates communication across the entire organization and enhances **understanding of vision, mission and strategy**
2. Ties the vision, mission and strategy to the **goals and objectives** of individuals and departments concerned
3. Helps define clear **metrics** for better and more objective **performance management**
4. Facilitates a clear understanding of the reasons behind **strategic initiatives**
5. Acts as an effective basis for **resource allocation** with focus on both managing current performance as well as long-term value
6. Used to establish clear **governance frameworks** and review mechanisms

Source: Indian Mgmt Studies Jrnl; MXV Experience

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Five Questions To Ask Ourselves

1. Have we really been able to translate our strategic intent into actionable and measurable initiatives?

2. Do different departments in the company understand and appreciate the dependence of other functions on them? Can we say that everyone is pulling in the same direction?

3. Do we use the right metrics to capture business performance? Are these metrics completely measurable, and well understood?

4. Have we aligned our performance management processes with the company strategy?

5. How much time do we spend discussing and reviewing our strategy implementation? Do these meetings result in positive movement?
How MXV Can Help: Three Offerings That Deliver Fast And Clear Results

Setting up the Balanced Scorecard (BSC) framework for your organisation

Creating a performance management framework linked to the BSC

Audit existing BSC implementation; identify opportunities for improvement and enhanced performance
Offering 1: Setting Up The Balanced Scorecard

**Business strategy and objectives**
- Articulation of strategy
- What will we do to win
- Agreement on high level organisational goals
- Creation of working teams
- Explanation of BSC
- Template design

**Metrics and initiatives**
- Workshops to identify metrics and detail out organisational initiatives
- Integration and alignment of plans and BSCs across the company
- Test metrics for feasibility of tracking and reporting

**Implementation and governance**
- Finalisation of BSCs by Executive team
- Agreement on targets
- Automation and design of dashboards
- Agreement on review mechanisms and governance process

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Example: Strategy Map For A Services Company

Financial perspective

- Increased Shareholder Value
  - Leader in strategic markets
  - Diversify revenue streams
  - Predictable profitability

Customer perspective

<table>
<thead>
<tr>
<th></th>
<th>Lifelong advisor</th>
<th>Flexible, innovative solutions</th>
<th>Consistently meet expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Proactively deliver value</td>
<td>One stop accountability</td>
<td>Easy to do business with</td>
</tr>
</tbody>
</table>
| Internal perspective

<table>
<thead>
<tr>
<th>Build lifelong relations</th>
<th>Capture knowledge</th>
<th>Grow inter-enterprise solns</th>
<th>Resource allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage 3rd party relations</td>
<td>Integrated processes</td>
<td></td>
<td>Effective cost management</td>
</tr>
</tbody>
</table>

Learning and growth perspective

<table>
<thead>
<tr>
<th>Relationship management</th>
<th>Solution management</th>
<th>Operations management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry expertise</td>
<td></td>
<td></td>
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</tbody>
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Source: Palladium
Offering 2: Using The BSC To Drive The Performance Management Process

- Establish BSC goals and metrics for P&L head
- Cascade goals and weights to all roles
- Create clear downstream linkages

- Articulation of company goals
- Identification of key management roles (P&L/department heads)
- Understanding of role requirements and tie-in to company goals
- Creation of role specific goals
- Assignment of weightages for the 4 dimensions of the scorecard

- Identification of roles within each Business Unit (BU); as distinct from designations
- Understanding of role requirements and tie-in to BU goals
- Cascading of goals for all roles
- Assignment of weightages; alignment to BU and role requirements

- Linkage of the performance management score to:
  - Variable compensation
  - Compensation increments
  - Training
  - Promotions
  - Leadership development and succession plans
Case Study: BSC Used As A Performance Management Tool For A Services Company

- Balanced scorecard framework established at the branch level
- Metrics from the BSC used to design the performance management process for people in the field and corporate structure by cascading goals relevant to the role
- Number of performance parameters rationalised (average no. of metrics reduced from 25 to 10) and made objective
- Training programmes made more specific and effective

Source: MXV Casework (actual content disguised)
Offering 3: Audit Existing BSC Implementation

- Changes in business strategy: Old metrics are no longer relevant or meaningful
- Difficulties in measuring the metrics: Resulting in poor implementation
- Too many metrics: Leading to challenges of measuring and monitoring

- Examine the other aspects of performance management in the company – including the performance management processes, performance infrastructure and culture and identify improvement areas
- Identify opportunities for improving alignment across departments

- Identify opportunities to further cascade the BSC to support departments and line functions lower down the organisation
- Assess feasibility of using the BSC to enhance collaboration with suppliers and customers

A need to redefine metrics

Improve performance management

Deepen the use of the BSC
About MXV Consulting

• MXV Consulting (www.mxv.in) is a strategy and management consulting firm based out of Bangalore in India. Our focus is on building sustainable competitive advantage for our clients and helping them become industry leaders.

• We have the experience of working across multiple industries and functional areas - enabling us to bring in fresh ideas and a strategic perspective to every engagement. Our insights are backed up by a rigorous process of analysis and solution development. This ensures that our recommendations are well researched, practical and tailored to an organisation’s requirements. In many instances, we also take on the role of implementation managers.

• Our clientele includes leaders across various industries. We believe in long term relationships with our clients, and have worked on multiple engagements with most of them. Our team has worked with clients across the globe – including India, Australia, the US, Middle East, Europe and Asia.
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