

The Balanced Scorecard: Translating Strategy into Action

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The Corporate Challenge: Implementing Business Strategy

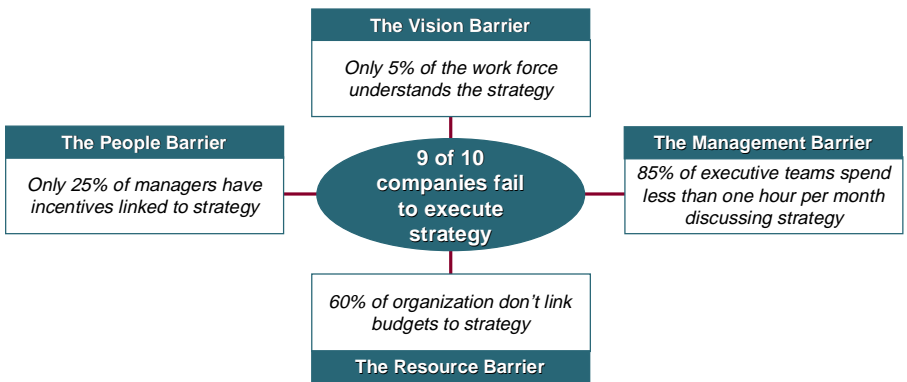


The "Burning Platform"
in Business Today

"Less than 10% of strategies
effectively formulated are
effectively executed"

Fortune

Our Research Has Identified Four Barriers to Strategic Implementation



Today's management systems were designed to meet the needs of stable industrial organizations that were changing incrementally

You can't manage strategy with a system designed for tactics

Balanced Scorecard "Early Adaptors" Have Executed Their Strategies Reliably and Rapidly

<p>Mobil (NAM&R)</p>	<p>1993</p>	<ul style="list-style-type: none"> • #6 (last) in profitability • Negative cash flow • Low ROI
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Mobil's North America Marketing and Refining Division Undertook a Massive Reorganization in Response to Market Pressure

The Problem

- NAM&R had lost touch with its markets
 - Nationally optimized
 - Inward focus
 - High overhead
 - Siloed organization
 - Local competition

The Approach

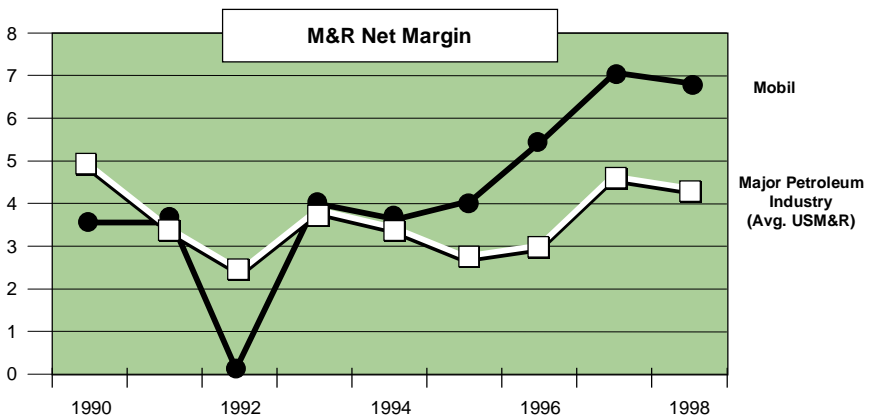
- Decentralize the organization
 - 18 markets facing NBU's with P&L accountability
 - 14 service units

The Approach





How to remain one organization, not 32

Mobil Has Executed Its Strategy Rapidly and Has Sustained Its Competitive Advantage

NAM&R Net Margin Ranking #1 for the Last 4 Years Compared to Petroleum Majors



Balanced Scorecard “Early Adaptors” Have Executed Their Strategies Reliably and Rapidly

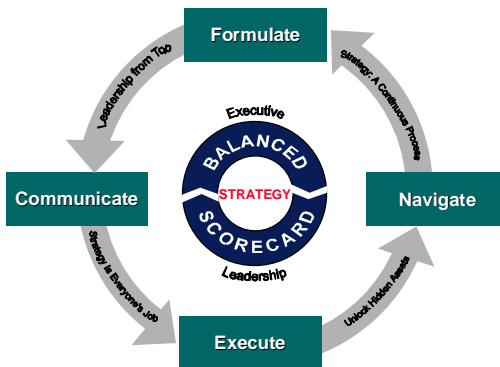
 Mobil (USM&R)	1993	#6 in profitability	1995 1996 1997 1998	#1 in profitability #1 in profitability #1 in profitability #1 in profitability												
 CIGNA Property & Casualty	1993	\$275M loss Stock Price = \$59	1994 1995 1996 1997 1998	<table border="1"> <thead> <tr> <th>Profit</th> <th>Stock</th> </tr> </thead> <tbody> <tr> <td>\$15M</td> <td>\$74</td> </tr> <tr> <td>\$60M</td> <td>\$114</td> </tr> <tr> <td>\$80M</td> <td>\$146</td> </tr> <tr> <td>\$98M</td> <td>\$205</td> </tr> <tr> <td>\$94M</td> <td>\$249</td> </tr> </tbody> </table>	Profit	Stock	\$15M	\$74	\$60M	\$114	\$80M	\$146	\$98M	\$205	\$94M	\$249
Profit	Stock															
\$15M	\$74															
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 Brown & Root Engineering (Rockwater)	1993	Losing money	1996	#1 in growth and profitability												
 CHEMICAL Retail Bank	1993	Profits = \$x	1994 1995 1996	Profits = \$8x Profits = \$13x Profits = \$19x												

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



1. Create Strategic Focus – “The Balanced Scorecard”
2. Translate Strategy to Action – “Strategic Enterprise Management”

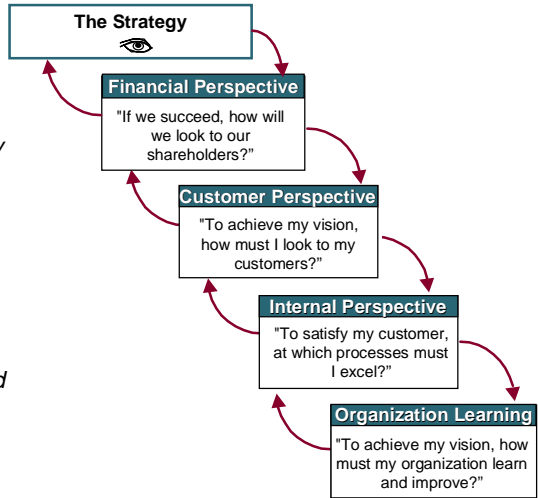
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The Balanced Scorecard Provides a Framework to Translate the Vision and Strategy into Operational Terms

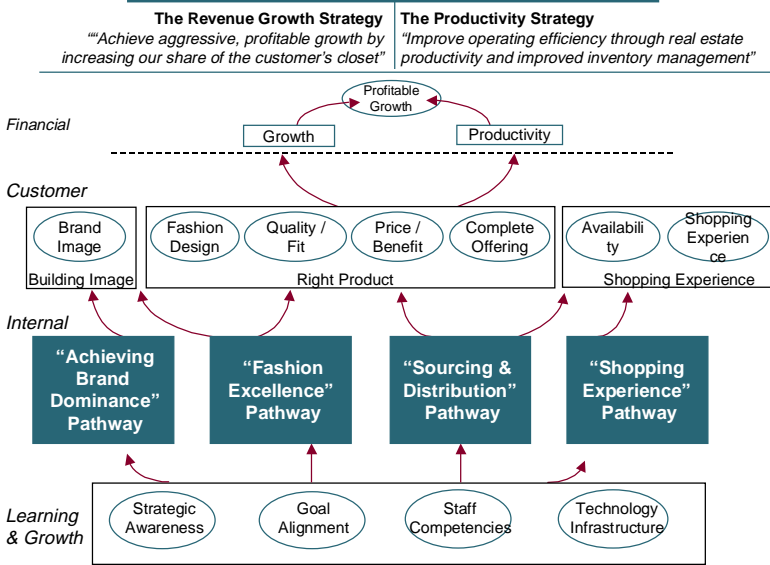
- ❑ Measurement is the language that gives clarity to vague concepts.
- ❑ Measurement is used to communicate, not to control.
- ❑ Strategy can be described as a series of cause and effect relationships



Is This a Good Balanced Scorecard?

Financial	Customer
<ul style="list-style-type: none"> ❑ Operating Income Growth ❑ Same Store Sales Growth ❑ Inventory Turns ❑ Expense / Sales Growth Ratio 	<ul style="list-style-type: none"> ❑ Frequency of Purchase ❑ Units Per Transaction ❑ Transaction Size ❑ Customer Feedback
Internal	Learning & Growth
<ul style="list-style-type: none"> ❑ Category Market Share ❑ Category Margin ❑ Sales psf ❑ Quality / Returns ❑ Out of Stock 	<ul style="list-style-type: none"> ❑ Employee Climate Survey ❑ Turnover ❑ Strategic Skill Coverage ❑ Systems vs. Plan

A Balanced Scorecard Is More Than a List of Measures . . . A Good Balanced Scorecard Tells the Story of Your Strategy



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A Good Balanced Scorecard Provides a Prescription for Action

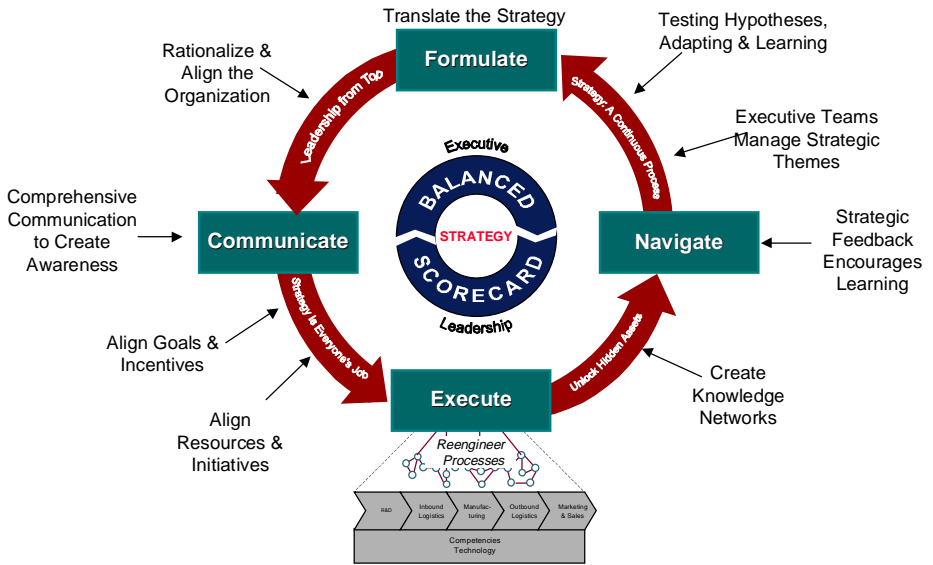
Sourcing & Distribution Pathway		Measurement	Target	Initiative
Financial	Profitability Revenue Growth	<ul style="list-style-type: none"> Operating Income Sales vs. Last Yr 	<ul style="list-style-type: none"> 20% Increase 12% Increase 	<ul style="list-style-type: none"> Likes Program
Customer	Product Quality → Shopping Experience	<ul style="list-style-type: none"> Return Rate <ul style="list-style-type: none"> -Quality -Other Customer Loyalty <ul style="list-style-type: none"> -Ever Active % -# units 	<ul style="list-style-type: none"> Reduce by 50% each yr 60% 2.4 units 	<ul style="list-style-type: none"> Quality management Customer loyalty
Internal	"A" Class Factories ↔ Line Plan Management	<ul style="list-style-type: none"> % of Merchandise from "A" factories Items in-Stock vs. Plan 	<ul style="list-style-type: none"> 70% by year 3 85% 	<ul style="list-style-type: none"> Corporate Factory Development Program
Learning	Factory Relationship Skills ↔ Merchandise Buying / Planning Skills	<ul style="list-style-type: none"> % of Strategic Skills Available 	<ul style="list-style-type: none"> yr 1 50% yr 3 75% yr 5 90% 	<ul style="list-style-type: none"> Strategic Skills plan Merchants Desktop

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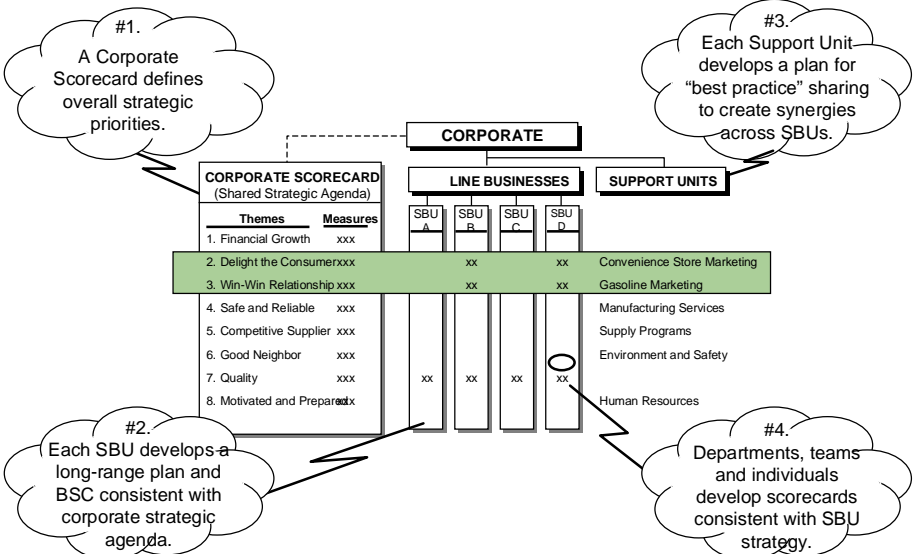
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A New Management Process Is Emerging, to Create "Strategy Focused Organizations"



Create Organization Alignment by Linking Scorecards

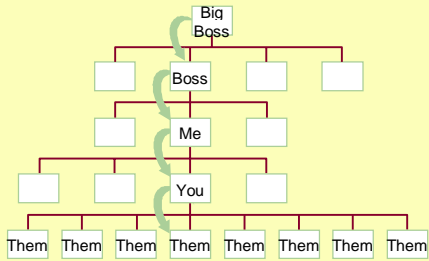
Strategies Are Executed Through Business Units. The Strategies of the Business Units Must Be Integrated If Organization Purpose and Synergies Are to Be Achieved.



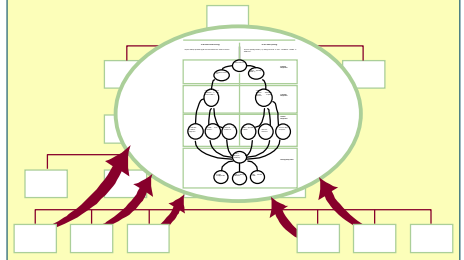
Align Goals and Incentives

Human Resource Systems Must Be Re-oriented – They Provide the Most Powerful Vehicle to Make Strategy Everyone’s Job

Traditional Approach to Job Definition and Goal Setting Promotes Fragmentation and “Silos”

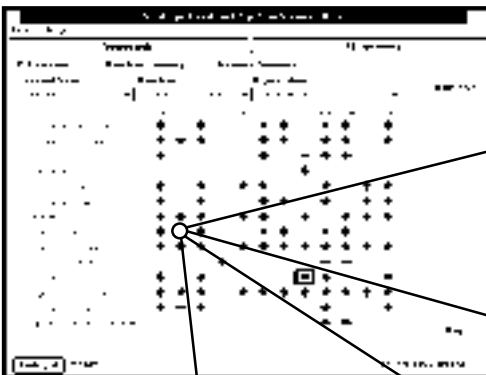


Creating a Holistic View of Strategy Permits Teamwork and Knowledge Sharing

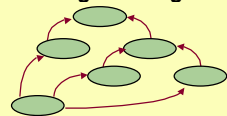


Strategic Feedback

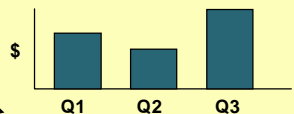
Strategic Feedback Is the Basis for Strategic Learning



Strategic Linkages



Measures



Initiatives

Target Marketing Effort for Southwest Region



Assessment

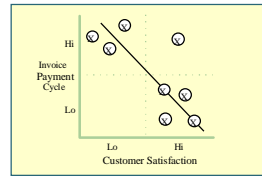
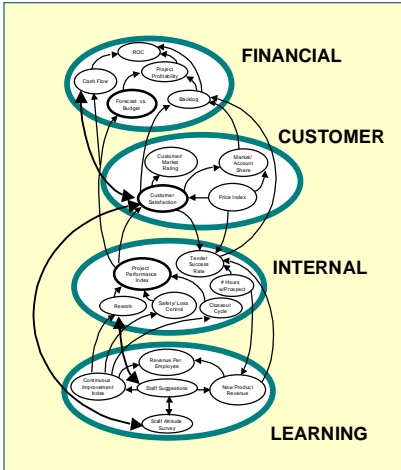
Recent Performance in the Business Growth area has been at or above performance for the past three quarters. The following assessments have been provided by initiative owners:

- | | |
|---------------------|----------|
| a. Anne Sullivan | 9/25/96 |
| b. John Dark | 11/14/96 |
| c. Marianne Ritchie | 1/15/97 |

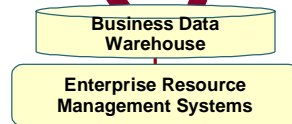
Testing Hypothesis, Adapting, & Learning

Emergence of New Information Based Architectures Is Stimulating a New Wave of Analytic Approaches to Developing and Refining Strategy

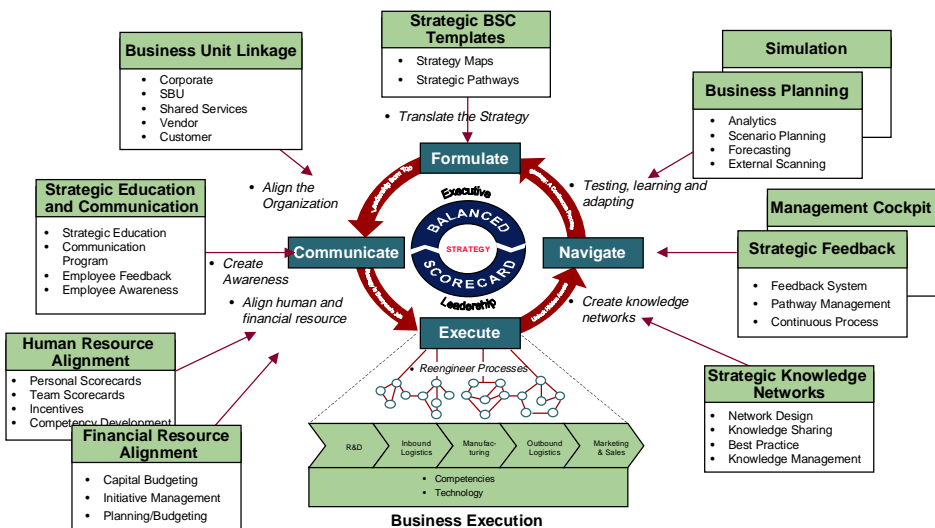
Strategy is a "Hypothesis" – The Balanced Scorecard Tells the Story of the Strategy



- Shareholder Value Analysis
- Customer Value Analysis
- Activity Based Management
- Database Marketing
- Scenario Planning
- Forecasting



SUMMARY: Technology Infrastructure Will Accelerate the Development of a Strategy Focused Organization



For Further Information

Visit Our Website



www.bscoll.com

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Our Mission:

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

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Research

Training

Conferences

Networking

Implementation
