



THE BALANCED SCORE CARD

"Politics without Principle, Education without Character, Science without Humanity and Commerce without Morality are not only useless, but positively dangerous" --Baba

About this Presentation

- These set of slides on the Balanced Score Card explains the key concepts of this all important measuring system in simple terms and using the example of a Harvard Business School Case Study on Microsoft.
- These slides are used in client presentations as well as a teaching material to second year MBA students at a major university.
- All the slides including the case study material were prepared by Mr. Jay Prakash, President, Strategic Focus, a California based strategy consulting firm.
- To learn more about the firm's strategy practice, please visit www.strategicfocus.com.
- Mr. Prakash can be reached by e-mail jay@strategicfocus.com or by phone 408-568-3993.

Basic Terminology

- **Strategic Decision** --has a significant impact on the company's future
 - cannot be easily reversed without incurring significant cost
 - Ex. setting up a new plant, introducing a new product or technology.
- **Operational Decision** --strictly relates to the operation of the company
 - Ex. Choice of accounting systems, facilities, labor negotiations, etc
 - Poor decisions hamper strategy implementation
- **Strategy:** A logical combination of strategic decisions sets the direction of the company

Actionable alternative strategies are generated from the real decisions and options available.

- Example: Decisions and options for a capital equipment strategy team when the industry is near the top of the cycle.

Decisions

		Decisions				
		Products	Channel	Prices	Parts Service	Manufacturing
Options	Complete		Direct only	Current high	Current low	Current two plants
	High growth only		Resale only	Current domestic; reduced foreign	Give priority to emergency orders	Consolidate high-volume products in production line plant to reduce cost
			Mixed	Reduced margins in 2 years	20% inventory increase and fast-response parts manufacturing	Consolidate in one job shop plant



Strategy Implementation

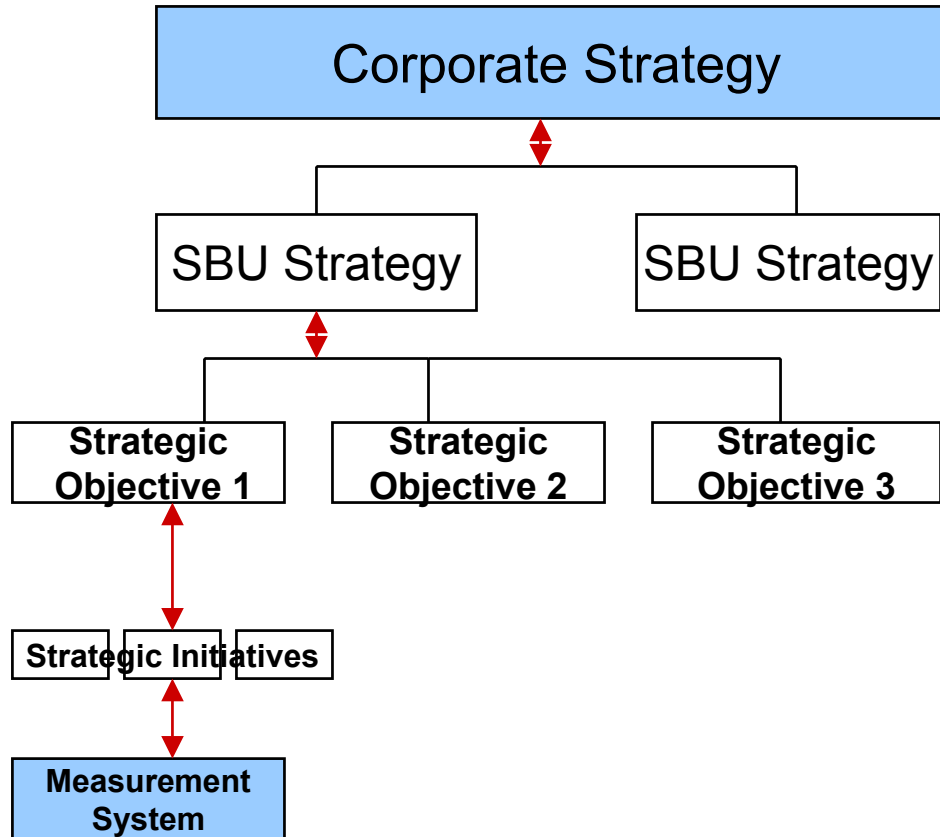
Monitoring & Measurement:

Use of the Balanced Scorecard

Strategy: Making it happen

- Now that we know where we want to go, let's make it happen.
- Next steps in the process are:
- Recasting the strategy as a series of Strategic Objectives & Initiatives
 - Examples –Increase market share; Identify new sales channels; Identify new markets; etc.
 - Break each strategic objective into a set of measure-able strategic initiatives. Example: New partner initiative; CRM initiative; New product development initiative
- Each strategic initiative
 - Must be headed by a responsible individual
 - Have resources & time-table for implementation
 - *Must have a monitoring & measurement system– “If you can't measure it, you can't manage it”.*

Strategy: Development to Measurement: Conceptual Framework



Monitoring & Measuring Strategy Implementation: *The Balanced Scorecard approach*

- What is the Balanced Score Card system?
- It is a measurement system that incorporates financial & non-financial measures
- Helps translate a company's strategy into tangible objectives & measures
- Provides a balanced view between external & internal measures
 - External measures focus on shareholders & customers
 - Internal measures focus on critical business processes, innovation, re-skilling employees, IT & systems
- Helps manage strategy over the long term
- Forces the company to clearly articulate the Value Proposition to the customer

Monitoring & Measuring Strategy Implementation: *The Balanced Scorecard approach*

- Why financial measures alone are not enough –the Xerox story.
- In 1970's Xerox Customers encountered frequent breakdown of its machines
- Xerox saw a huge opportunity to enhance revenues
 - Established Field Service Force as profit center to fix the machines
 - Sell the machines instead of leasing them
- Customers purchased additional machines as backup; Xerox revenues soared!
- Competitors moved in with more reliable machines and lower copying costs
- Dissatisfied & disloyal customers abandoned Xerox in droves
- MORAL OF THE STORY
 - Financial measures are backward looking; don't tell the whole story
 - A huge mistake to assume strategy is working based only on financials

Monitoring & Measuring Strategy Implementation: *The Balanced Scorecard approach*

- The Balanced Score Card approach is very simple.
- Clearly define the set of Strategic Objectives and supporting Strategic Initiatives
- Group the objectives into four categories & define measures for each:
 - Financial
 - Customer
 - Internal Business Processes (includes Innovation; identifies new processes)
 - Infrastructure (employee skills, training, IT systems, organizational procedures) (intangible assets)
- Plan, set targets and align strategic initiatives
- Measurements take place periodically to ensure targets are achieved in the specified time frame

How does it all fit together? Linking multiple scorecard measures to a single strategy

Financial

ROCE

Customer

Customer Loyalty

On-time Delivery

Internal Business Process

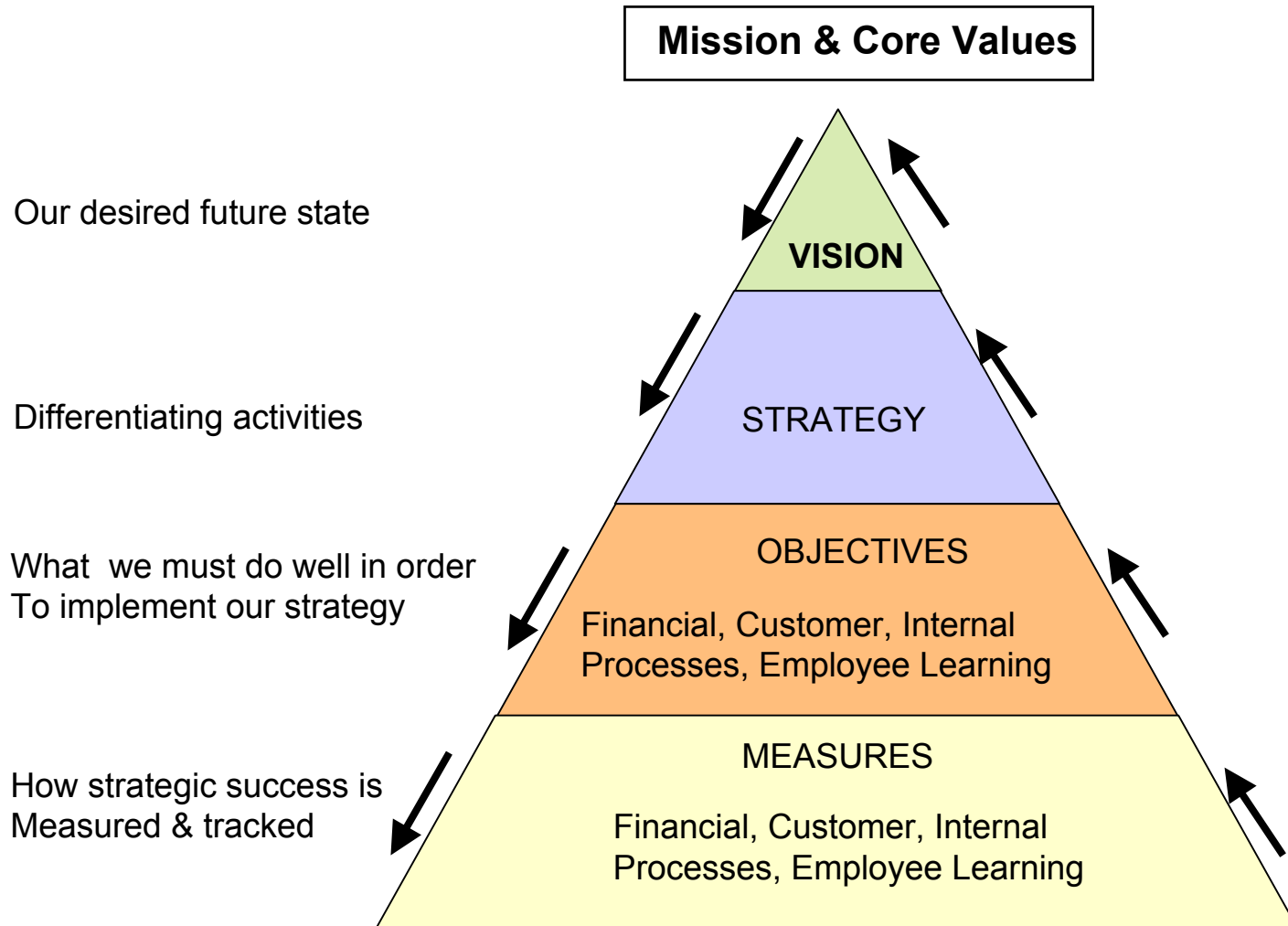
Process Quality

Process Cycle Time

Infrastructure: Learning & Growth

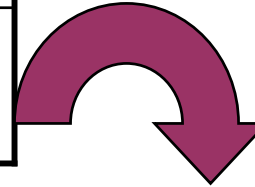
Employee Skills

Translating the Balanced Score Card

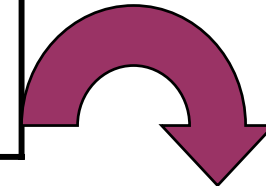


Cascading the Balanced Score Card

Corporate Score Card			
Perspective	Objective	Measure	Target
Customer	Increase Customer Loyalty		75%



Customer Service & Marketing Score Card			
Perspective	Objective	Measure	Target
Internal Processes	Increase Customer Loyalty	# of redesigned processes	5



CS&M IT Department			
Perspective	Objective	Measure	Target
Internal Processes	Effective Desktop Support for CS&M Employees	# of desktop service requests completed	500

Rationale for implementing the Balanced Score Card

- Inability to translate strategy to a clear set of specific strategic objectives
- Inability to translate the set of strategic objectives to meaningful set of strategic initiatives
- Inability to monitor the success of the initiatives via a set of clear financial as well as non-financial performance measures and set targets for those measures
- Inability to monitor & measure the success of the strategy and make mid-way corrections
- Inability to cascade the strategy down to the lowest levels of the organization so there is clear alignment in the objectives and goals of the the employees, departments, shared service groups (ex. HR, Finance, etc.) and SBU's with the direction that Corporate wants to take.
- Inability to identify and correct bottlenecks in business processes

Rationale for implementing the Balanced Score Card

- Inability to articulate the Value Proposition to the Customer via one of the three disciplines. Cannot be everything to everybody. Need to make the hard choices.
 - Operational Excellence –low prices, wide selection, etc.(Dell, Wal-Mart)
 - Product Leadership–Innovative leading edge products, Great Functionality (Sony)
 - Customer Intimacy requiring deep & detailed knowledge of customers –range of solutions offered, penetration, culture of driving client success, etc. (ex. IBM)
- Inability to understand the value and influence that intangible assets have on the success or failure of the strategy of the organization.
 - Intangible assets such as employee skills or the IT infrastructure are the key enablers of the company's strategy.

Rationale for implementing the Balanced Score Card

- Strategy is monitored only by a set of “lag” measures; “lead” measures are not used. Lead indicators are performance drivers that lead to the achievement of lag indicators.
 - “Hours spent with customers” (lead) drives “Sales” (lag)
 - “Number of proposals written” (lead) drives “Sales” (lag)
 - “Brand awareness” (lead) drives “Market Share” (lag)
 - “On time delivery” (lead) drives “Customer Satisfaction” (lag)
- Inability to link strategy to budgets

CASE STUDY

Microsoft Latin America: A Growth Strategy

Microsoft Latin America Background

- Founded in 1975, Microsoft is the largest software company in the world with \$60+ billion in revenues
- In 1998, the company faced two main challenges in the Latin American market:
 - Launching SQL 7.0 database software against Oracle, Sybase, etc.
 - Getting Managers to focus on the software piracy problem
- Pre-packaged Software Market in Latin America
 - One of the fastest growing industries in LM
 - Market size had doubled from 1990 to 1996; sales of \$2.8 billion in 1996
 - 85% of all software in LM was pirated
 - Microsoft had identified outlets selling illegal copies; but IP laws were weak

Microsoft Latin America Background (continued)

- Current Channels

- Direct sales force to large corporations & government agencies
- Hardware manufacturers installing their software in their products
- Wholesale distributors
- VAR's offering training, maintenance, consulting

- New Channels

- Electronic delivery of software (via internet downloads)
- Sales in supermarkets
- Specialty stores

Strategy

- High-level strategy was to increase leadership position in the OS market that would later promote desktop application products.
- At a product level, the goal was to increase the market share of SQL 7.0 with a strategy of:
 - Offering a product with high storage capabilities and scalability
 - Building competitive advantage around Price & Functionality
 - Easy access to data via existing Microsoft products such as Excel
 - Better price/performance than the competition
 - Collaborating with partners who will aid in customization of SQL 7.0
 - Facilitating the creation of new applications that work with SQL 7.0

THE STRATEGY SHIFT

- Traditional strategy of Microsoft was mass merchandising simple low cost products.
- With SQL 7.0, Microsoft was shifting in the value chain from:
 - Serving the final customer
 - TO
 - Becoming a supplier of a platform that its partners would adopt to solve customer needs

Monitoring & Measuring Strategy Implementation: The Financial Perspective

Strategic Themes						
Strategy	Revenue Growth & Mix		Cost Reduction/ Productivity Improvement		Asset Utilization	
Growth	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
		<p>Improve Market Penetration</p> <p>Improve Wallet Share</p> <p>Improve Market Share</p> <p>Ensure Loyalty</p>	<p>Sales per installed PC</p> <p># of internet downloads</p> <p>% Revenue increase from SQL 7.0 by country/region</p> <p>Server shipments</p> <p>Product line profitability</p> <p># of companies switching to competition</p>	<p>Improve Revenue Productivity</p> <p>Improve Channel Mix</p> <p>Reduce Operating Expenses</p>	<p>Revenue/Employee</p> <p>Customer profitability</p> <p>Revenue by channel</p> <p>Cost of transaction</p> <p>Cost Vs Competition</p>	<p>Efficient Use of Resources</p>

Monitoring & Measuring Strategy Implementation: The Customer Perspective

The Customer Value Proposition						
Strategy	Product/ Service Attributes		Image & reputation		Customer Relationship	
Growth	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
	Availability of SQL7.0 applications Price/Performance Scalability Ease of Use TCO Tech Support Availability of trained SW professionals Product availability	# of new applications coming to market Benchmark Tests Usability Tests 5 yr cost relative to competition # of service calls per month # of people certified by MS Stock level	Brand Image Brand Equity	Perceived Quality Knowledgeable Professional PV of future revenues of brand	Contractual Responsiveness Flexibility Honesty & Openness Buying Experience Customer feedback	Referenceable Customer Customer retention Customer Complaints/ Compliments # of new ideas for new products & services



Monitoring & Measuring Strategy Implementation: The Internal / Business Process Perspective

Types of Business Processes						
Strategy	Innovation		Operations		Post-sale Service	
Growth	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
	<p>Identify emerging needs of current customers</p> <p>Local versions of SQL 7.0</p> <p>Developing Training Centers</p>	<p>Survey feedback</p> <p>Calendar months</p> <p>Sales</p> <p>Quality & number of training centers</p>	<p>Reduce order fulfillment cycle time</p> <p>Improve communication process between company & customer</p>	<p>Days/months</p> <p>Accounts receivables</p>	<p>Enhancing Support Centers</p> <p>Response time for solving customer problem</p>	<p># of customer complaints</p> <p>Hours/days</p>

Monitoring & Measuring Strategy Implementation: The Corporate Infrastructure—Learning & Growth

Categories						
Strategy	Employee Capabilities		Information Systems Capabilities		Motivation Empowerment & Alignment	
Growth	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
		Strategic Skills (improve selling skills, analyst skills, technical support) Skill Leverage (multiple product selling) Expand supply of trained SW people	Revenue per sales person # of training centers	Improve Intellectual Property Tracking piracy	# of patents, copyrights # of outlets selling illegal copies # of illegal copies being sold	Staff empowerment Personal goals alignment with corporate goals Morale

What does the Balanced Score Card look like under “Sustain” and “Harvest” strategies?

- The goal under “Sustain Strategy” is try to keep increasing revenues without a major investment in R&D and identifying new applications for existing products in a mature market.
- The goal under “Harvest Strategy” is to maximize the cash flow with existing products in a declining market.
- Hence, the objectives and measures would be different under these two strategies than when a company adopts a growth strategy in a growing market.

Monitoring & Measuring Strategy Implementation: The Financial Perspective

Strategic Themes						
Strategy	Revenue Growth & Mix		Cost Reduction/ Productivity Improvement		Asset Utilization	
Sustain	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
	New Relationships	Cross selling	Improve Revenue Productivity	Customer profitability	Improve Asset Utilization	Working Capital ratios
	New Applications for each vertical market segment	% rev from new applications	Reduce Operating Expenses	Cost Vs Competition		ROCE by key asset category
	New Pricing	% change in revenues	Improve Channel Mix	Cost of transaction		
Harvest	New Product & Service Mix	Product line profitability	Reduce Unit Costs	Unit costs per output, per transaction	Reduce Cash-to-Cash Cycle	Days Inventory + Days Receivable – Days Payable

Monitoring & Measuring Strategy Implementation: The Customer Perspective

The Customer Value Proposition						
Strategy	Product/ Service Attributes		Image & reputation		Customer Relationship	
Sustain	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
		Optimal Functionality Competitive Pricing	Customer Satisfaction Customer profitability	Brand Image Brand Equity	Name awareness Goodwill Price premium PV of future revenues of brand	Customer Experience
Harvest	Maintain Quality	Customer profitability Warranty Claims		Customer satisfaction	Honesty & Openness	Customer Satisfaction

Monitoring & Measuring Strategy Implementation: The Internal / Business Process Perspective

Types of Business Processes						
Strategy	Innovation		Operations		Post-sale Service	
Sustain	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
	Identify new applications for current products	Calendar months	Reduce order fulfillment cycle time	Days/months Supplier quality	Quality of tech support	#of customer complaints
Disruptive Business Model	Sales	Supplier selection process	Days/Months	Response time for solving problems	Hours/Days	
Harvest		PO issuance process	Opportunity cost	Refunds	Days/months	
		Improve communication process between company & customer	Accounts receivables	Bug fixes	# of patches	
				Warranty claims	\$ amount	
					# of patches	
					Survey feedback	

Monitoring & Measuring Strategy Implementation: The Corporate Infrastructure—Learning & Growth

Categories						
Strategy	Employee Capabilities		Information Systems Capabilities		Motivation Empowerment & Alignment	
Sustain	Strategic Objectives	Measures	Strategic Objectives	Measures	Strategic Objectives	Measures
		Strategic Skills (improve selling skills, analyst skills, technical support) Training Levels (Junior, senior, advanced level programmers)	Strategic Job Coverage Ratio (Employees qualified/ Strategic jobs available) Value-added per employee (Revs minus outsourced services per employee)	Wireless Enablement of key in-house applications Web Services Architecture	Sales Cycle Support time Speed of transaction	Personal goals alignment with corporate goals Staff empowerment
Harvest	Skill Leverage (multiple product selling)	Revenue per sales person		Support time Speed of transaction	Morale	Employee productivity Employee Turnover

Key Steps in Implementing the Balanced Score Card

1. Identify the SBU for implementation of BSC
2. Obtain Executive sponsor willing to assume ownership of BSC project
3. Engage consultant to facilitate BSC implementation process
4. Form a team of no more than 7 members –one from each key functional area
5. Consultant educates team members on the BSC process
6. Consultant and team review internal documents on Vision, Mission, Values, Strategy, Operating plans, etc.
7. Consultant obtains executive input via interviews and obtains clarification on strategy, mission, vision, key success factors and possible score card measures
8. Consultant presents results of executive interviews to the team

Key Steps in Implementing the Balanced Score Card

9. Consultant conducts “Objectives & Performance Measures Generation Sessions”. This may take a few meetings as the team needs to agree on what the mission, values and strategy is for the SBU.
10. Consultant is in regular communication with team providing his input and massaging previously discussed measures.
11. Once high level objectives & measures are agreed upon, the team & the consultant work on cascading these down to the lower level of the organization through the identification of new objectives & measures that influence the higher level objectives & measures.
12. Targets for the measures developed and set.
13. A data dictionary is developed that clearly defines each objective & measure as well as how the data is going to be collected and the source of the data.
14. Presentation to senior management of the BSC developed.