

Managing Future
Performance

Building Future
Value

Balanced Scorecard

What, Why, How and When?

Definition

A new strategic **measurement** and strategic **management** system which attempts to reconcile traditional financial measures with more forward-looking, non-financial measures.

(Corporate Strategy Board, June 1997:3&9)

Strategy Implementation

The balanced scorecard can be used to address many of the **barriers to effective strategy implementation:**

- Mission and Strategy which is not
 - known
 - actionable
 - understood
- Strategy is not linked to departmental, team and individual objectives
- Strategy is not linked to resource allocation
- Feedback is tactical, not strategic

“Many leaders have personal visions that never get translated into shared visions that galvanise an organisation. What has been lacking is the discipline for translating individual vision into shared vision.”

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Peter Senge³

Measurement Musts

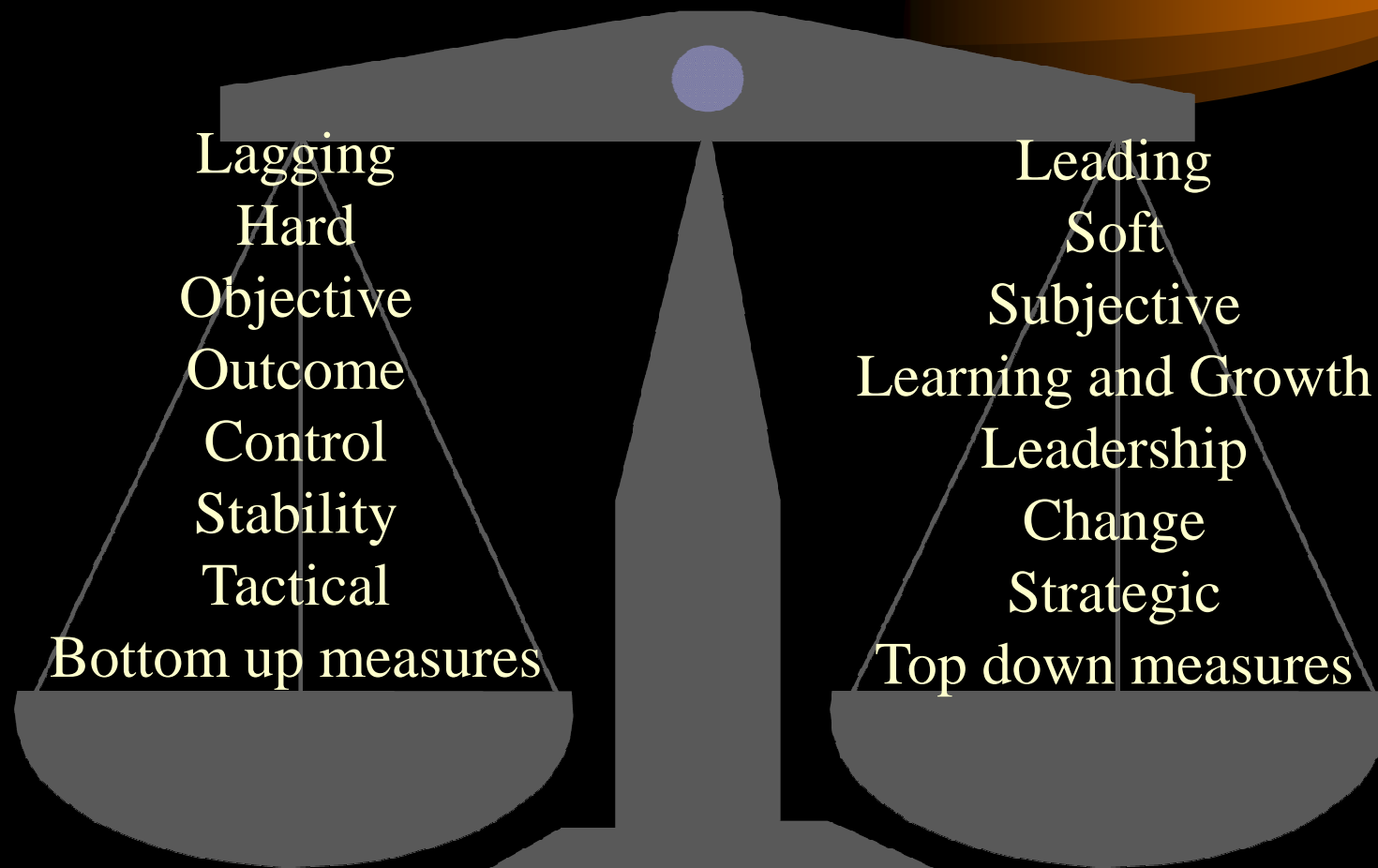
- Less is more
- Leading and Lagging
- Hard and Soft
- Strategic Alignment

A simple,
balanced view of
the organisation's
progress towards
its objectives

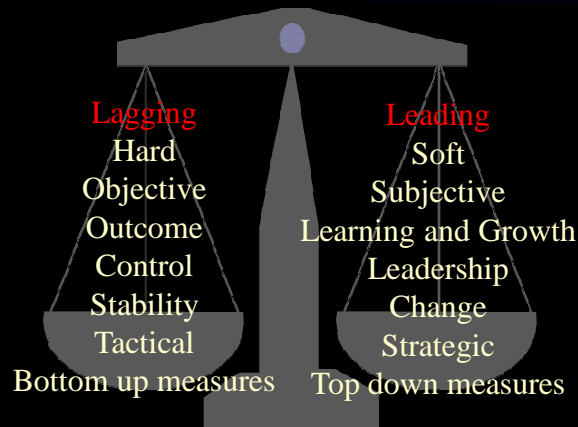
“If you can't measure it, you can't manage it.”
10/19/2014 Edited by IDMC تحرير الشيخ الدكتور خالد بن محمد العتيق

Kaplan and Norton, 1996

Getting the Balance Right



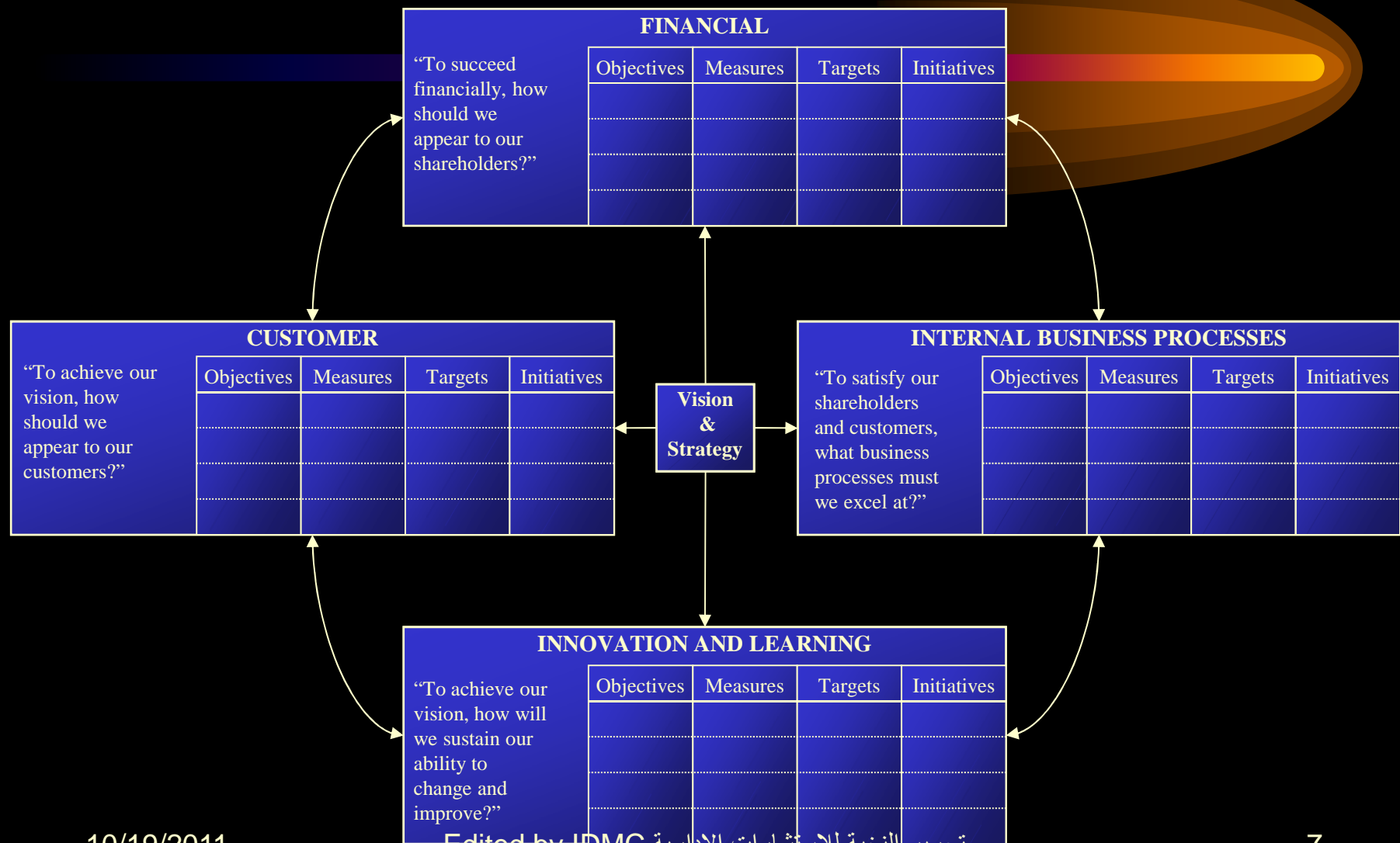
Leading and Lagging Indicators



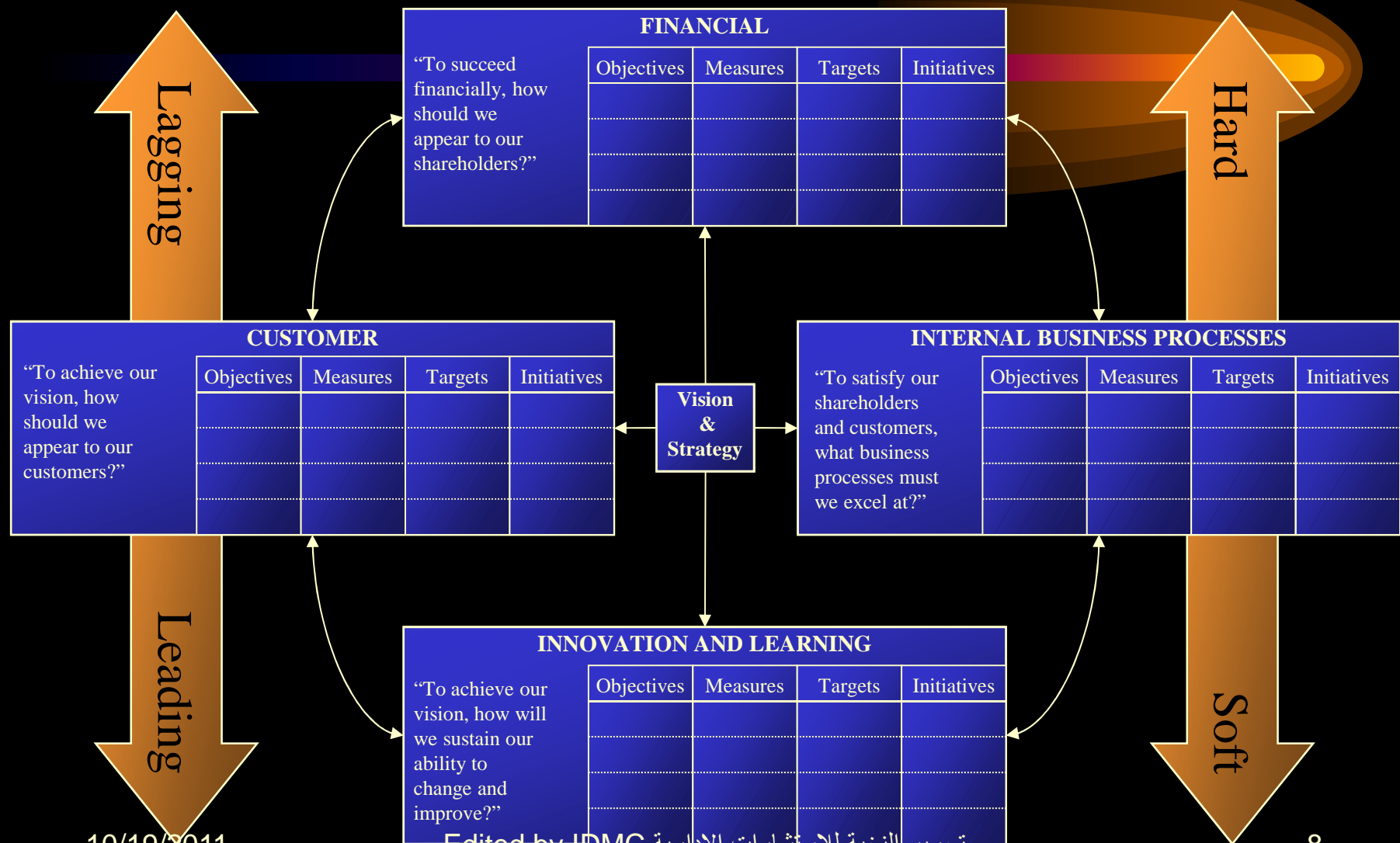
A high proportion of the measures should be forward looking and proactive, so that the Balanced Scorecard can be an effective agent of organisational change.

Rockwater case

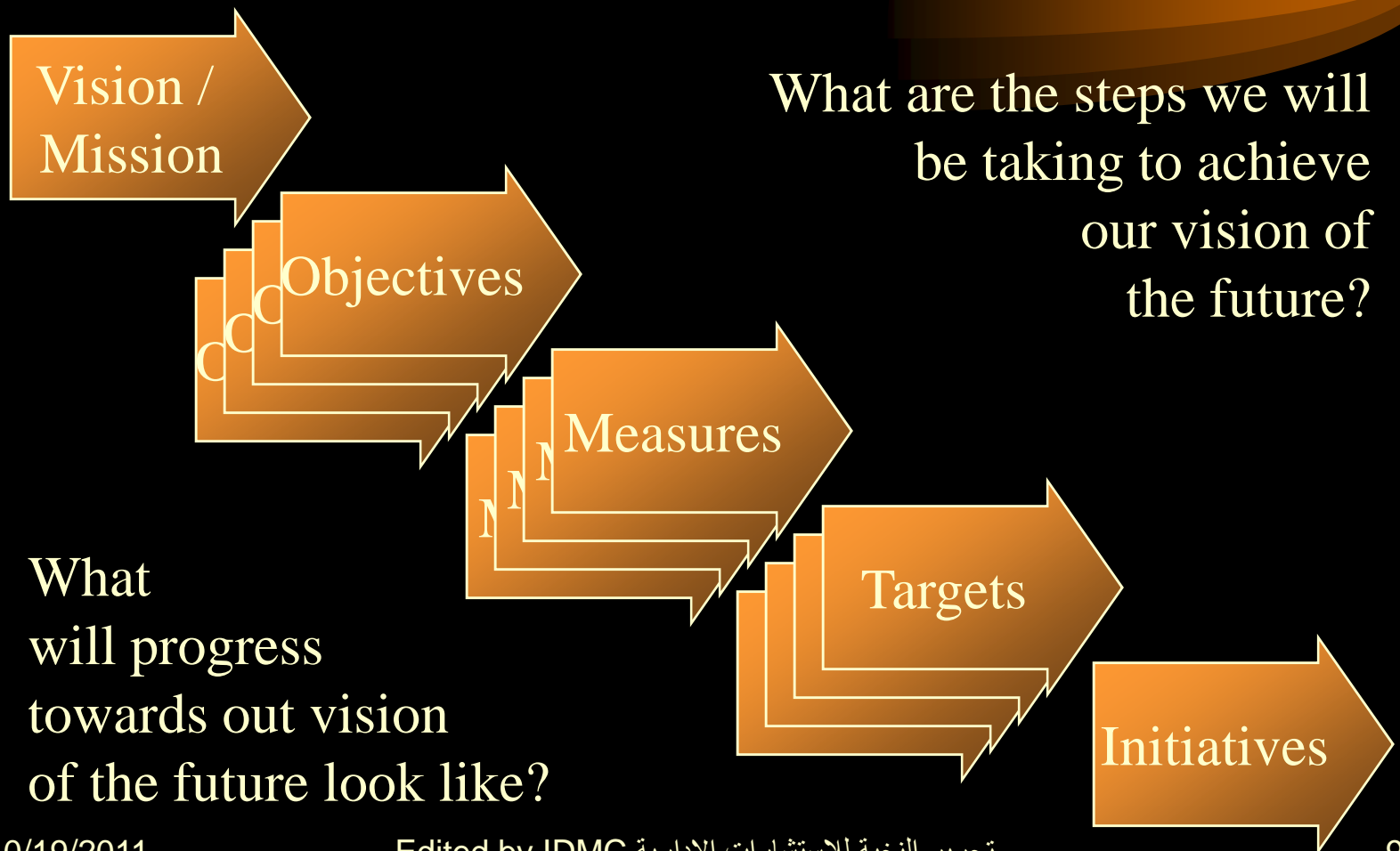
Balanced Scorecard



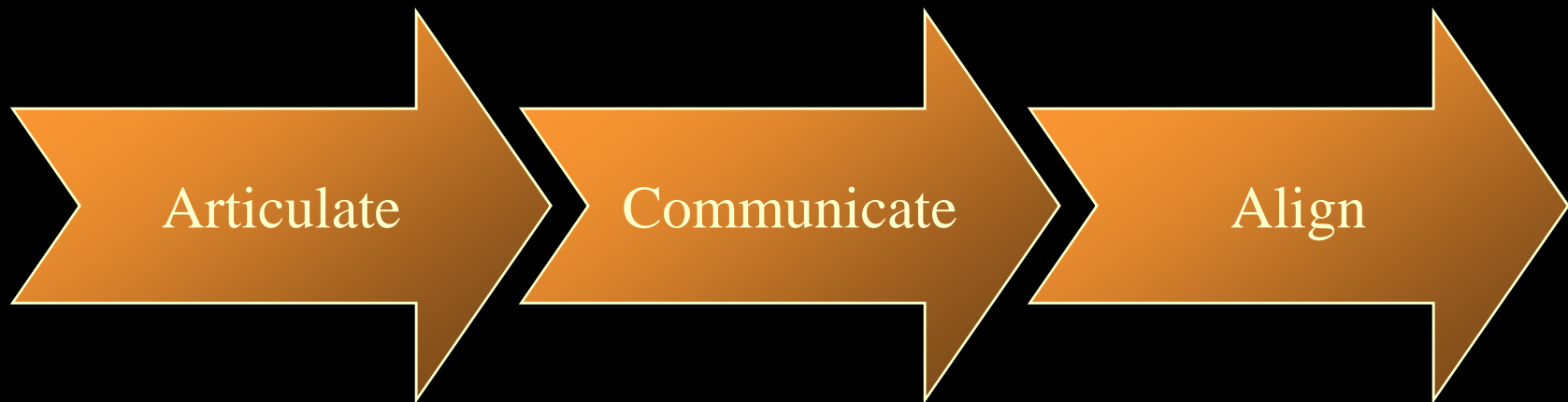
Balanced Scorecard



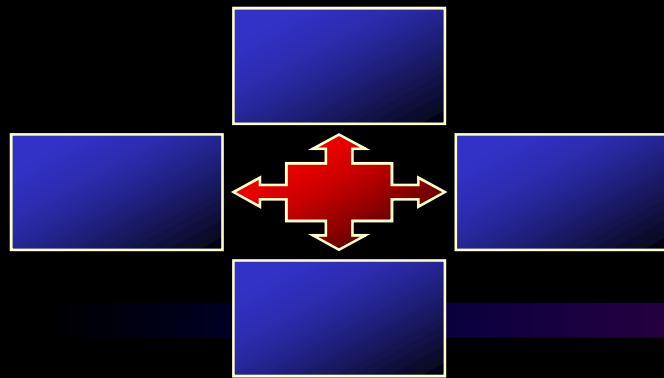
Balanced Scorecard Planning Process



Balanced Scorecard and Strategy



Strategic Vision?



Our reason
for being...

Mission

What success
will look like...

Vision

Things we
value for their
own sake...

Values

Why?

What are we trying
to communicate, to
whom, and why?

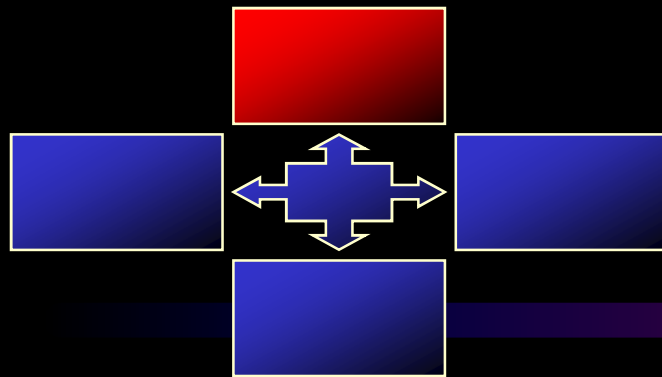
How?

How do we
actualise and action
it?

What is our “one-liner”?

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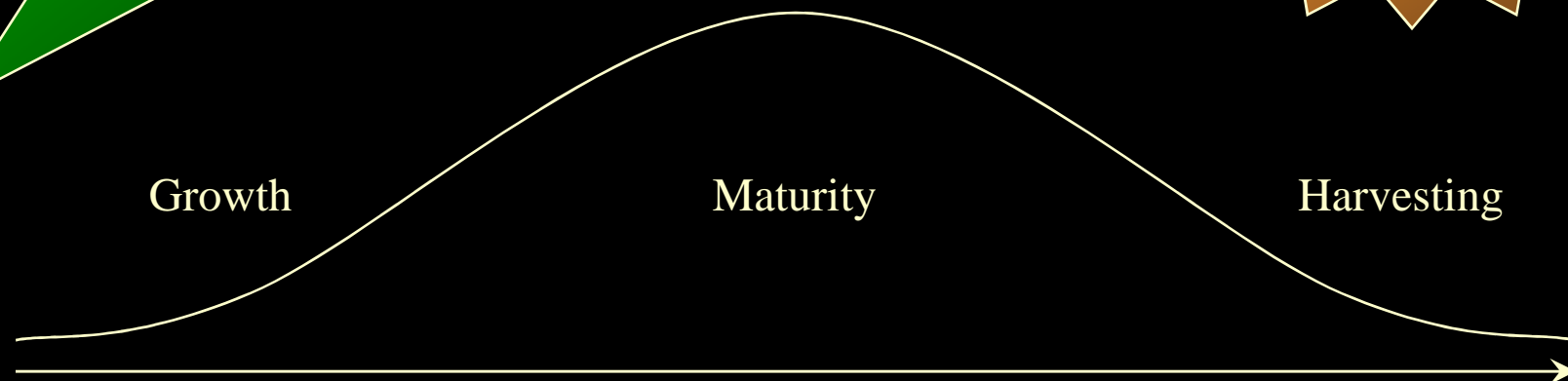


Financial?

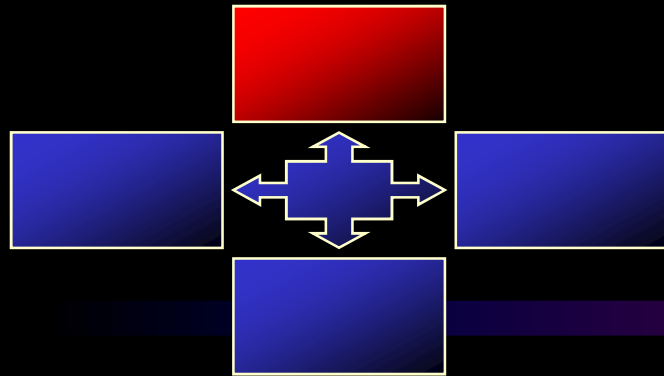
To succeed financially, how should we appear to our shareholders?

- Revenue growth rates
- Cost reduction
- Asset utilisation
- Project profitability

What should our balance sheet look like?



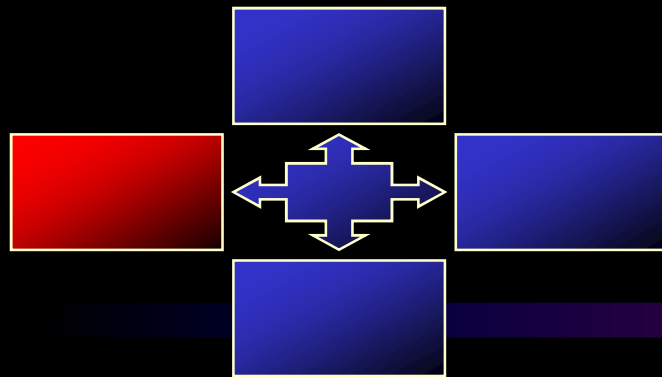
Financial objectives tend to be influenced by the organisation's position on the life-cycle curve.



*Necessary,
but not enough*

Three important reasons why Financial Measures alone are not enough:

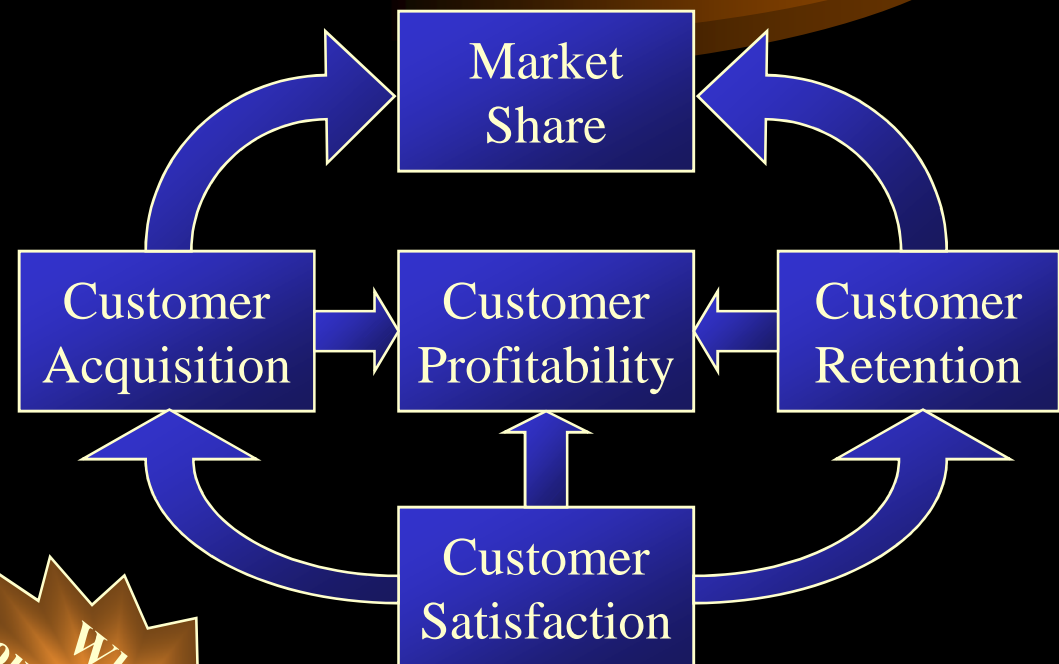
- They may not capture all of a company's strategic objectives
- Bottom-line measures are after the fact
- They are not very diagnostic



Customer?

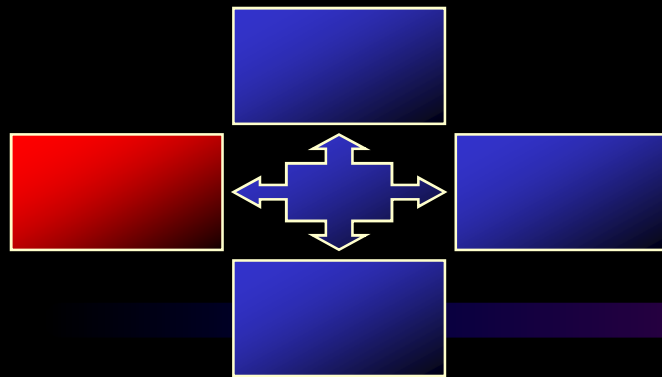
To achieve our vision, how should we appear to our customers?

- Product / Service Attributes
- Customer Relationship
- Image and Reputation

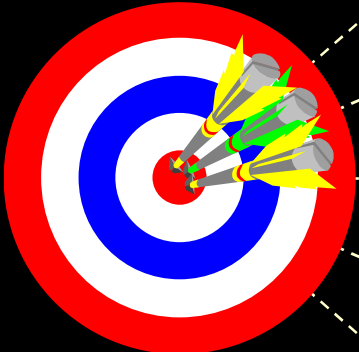


What do our customers value most?

Organisational sub-units may have internal clients.



Customer

	Value					
	Segment	Proposition	Objectives	Products	Measures	Targets

“Some managers object to choosing targeted customer segments; they have never seen a customer they didn’t like, and want to be able to satisfy all customers’ preferences. But this approach runs the risk of doing nothing well for anybody. The essence of strategy is not just choosing what to do, it also requires choosing what not to do.”

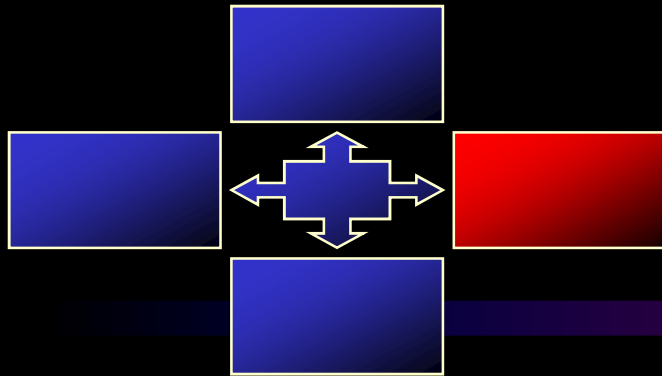
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Kaplan and Norton, 1996

10/18/2011

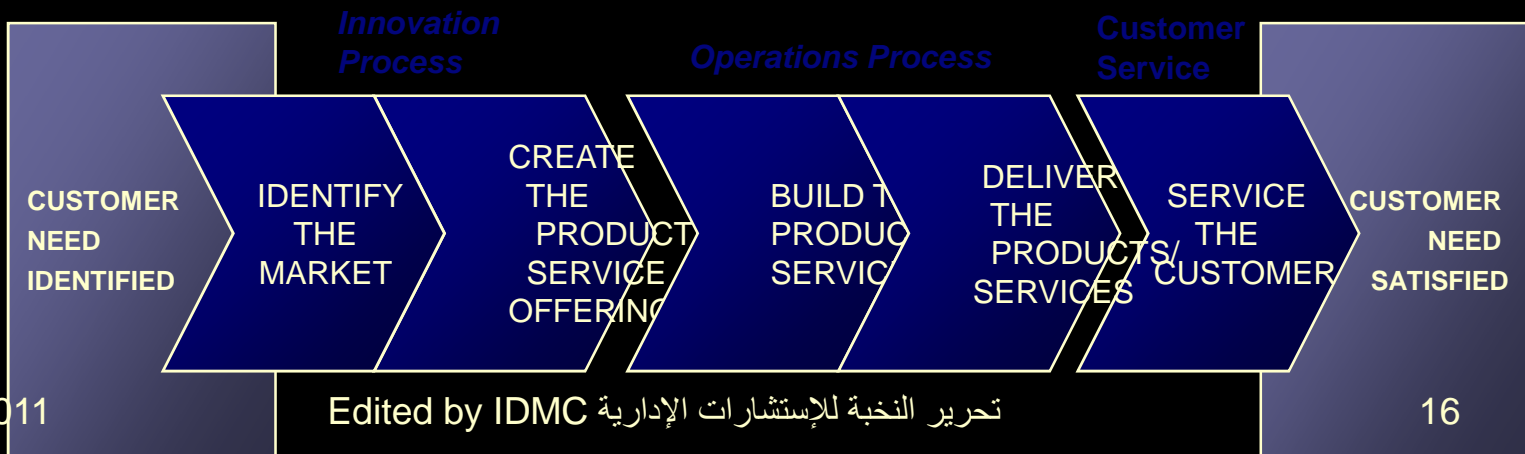
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Internal Business Processes?

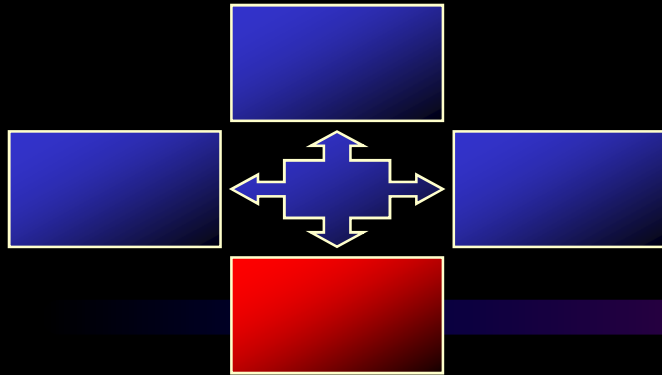


To satisfy our shareholders and customers, what business processes must we excel at?

- Improve quality
- Reduce cycle times
- Maximise production
- Maximise throughput
- Reduce cost per process
- Reduce cost per transaction



Learning and Innovation?



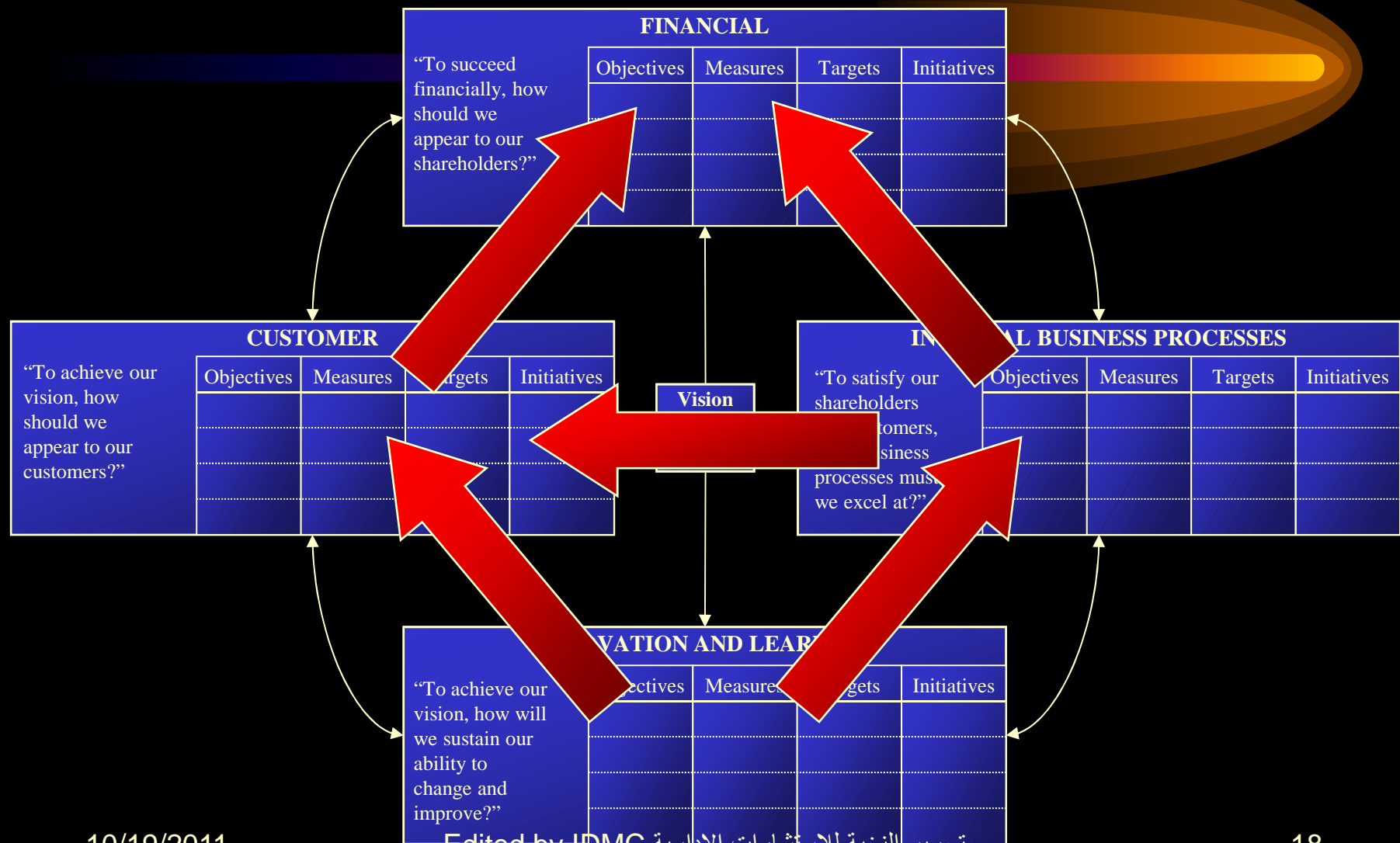
To achieve our vision, how will we sustain our ability to change and improve?

- Employee capabilities
- Information system capabilities
- Motivation
- Empowerment
- Alignment

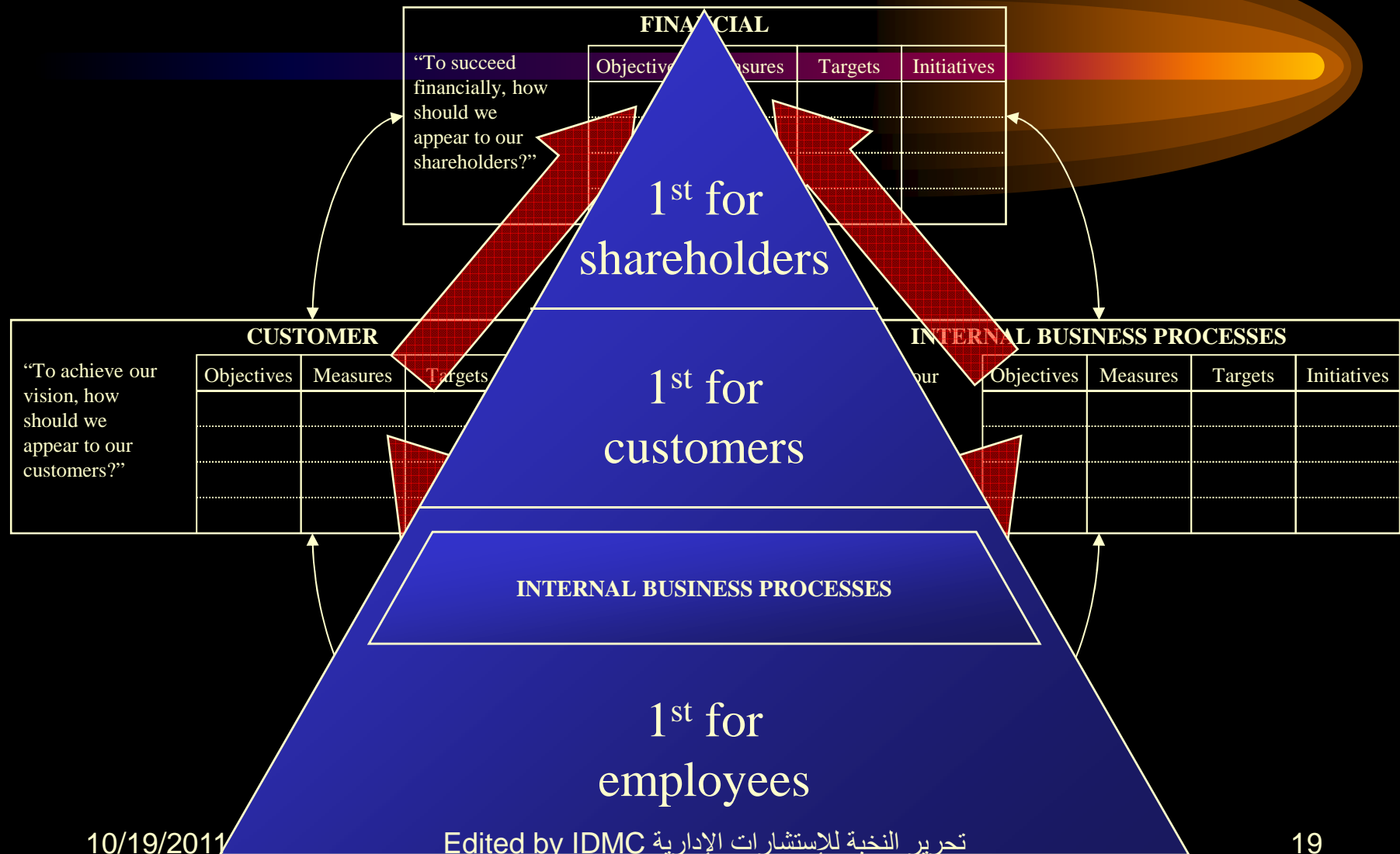
Highlight gaps in employee skills and information systems.



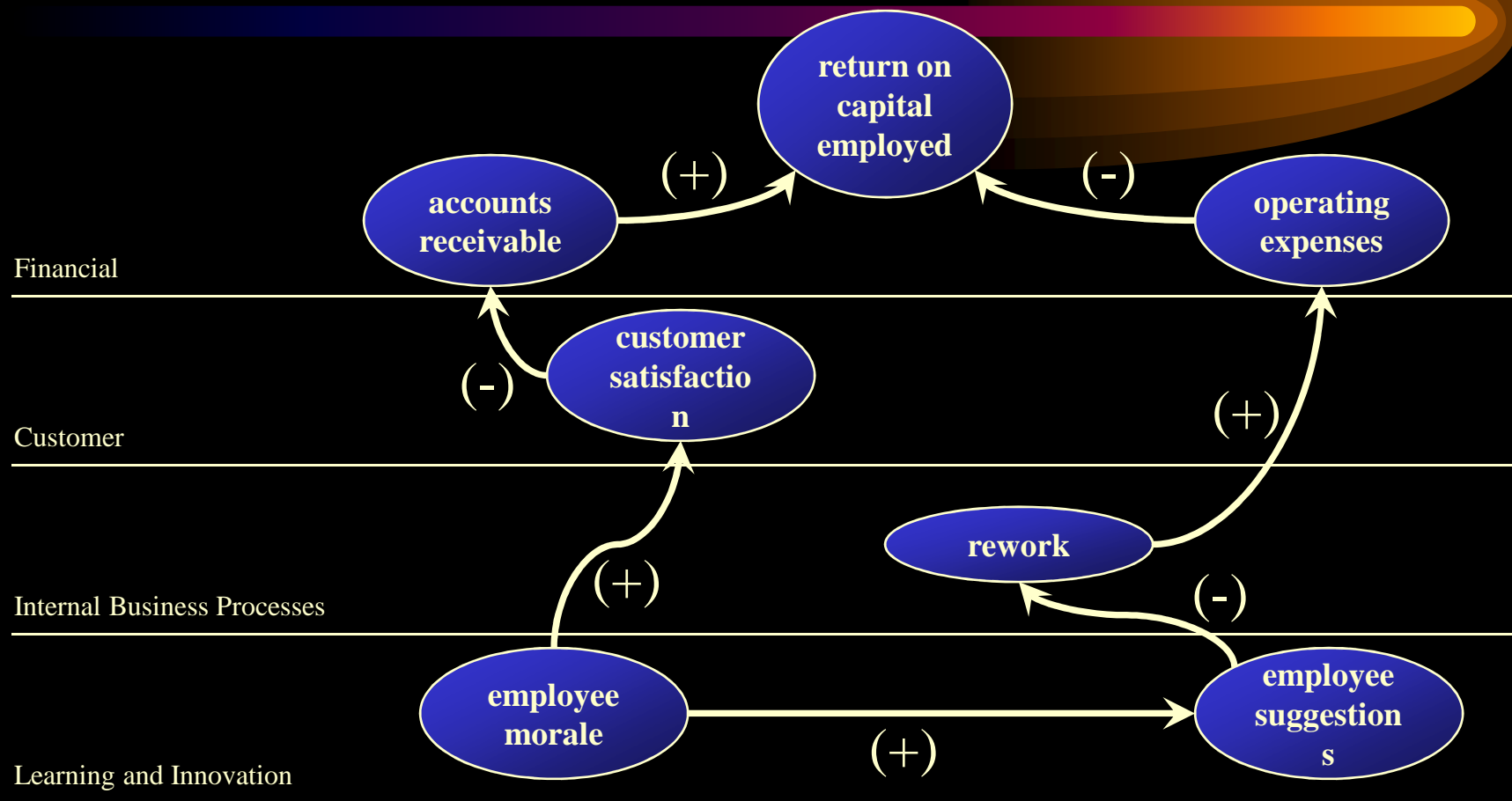
Causal Links



Causal Links



Themes (example)



Setting Objectives



Specific

Measurable

Achievable

Realistic

Tangible

Determining Measures



- Measure causes, not effects
- Look for trends, patterns and structures, not events
- Introduce new measures each time you introduce new goals!
- The measurements must reflect the strategy!
- Develop composite measures if necessary

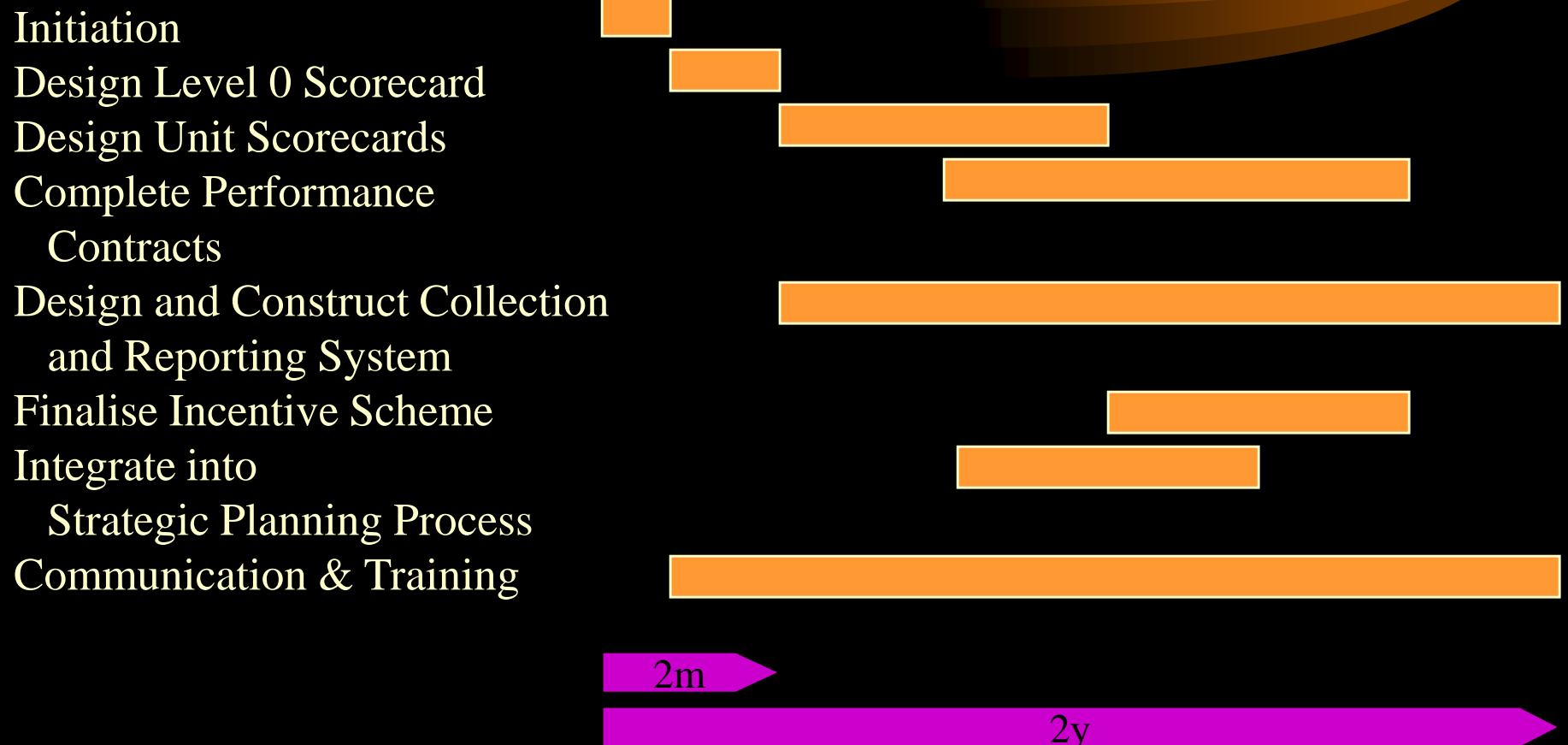
Setting Targets



- Targets handed down by upper management have been markedly less successful.

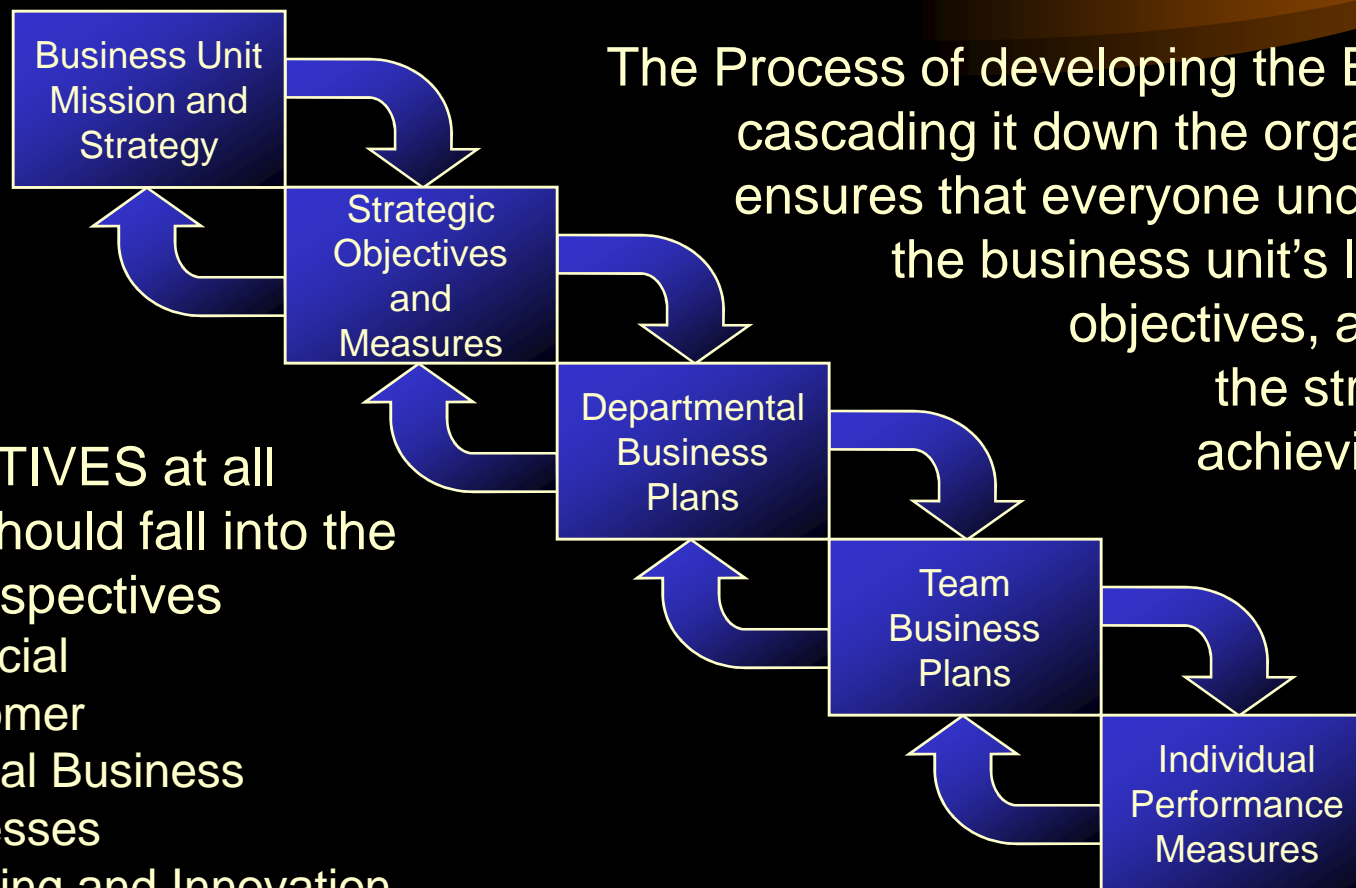
Rockwater case

Implementation Process



Cascading

The Process of developing the BSC, and cascading it down the organisation, ensures that everyone understands the business unit's long-term objectives, as well as the strategy for achieving them.



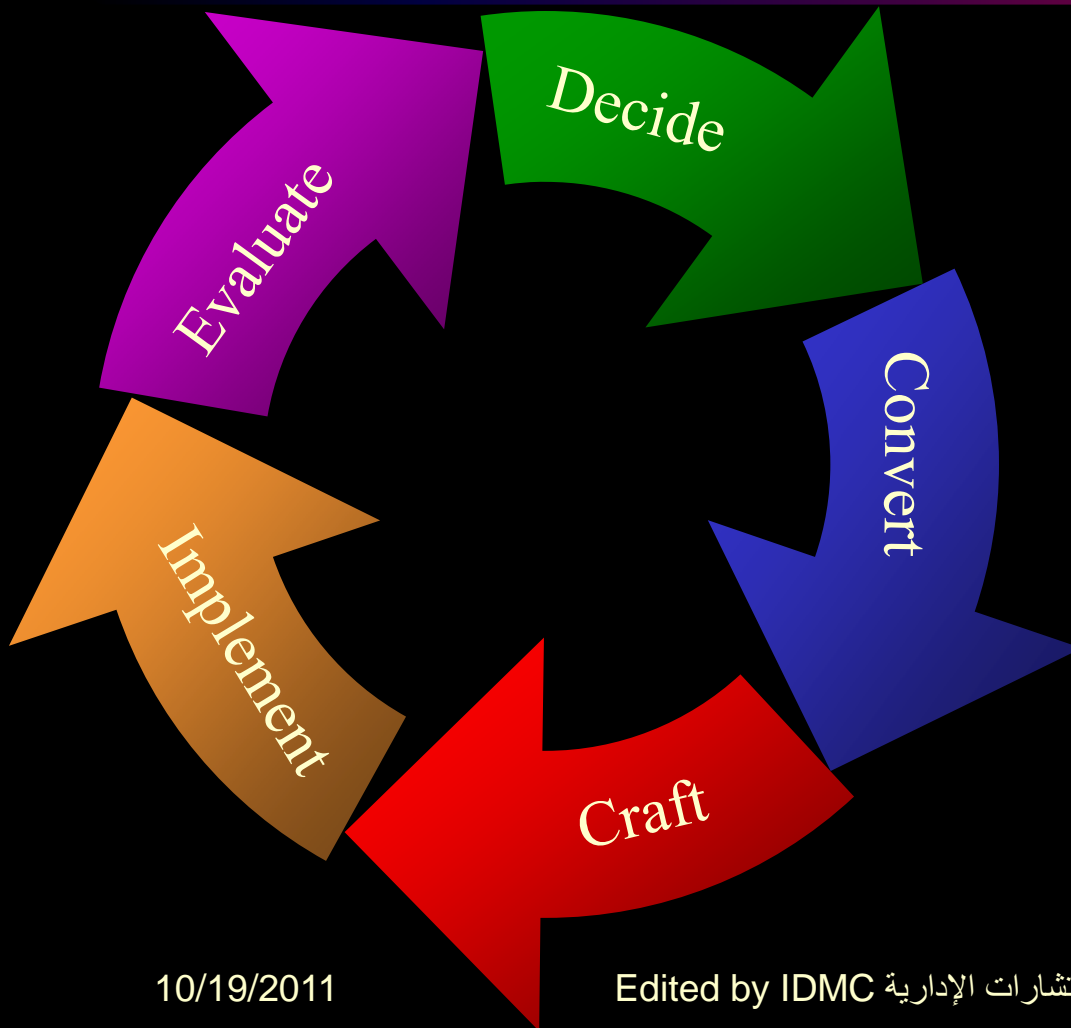
OBJECTIVES at all levels should fall into the four perspectives

- ◆ Financial
- ◆ Customer
- ◆ Internal Business Processes
- ◆ Learning and Innovation

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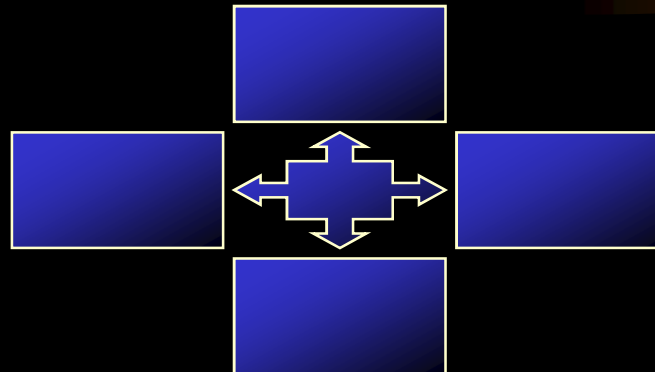
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The Strategic Planning Cycle



- **Decide** on a what business you want to be in
- **Convert** that vision into measurable objectives and targets
- **Craft** a strategy to achieve the desired results
- **Implement** it effectively and efficiently
- **Evaluate** performance and take corrective actions

The rubber hits the road



Strategic
Plan

Balanced
Scorecard

Budget &
Incentives Scheme

Closing Point



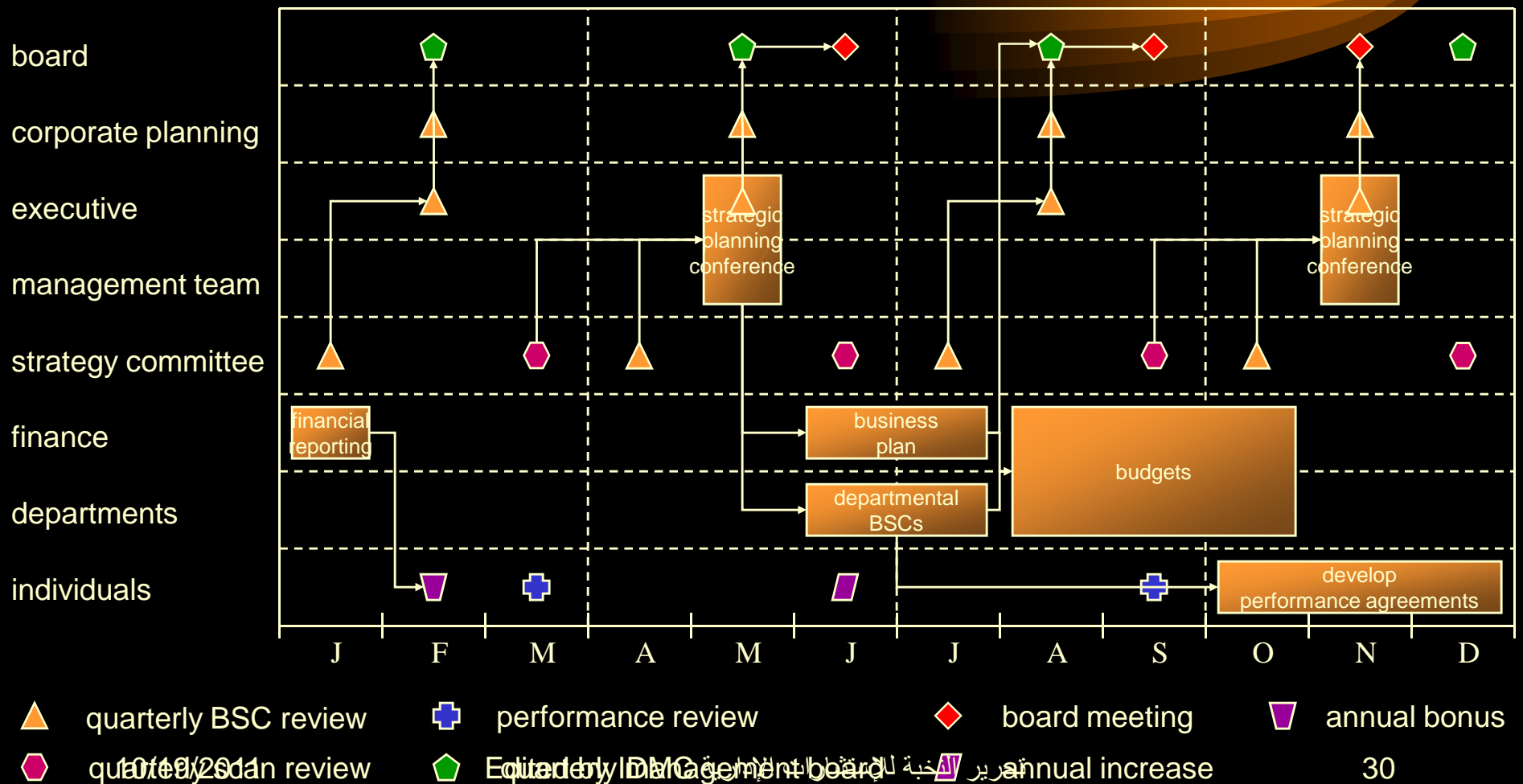
“The nature of the game is defined by how
you keep score.”


(Source unknown)

Questions?



Example Planning Calendar





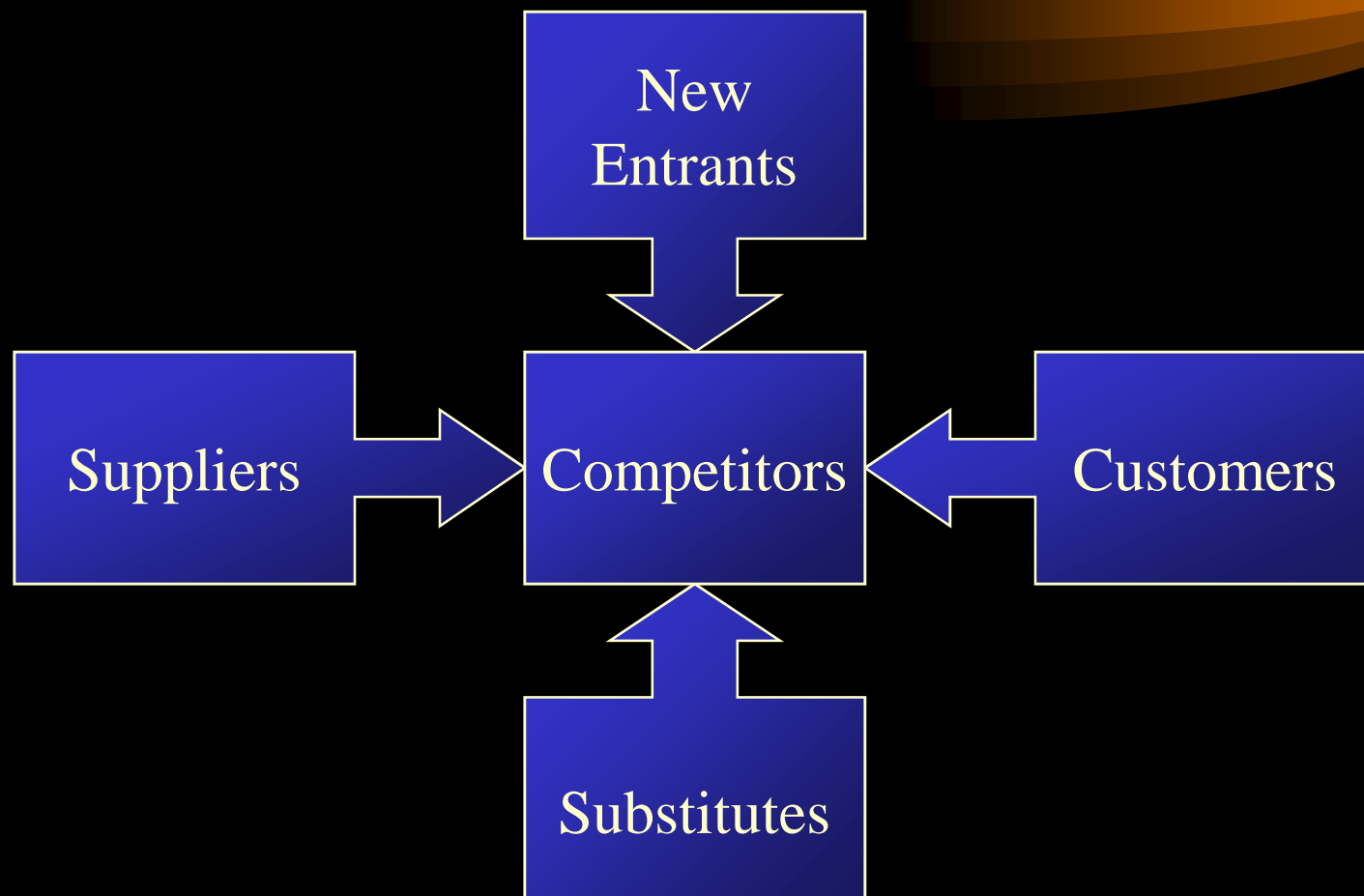
"The real purpose of effective planning is not to make plans but to change the ... mental models that ... decision makers carry in their heads."

Arie de Geus (H.B.R., March-April 1988)

"'Strategic' planning is, at best, about *posing* questions, more than attempting to answer them."

Richard Pascale (Managing on the Edge, Chapter 3)

Porter's 5 Forces





USP

A USP is that distinct and appealing idea that sets you and your business ... favorably apart from every other generic competitor. ...

The possibilities for building a USP are unlimited. It's best, however, to adopt a USP that dynamically addresses an obvious void in the marketplace that you can honestly fill.

The Market in the Gap



E-world



E-Commerce

- bricks and mortar businesses
- same business structures
- convenience and cost advantages

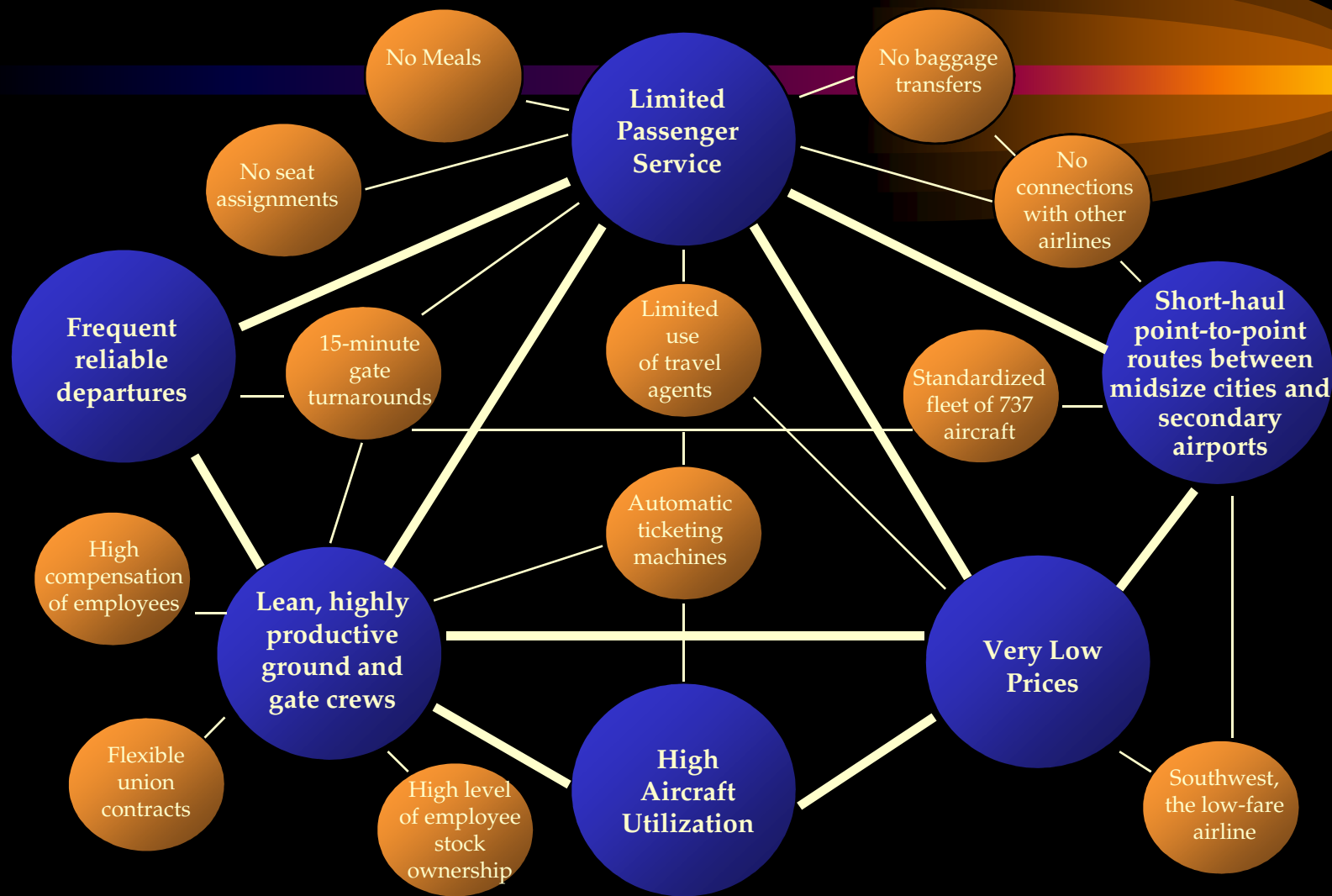
E-Business

- new business structures
- same products
- better and cheaper
- use Internet to break up the value chain

E-World

- delivering products or services that totally supercede the products and services we know today

Southwest Airlines' activity map creates a web of activities that creates and sustains its competitive advantage.



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Source: "What is Strategy", By M. Porter, HBR, Nov/Dec, '96.

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Pioneer-Migrator-Settler Map

Pioneers

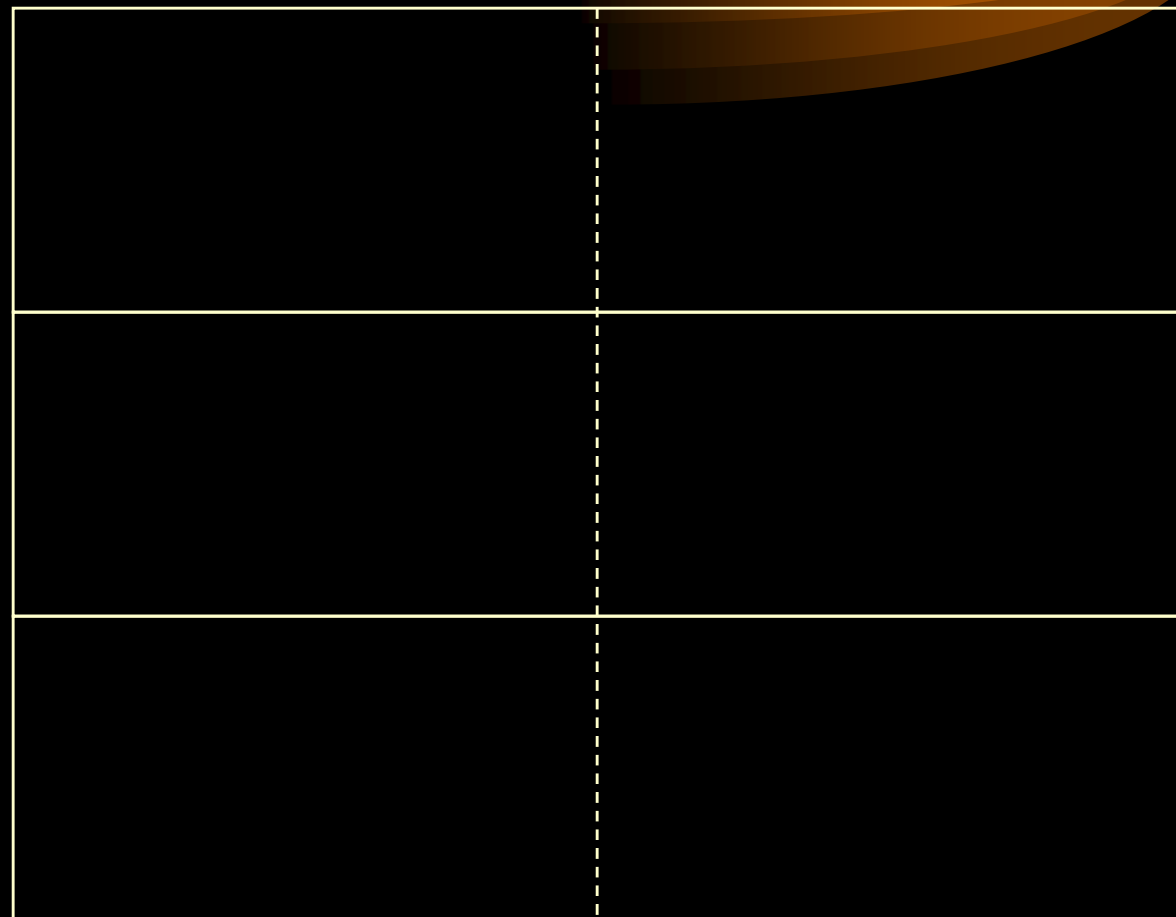
Businesses that represent value innovations

Migrators

Businesses with value improvements

Settlers

Businesses that offer me-too products and services



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Current Portfolio

Planned Portfolio

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Value Curve

Elements of product or service

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Relative Level

High
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Entrepreneurial Style



The Manager

“What can I do with the resources
entrusted to me?”

The Entrepreneur

“What resources do I need to achieve
my vision?”

What is Strategy?



A Strategy is a set of hypotheses about cause and effect.