

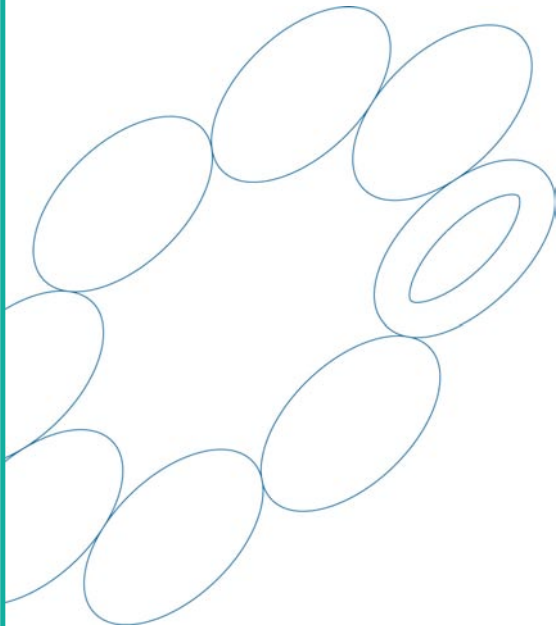
# Using the Balanced Scorecard to drive strategy

Presented at BetterManagement LIVE, ABC Technologies

6th Annual Asia/Pacific Conference

By Henrik V. Andersen, 2GC Australia

18 February 2002



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# Introducing 2GC Active Management

## Our Focus

2GC is a research led consultancy focusing on strategic control and performance management issues

Management Consultancy Services

Value Added Services

Core Research Programme

To find out more please visit:  
[www.2gc.co.uk](http://www.2gc.co.uk)



## Introducing 2GC Active Management

### About our organisation

Multi-national consultancy with offices in the UK, Portugal, India, Australia and with partner organisations in the USA, France, Germany, Turkey and South Africa

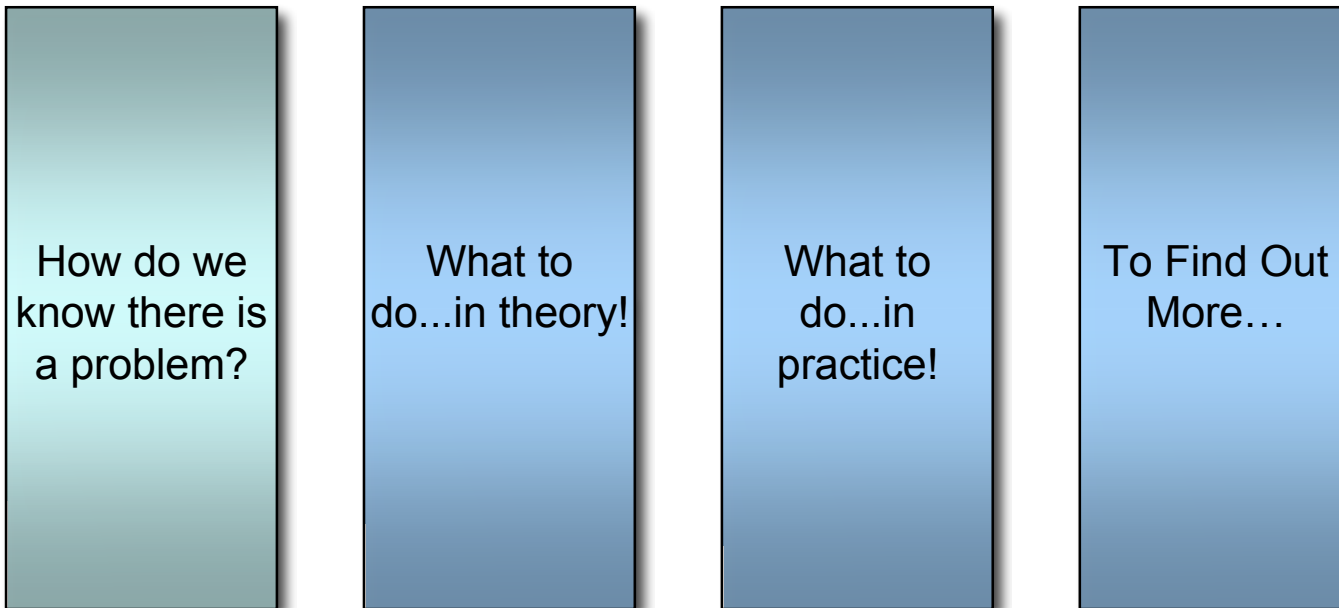
Facilitated design of over 20 Balanced Scorecards across three continents in past two years

2GC's consultants and partners combine practical work experience with consulting expertise and academic research

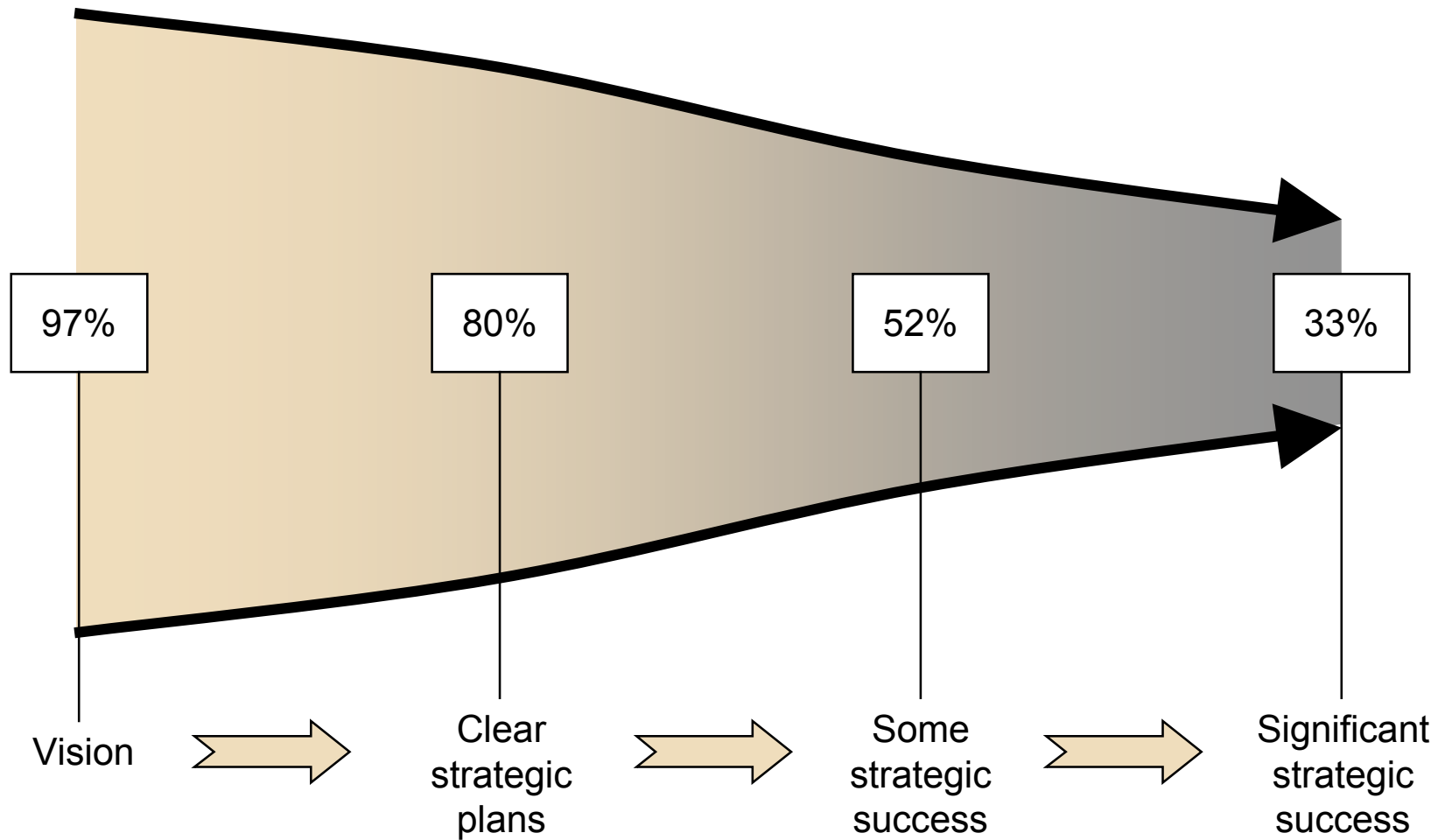


# Using the Balanced Scorecard to Drive Strategy

## Structure of presentation



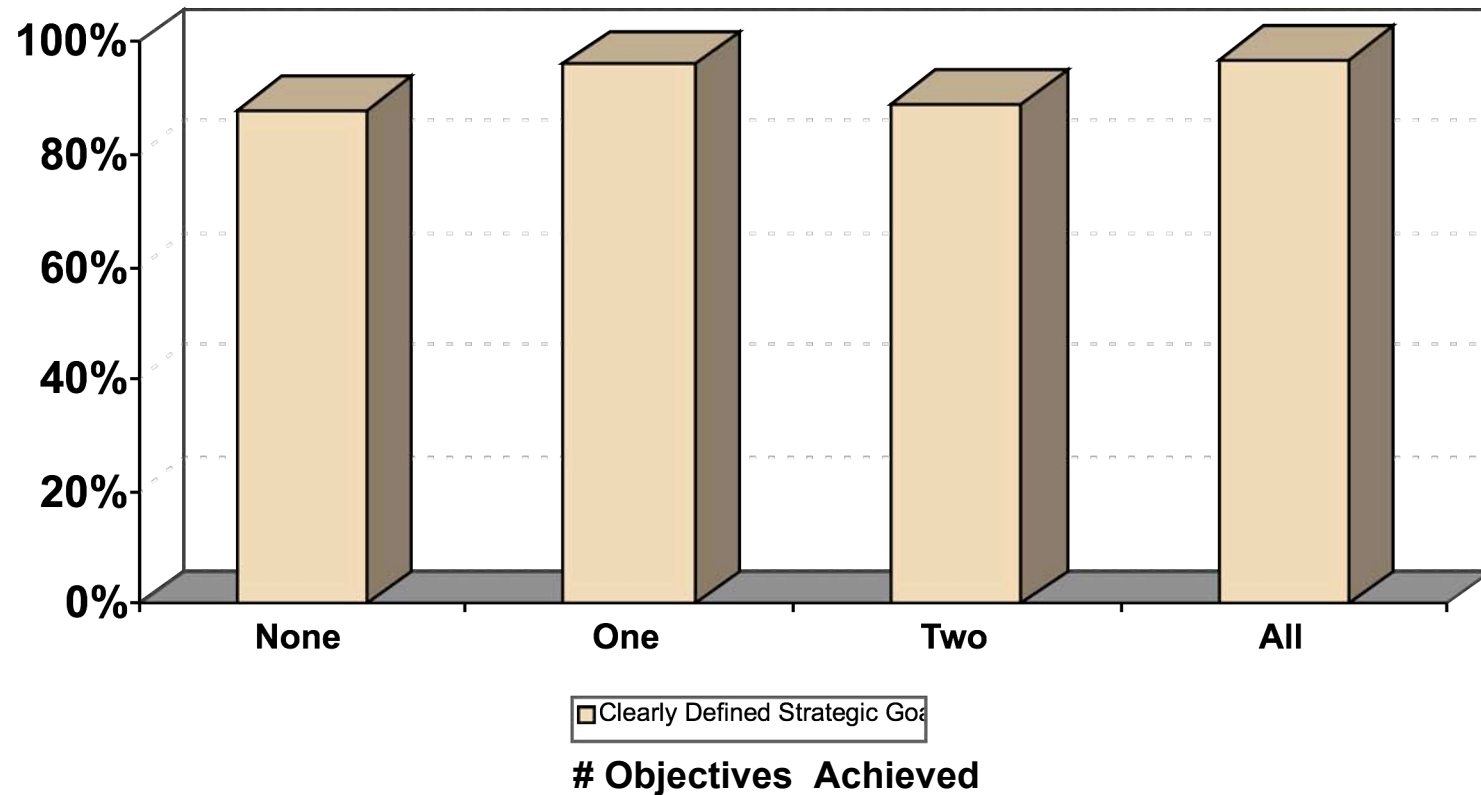
## How do we know there is a problem? The Strategy Implementation Funnel



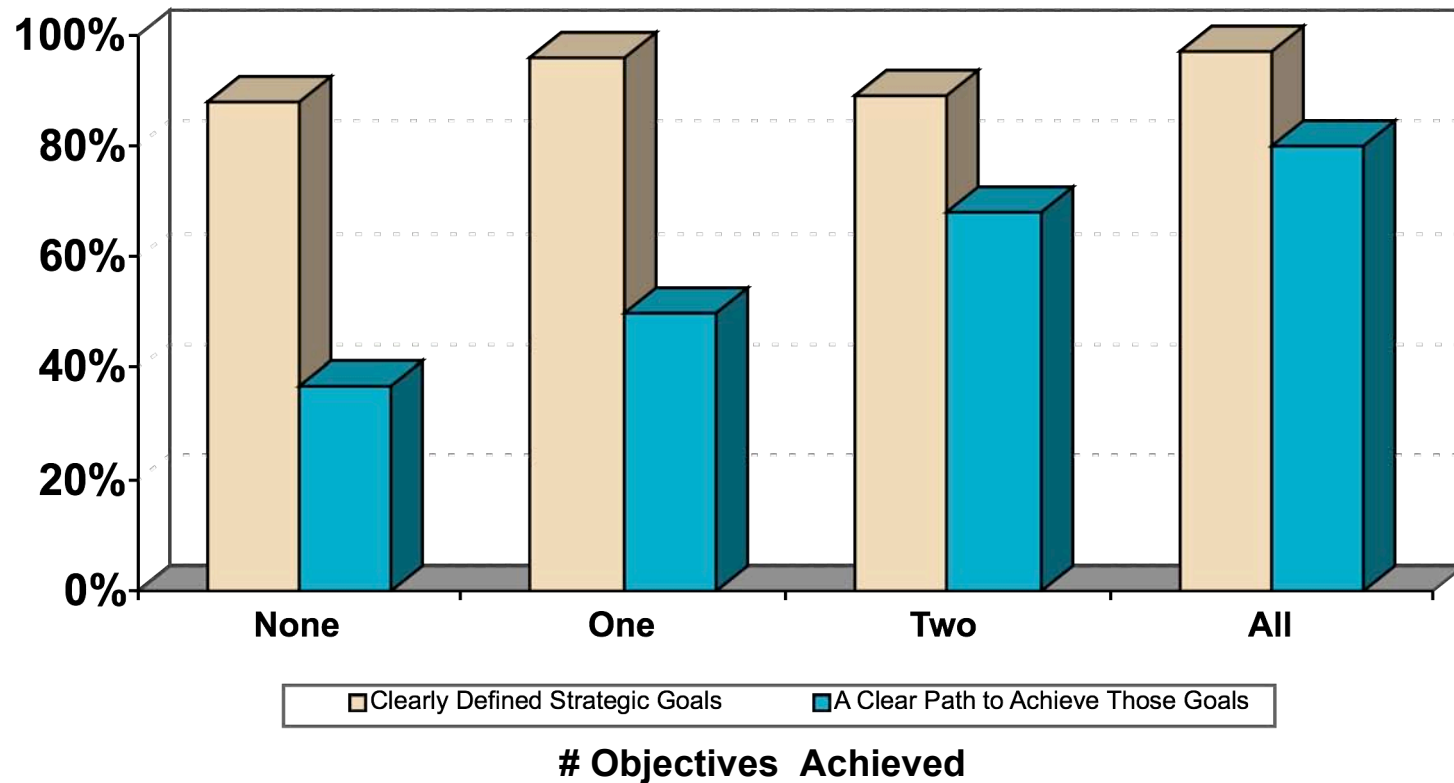
*\*Business Intelligence / Renaissance Worldwide Survey*



## How do we know there is a problem? Simply having strategic goals is not enough...

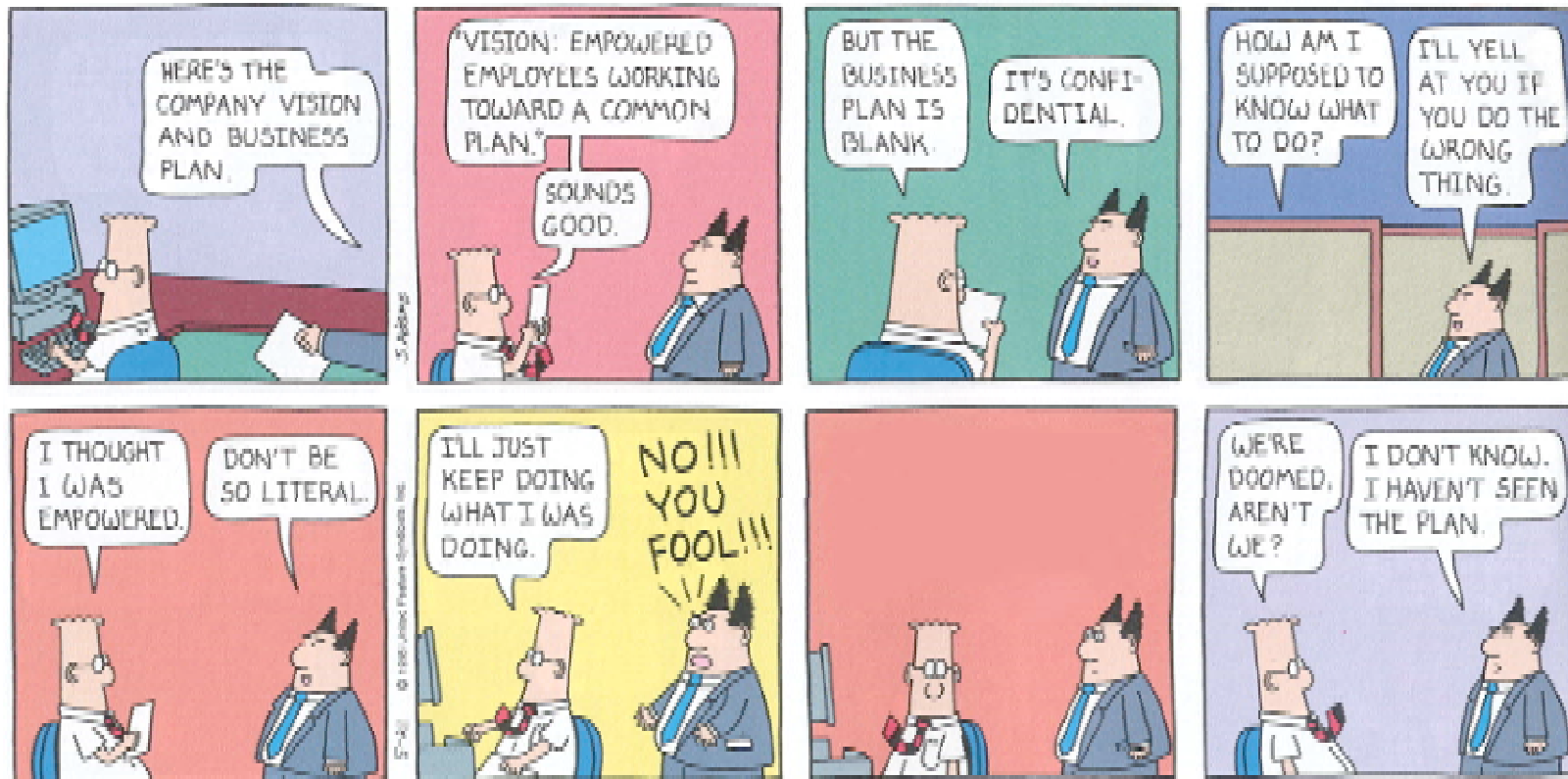


## How do we know there is a problem? ...you need to have and communicate a plan too



# How do we know there is a problem? Poor communication inhibits implementation

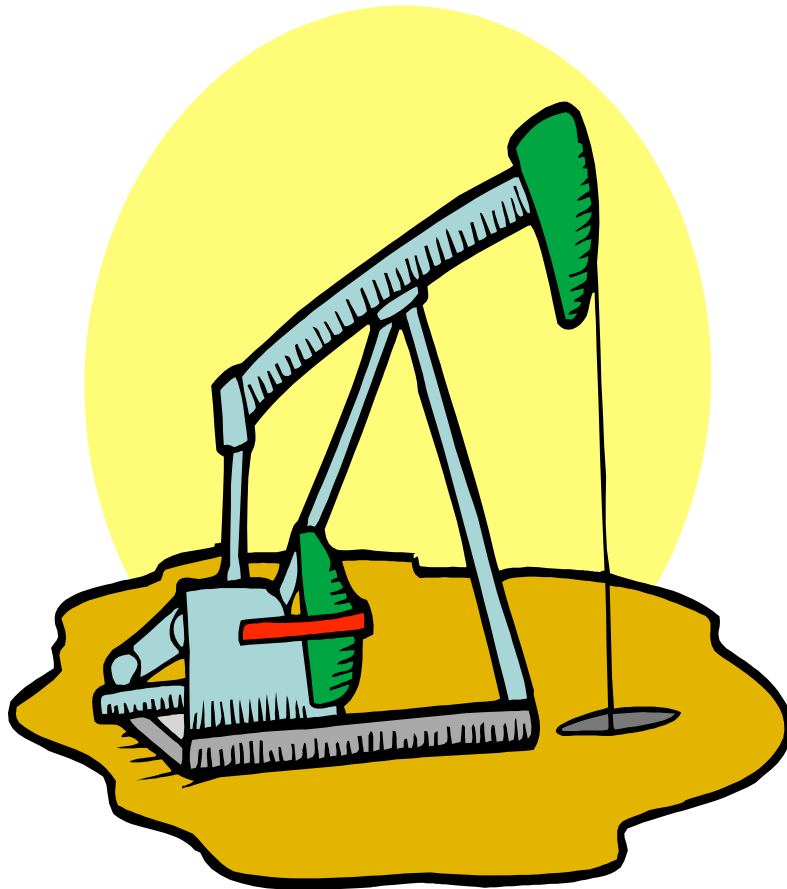
Dilbert



From: "Dilbert - A Treasury Of Sunday Strips: Version 00" by Scott Adams, (Andre ws McMeel Publishing 2000)

## How do we know there is a problem? Case Examples

### Clear as crude oil?

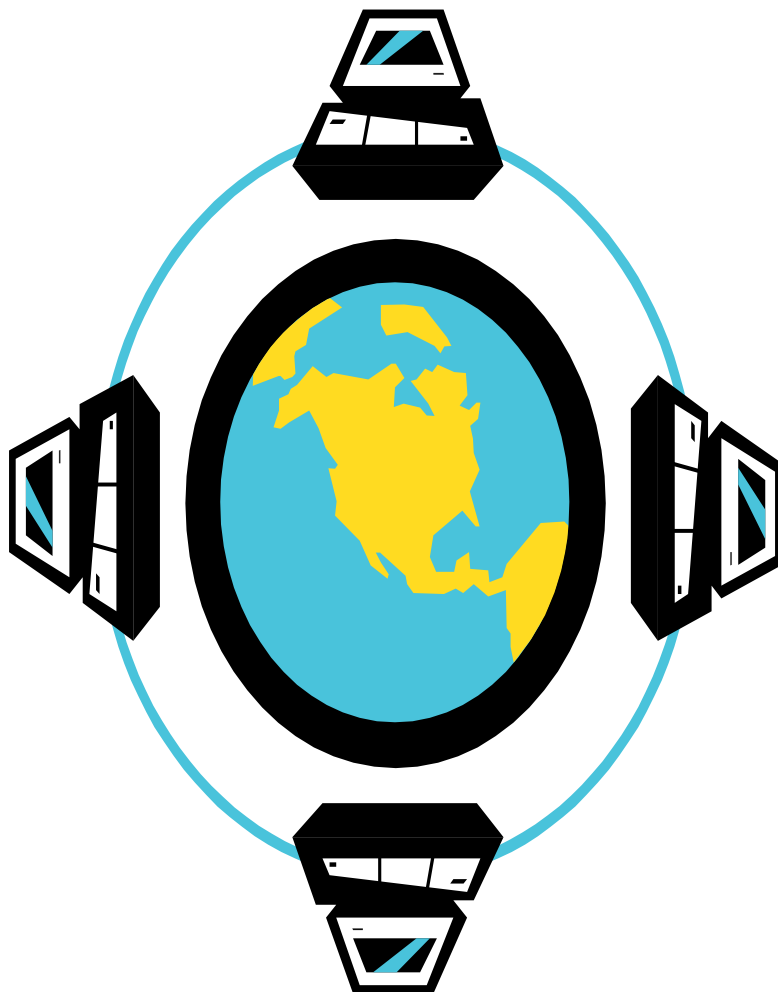


#### OilCo

- During a meeting to begin the process of designing a system to monitor the implementation of a recently developed strategic plan, the company's senior managers and Board Level executives were asked:
  - “What is the biggest obstacle to designing the monitoring system?”
- Over 40 of the 50 managers present replied:
  - “Not knowing what the Board is expecting of us”

## How do we know there is a problem? Case Examples

### Dot-com confusion?

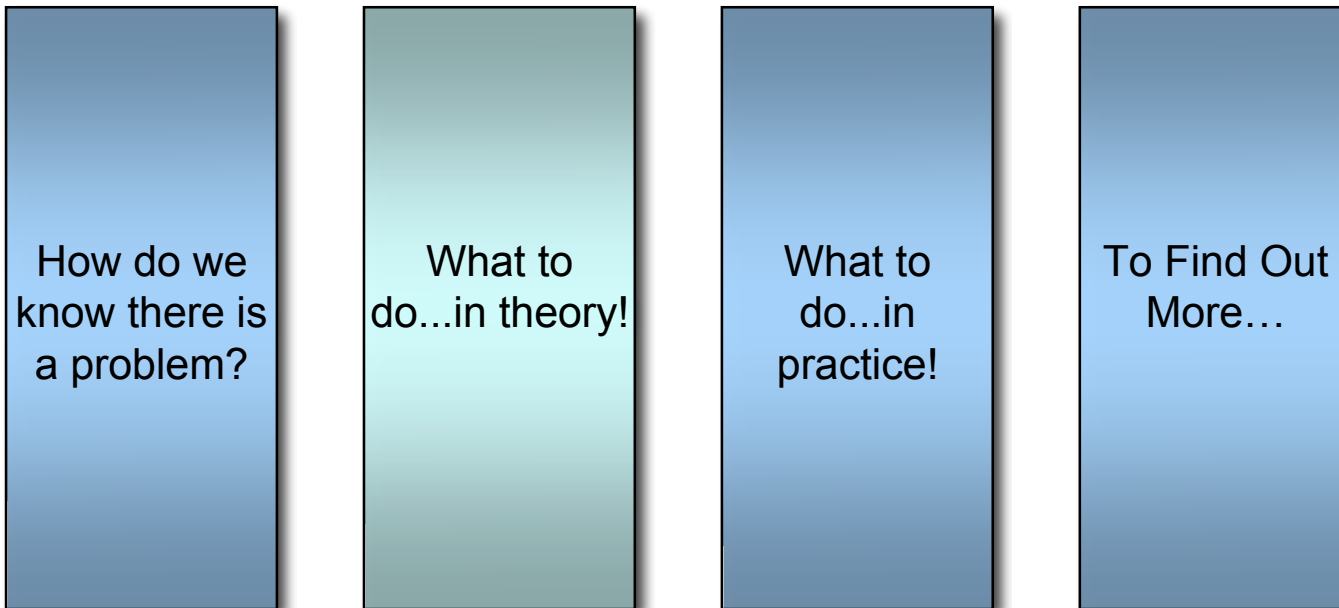


#### ISP

- During a workshop to clarify and articulate the medium term strategic goals of a major European ISP, the executive management team were asked to review their internal and published documents relating to their strategy
- The group were asked to combine these diverse statements into a single document
- The consensus of the group at the end of the process was that the resulting composite statement did not describe their true goals for the organisation

## Using the Balanced Scorecard to Drive Strategy

### Structure of presentation



## What to do...in theory!

### Academics agree there is a problem

**“A superior strategy implemented ineffectively is much less likely to be successful”**

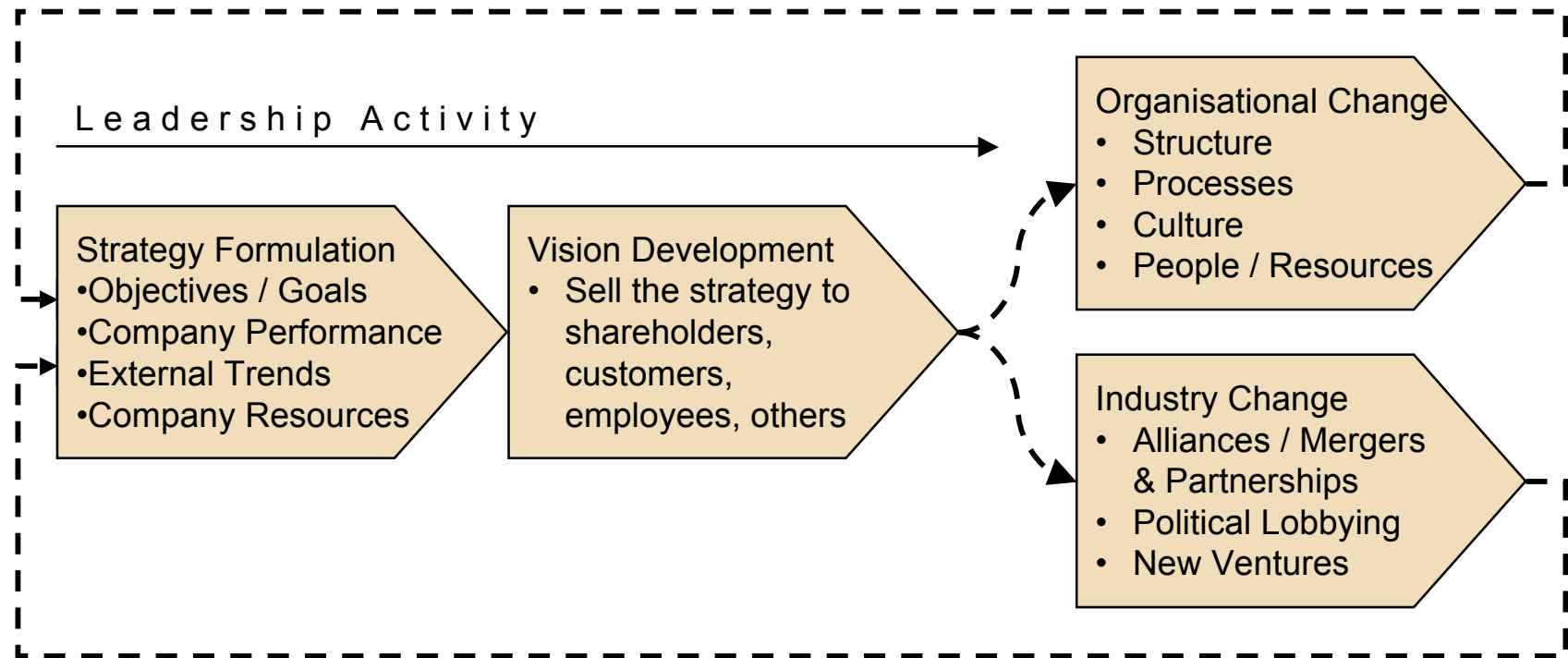
- Raman Muralidharan & Robert D. Hamilton III in “Aligning Multinational Control Systems” – Long Range Planning Vol. 32, No. 3, pp. 352 – 361 (1999)

**“What is a company’s purpose? How does it make money? What processes does it use? While we may once have thought we understood these questions with some clarity, few thoughtful executives today are certain of the answers. The difficulty in discerning what a business is explains why so many efforts at corporate revitalization have failed”**

- Timothy T. Baldwin, Camden Danielson & William Wiggernhorn, in “The Evolution of Learning Strategies in Organizations: From Employee Development to Business Redefinition” – The Academy of Management Executive, November 1997, Vol. XI, No. 4, pp. 47-58.

## What to do...in theory!

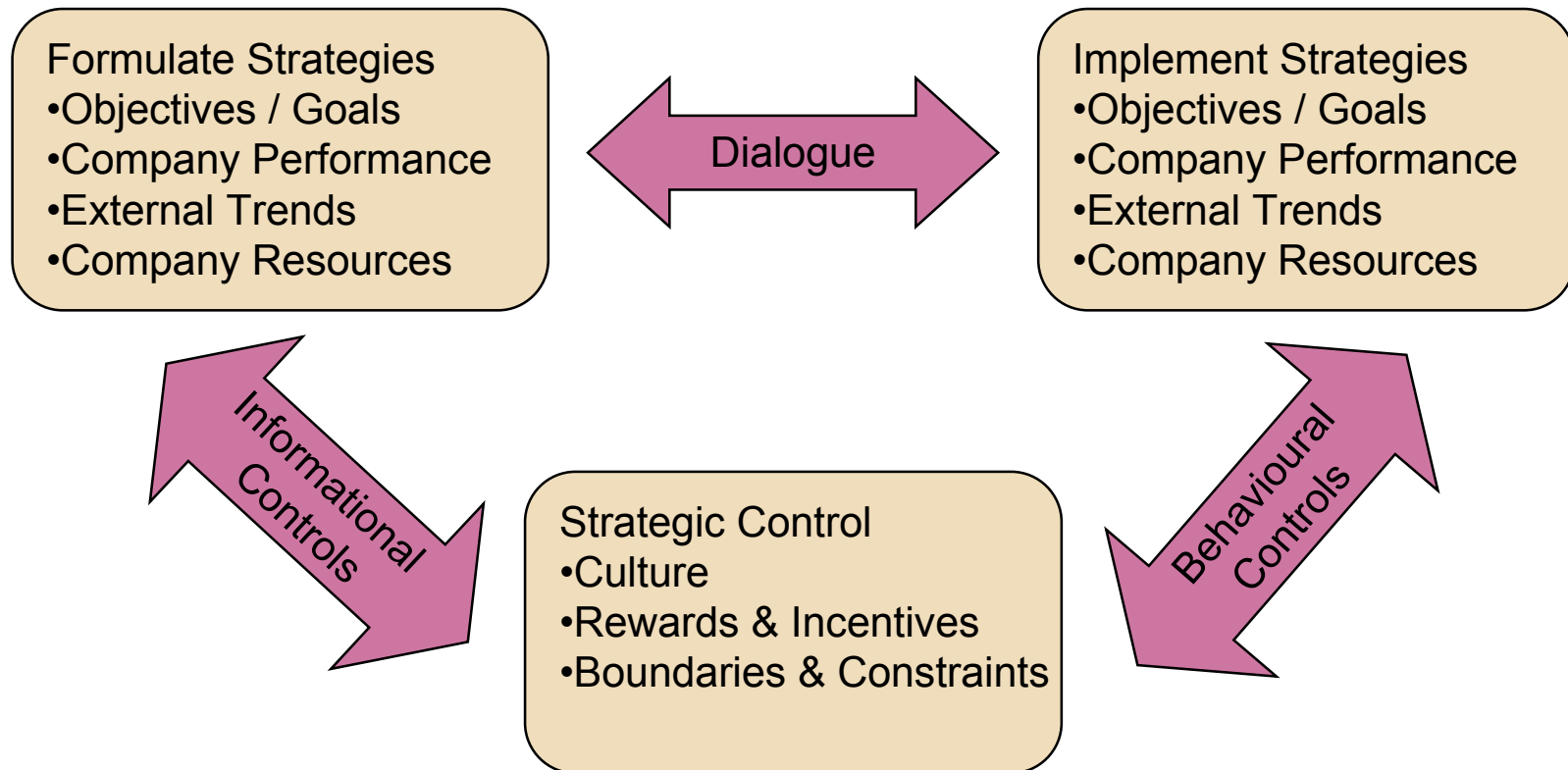
### Some see the problem as one of strategic process



After: "The return of strategic planning – once more with feeling" by Bernard Taylor  
(Long Range Planning Vol. 30, No 3, pp. 334 to 344, 1997)

## What to do...in theory!

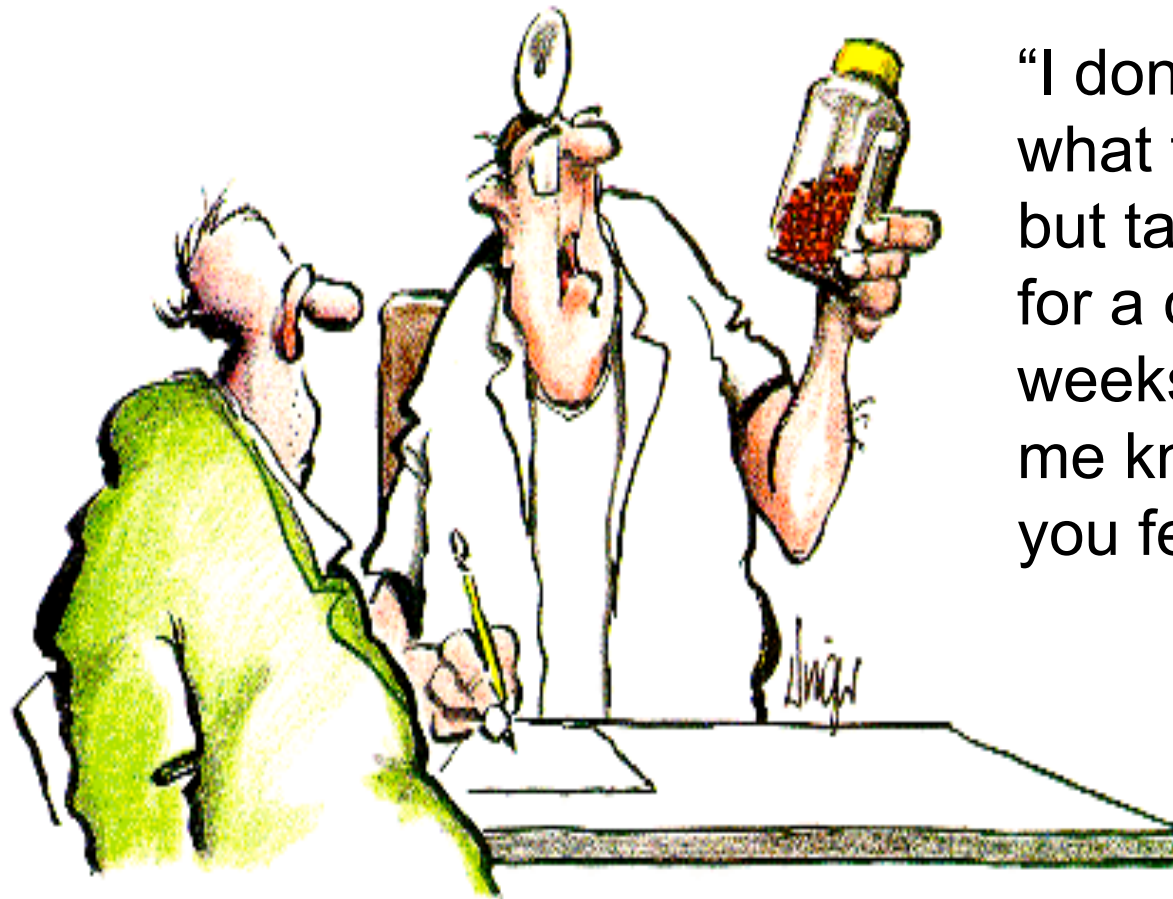
### Others see the problem as communication based



After: "Out of (Strategic) Control" by Joseph C. Picken & Gregory G. Dees  
(Organizational Dynamics, Summer 1997)

## What to do...in theory! Observed behaviour...

### 1) Experiment



“I don’t know what these are but take them for a couple of weeks, and let me know how you feel.”

## What to do...in theory! Observed behaviour... 2) Do what worked last time...

“If we compared average rainfall in the month preceding and the month following the performance of the Hopi rain dance, we would find more rain in the period after.

The dance is not performed unless there is a drought, so such a comparison would be misleading.

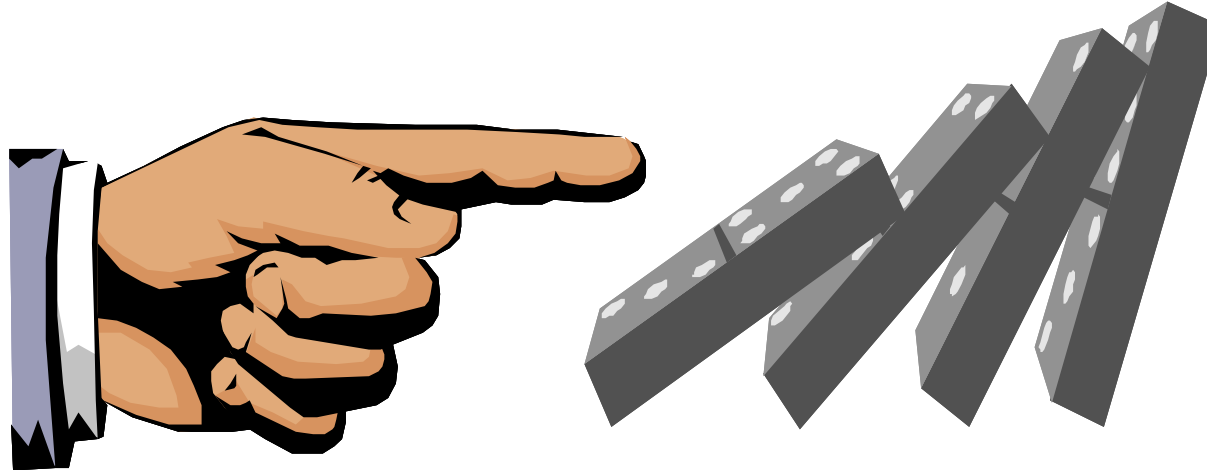
Nevertheless, this “slump-ending” effect may help account for the tenacity of belief in the effectiveness of the ritual.”

- Gamson W.A. & Scotch N.A. *Scapegoating in Baseball 1964.*



## What to do...in theory! Observed behaviour...

### 3) Come up with a plan based on causality



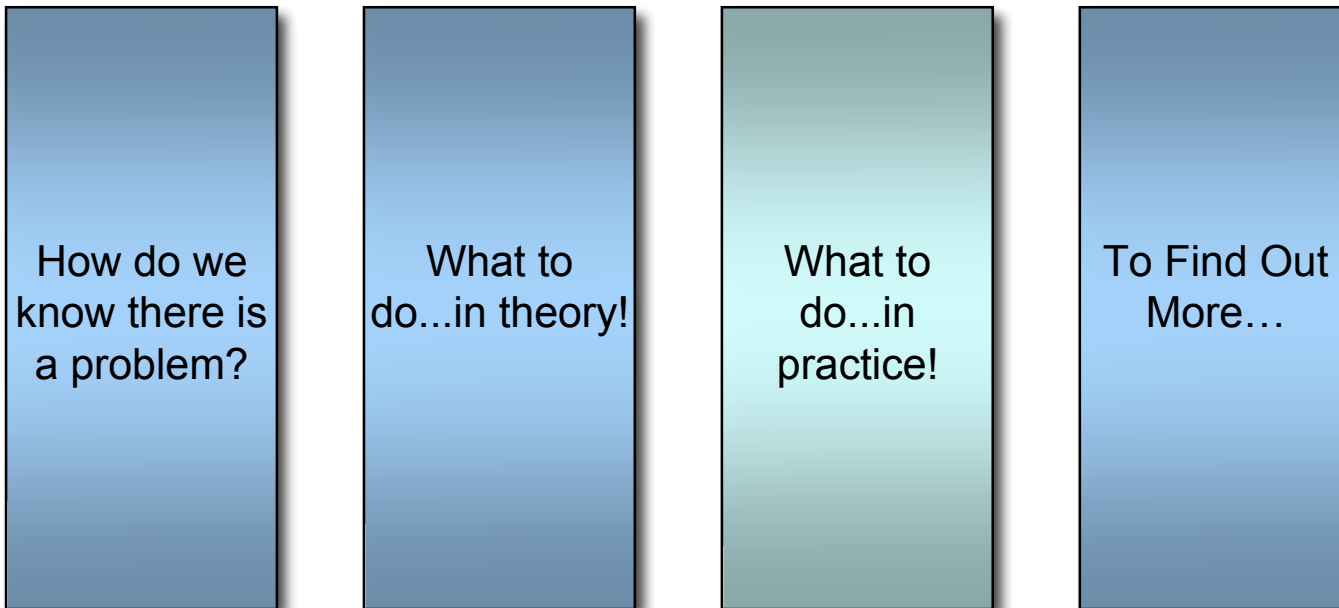
**Most strategic plans are based on some view about underlying causality:**

- Most managers are looking for ways ‘to get things done’
- Understanding of causality for operational activities is much greater than for ‘strategic’ activities
- But even intuitive strategies are usually ‘justified’ as a requirement of planning processes

**But what matters is the explanation of how a plan is expected work, rather than a plan that can be ‘proven’, and the agreement of all those involved to try the plan**

# Using the Balanced Scorecard to Drive Strategy

## Structure of presentation



# What to do...in practice!

## Seven Causes of Strategic Implementation Failure



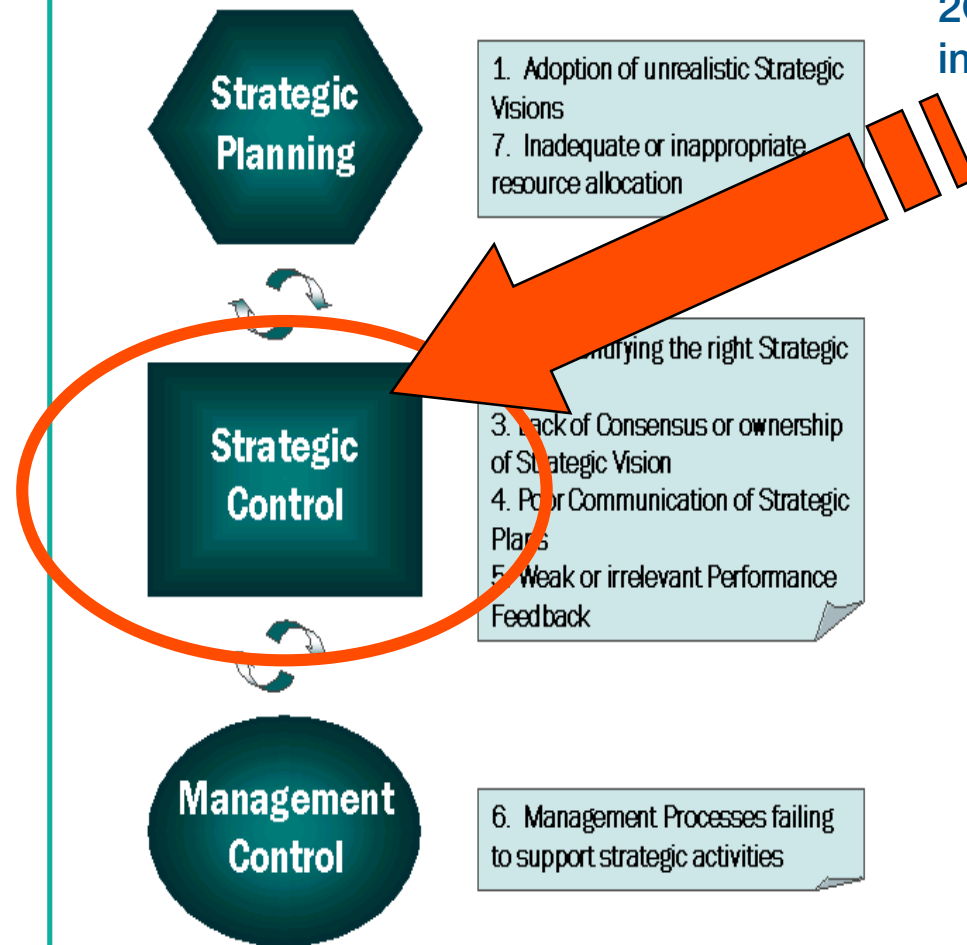
### 2GC has identified seven causes of strategic implementation failure

- o Adopting Unrealistic Strategic Visions
- o **Not Identifying the right Strategic Goals**
- o **Lack of top team consensus on or ownership of Strategic Vision and Goals**
- o **Poor Communication of Strategic Plans**
- o **Weak or Irrelevant Performance Feedback**
- o Management Processes that fail to support strategic implementation activities
- o Inadequate or Inappropriate Resource Allocation

Source: 2GC Working Paper "Why do only one third of UK companies realise strategic success?" by Ian Cobbold & Gavin Lawrie, May 2001.



## What to do...in practice! 2GC's view



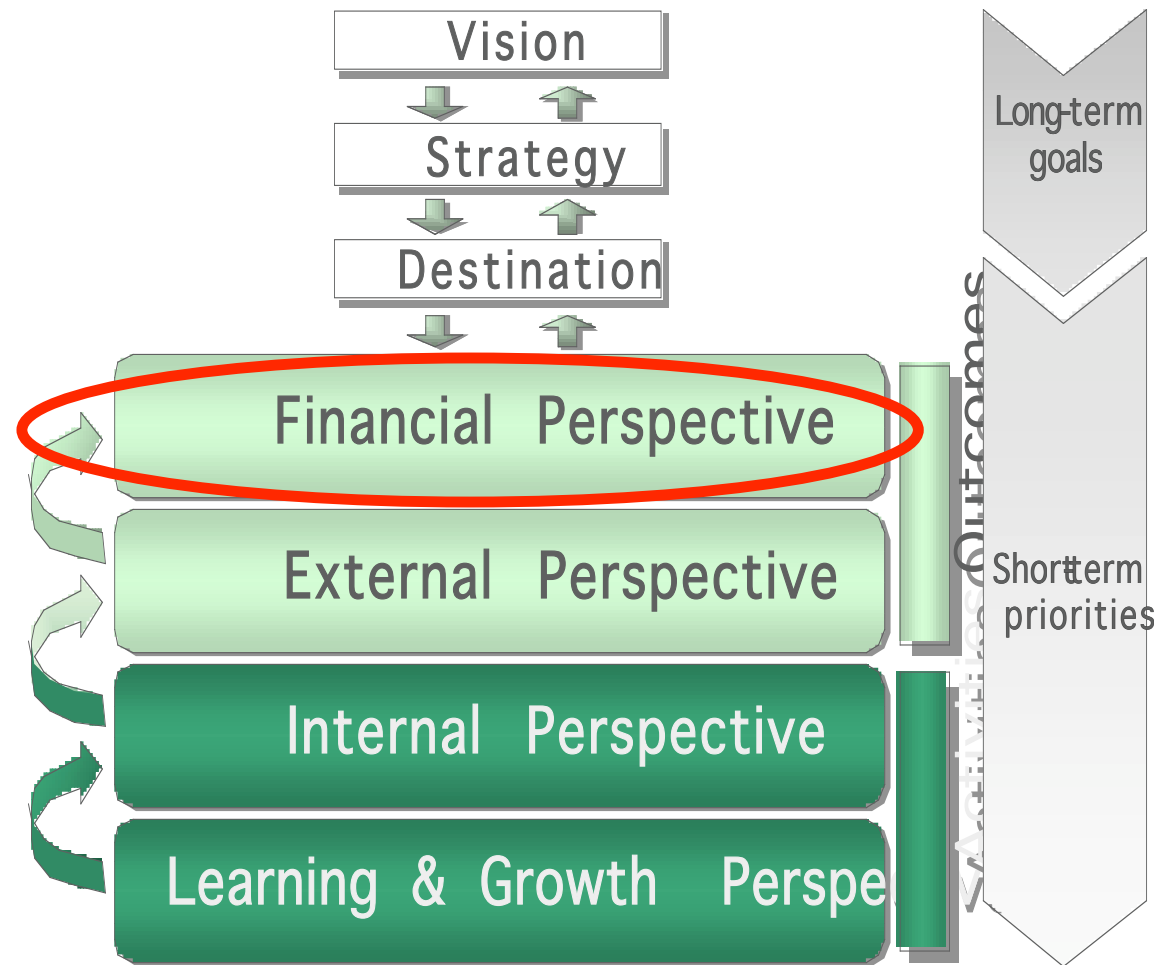
### 2GC focus in this presentation is on improving Strategic Control

- We think this requires the following:
  - Improving the articulation of strategy
  - Building ownership of the strategy within the organisation
  - Enhancing strategic communication & dialogue
  - Improving performance feedback information quality and use

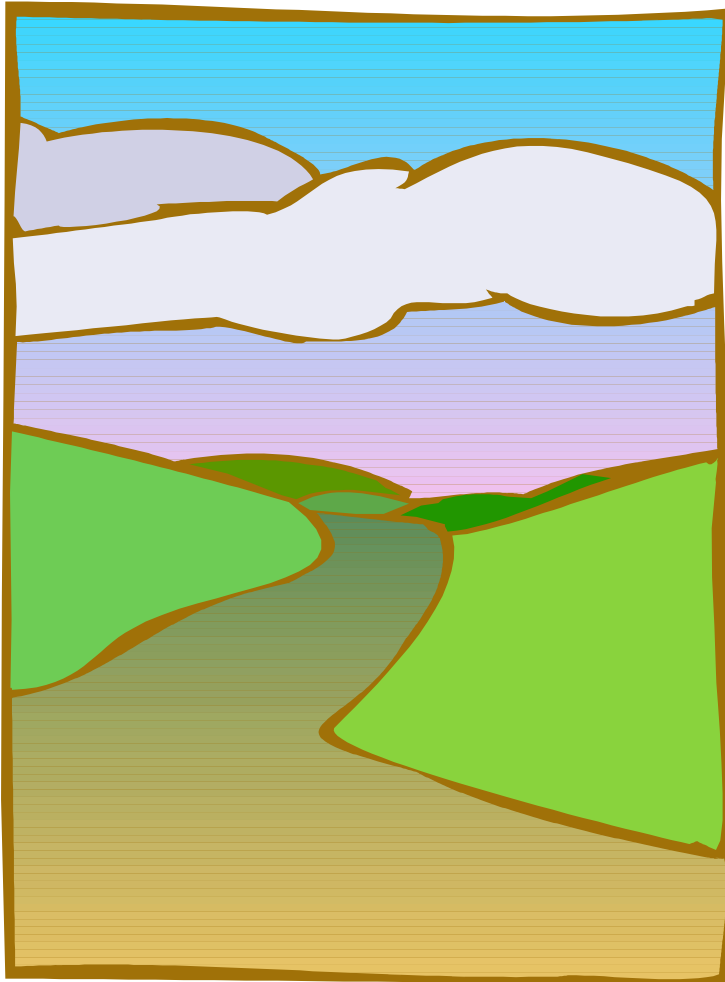
Source: 2GC Working Paper "Why do only one third of UK companies realise strategic success?" by Ian Cobbold & Gavin Lawrie, 2000.

# What to do...in practice!

## Translating long-term goals into short-term priorities



## What to do...in practice! The concept of “destination”...



The actions and outcomes selected for a Balanced Scorecard design usually have different time horizons

Creating a description of one or more “destinations” helps locate the selection of targets, and makes for easier communication to in and external constituencies

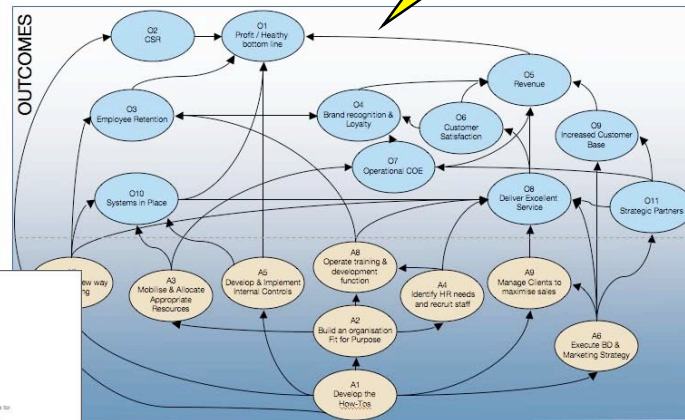
# What to do...in practice! Improving the articulation of strategy

The “objective driven” Balanced Scorecard has emerged as best practice from years of development around the world

- They are more flexible, and easier to develop, communicate, maintain, and “cascade”
- They have been proven across a wide range of industries and functions

Causality is shown by linkages between the objectives selected

Strategic Linkage Model



## Destination Statement Sep 2012

### Financial and Buyer Expectations

- F101 - We have a turnover of RM3000m from circa RM2000m. Contributing circa RM500m License sales RM500m SLAM optimization.
- F102 - We have a net profit of RM300m (8%).
- F103 - ABC Ltd is owned by the founders 60%, staff 20% and external/venture capitalists 20%.
- F104 - Our sales revenue is split 70% private sector and 20% public sector.
- F105 - Our sales revenue is split 70% large 20% medium and 10% small organisations.
- F106 - We make 85% of our sales revenue in Malaysia, 10% in Europe and 5% in the rest of the world.
- F107 - We have successfully acquired (and possibly integrated) two consulting businesses: one of 100 or so people and one smaller specialist of 20 people and have established efficient resourcing capability.
- F108 - We have a focus on growing our “army” services covering recurring contracts (“army” revenue) and regular repeat purchasing from long-term clients (“army” relationships).
- F109 - We have established a “franchise” model for growth outside Malaysia.
- F110 - We have an established process for evaluation of options to expand our services outside of the Delphi world (DR, Bero, Saha) (Profit/loss capability).
- F111 - We have a business that is attractive to potential buyers, having:
  - Sustainable revenue and profit growth
  - Long-term customers
  - Scalable processes
  - Market leadership
  - Strong management

### Processes & Capabilities

- P1 - Our use of on-line document collaboration allows us to share standard templates so that our business process and support systems are repeatable and efficient.
- P2 - Our best practice sales methodology comprises: planning (accounts, territories, compensation) and management (lead, opportunities, budgets, forecasts) supported by our centralised customer and prospect database.
- P3 - We use clear and well understood processes with defined responsibilities for the qualification and winning of bids, the delivery of projects and post-sale customer management.
- P4 - Our business is supported by an infrastructure comprising HR, training & development, finance and IT.
- P5 - Our learning and sharing culture is underpinned by our Knowledge Management system.
- P6 - Our commitment to people is demonstrated by our investors in People accreditation.
- P7 - We have evolved a strong quality and risk management culture supported by effective and proven management processes.
- P8 - We have integrated marketing processes that enable: campaign planning, ROI analysis, integration into the sales process and multi-channel capabilities, while continually promoting and strengthening the ABC Ltd brand.

### External Relationships

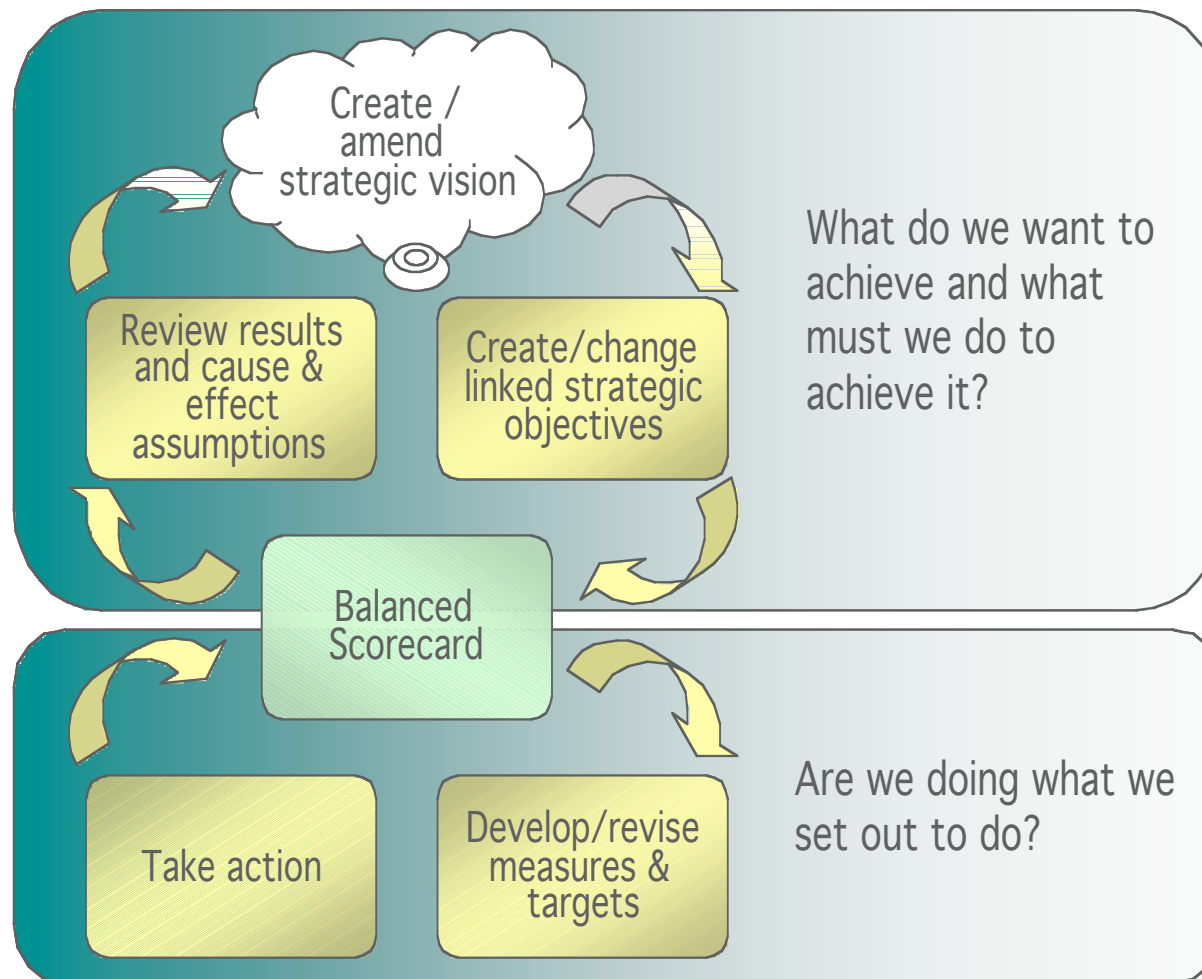
- ER1 - We are Malaysia’s leading independent consultancy providing expert advice and solutions to the Delphi community and our clients see us as their “trusted advisor” in all matters relating to Delphi - the company, their product and services, and their strategies.
- ER2 - Our clients benefit from our ability to understand of their business drivers and trends within their vertical industry sector.
- ER3 - We optimize clients’ use of Delphi technology and services to maximize their ROI.
- ER4 - Delphi Corporation management see ABC Ltd as an enabler of growth at low cost, through innovative routes to market.
- ER5 - Delphi sales see ABC Ltd as a trusted sale partner.
- ER6 - ABC Ltd’s employees see being with the company as the best career move they ever made.
- ER7 - ABC Ltd are consistently quoted by the Malaysian FT press as Delphi’s partner.
- ER8 - ABC Ltd’s key supplier/partner relationships are with:
  - Delphi
  - Management consultants
  - Delphi software specialist
  - The associated contract agency market
  - Staffing/partner agencies
- ER9 - Our suppliers see ABC Ltd as one of their most valued clients.

### Organisation & Culture

- OMC1 - We have a “can-do-will-do” culture.
- OMC2 - We have strong Intellectual Property in our people, processes, systems, SLAM and our customer database.
- OMC3 - We have a communication programme that successfully allows our employees to be fully up to speed with all relevant information.
- OMC4 - We have established a performance management framework that enables alignment of individuals’ performance to the company’s business objectives.
- OMC5 - We have successfully recruited the right people with the right culture fit for all job functions.
- OMC6 - We have maintained our strategy to outsource non-core business functions.
- OMC7 - Our success as a “trusted advisor” comes from our continual focus on putting our clients first.
- OMC8 - We celebrate our successes and share and learn from our failures.
- OMC9 - We have, where ever possible, maintained a predominantly virtual office approach.
- OMC10 - We have approximately 150 full-time employees.
- OMC11 - We have a less than 10% attrition rate.
- OMC12 - We have an established personal and career development programme to enable our employees to reach their full potential.
- OMC13 - We have a Finance and HR Director with specific that growth company experience.
- OMC14 - We have developed a strong operational board through developing our own management system.
- OMC15 - We have appointed non-executive directors and board advisor with specific experience in taking companies to trade sale or flotation.
- OMC16 - We maintain an active pool of associates and contractors.

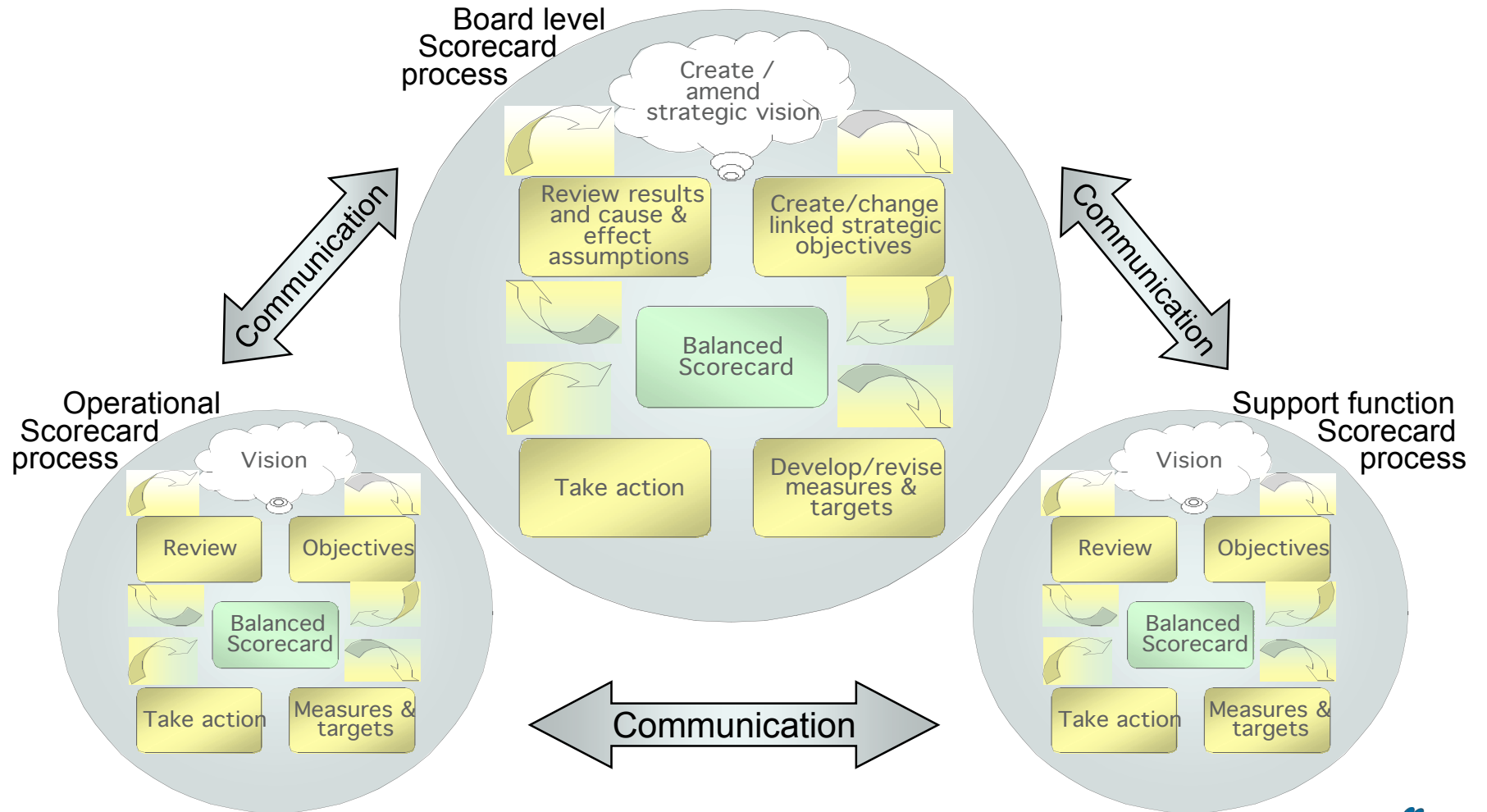
Strategic Objectives developed directly from a detailed “vision” of the organisation at a future date

## What to do...in practice! Enhance Communication and Dialogue (1)



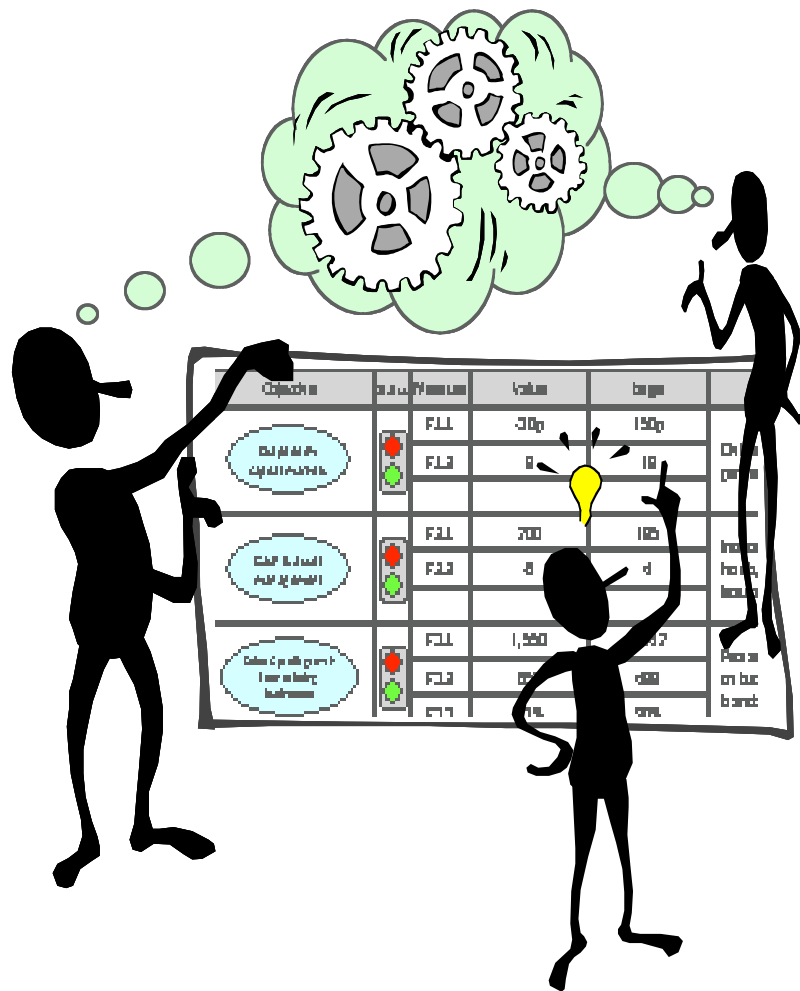
# What to do...in practice!

## Enhance Communication and Dialogue Tools (2)



## What to do...in practice!

### Improving performance feedback quality and use



#### Managers need to be provided with the right information

- This is normally a few items only
- Measures without targets are much less useful
- Measures should be chosen to be directly relevant to their user
- Automation can be helpful

#### Managers need to have the opportunity to review and act on the information

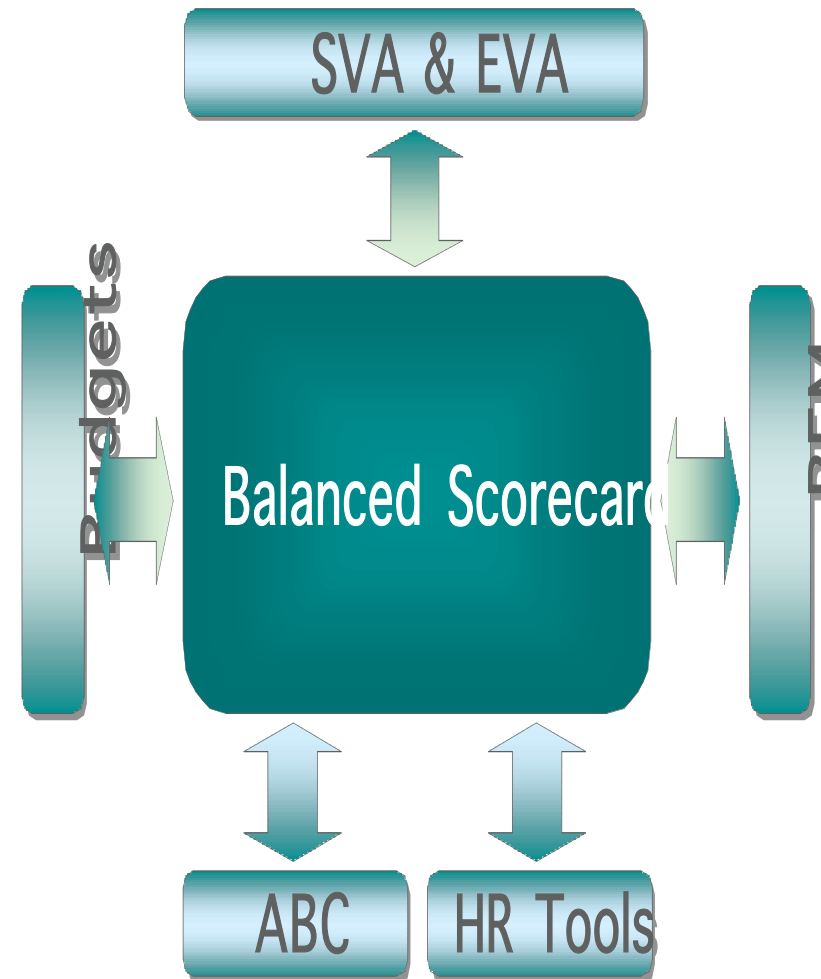
- Time for meetings to do this needs to be found in group schedules
- Work processes must allow managers to respond to information received

## What to do...in practice! Align Processes to Support Strategic Implementation

Using the Balanced Scorecard approach to coordinate purpose and results of all the other necessary and useful management tools helps orchestrate a concerted effort towards the realisation of an overall Vision

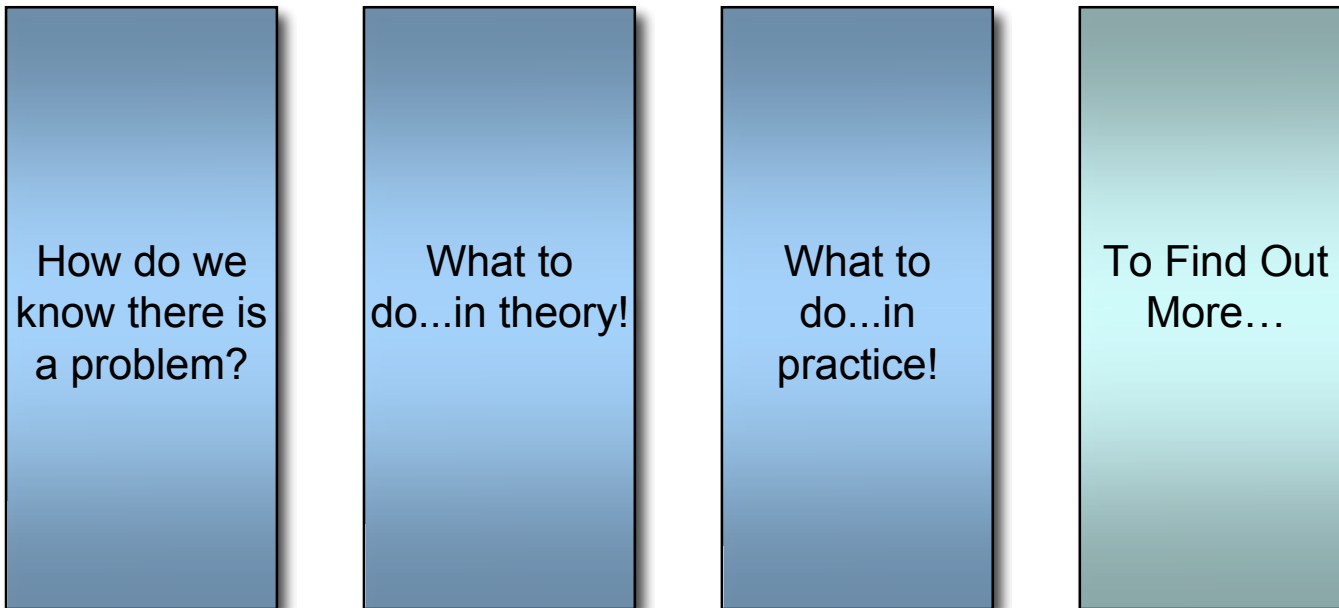
- Without a central strategic management process in place, organisations have a tendency to rely mainly on financial tools (budgets) and risk being governed by short-term financial pressures with little or no focus on the requirements for long-term success

The Balanced Scorecard also provides the context for evaluation of when and where to apply other business transformation tools



# Using the Balanced Scorecard to Drive Strategy

## Structure of presentation



# Using the Balanced Scorecard to Drive Strategy

## To find out more

### Visit 2GC's Web Site

- We focus specifically on strategic control and performance measurement issues, and have a wide range of working papers, FAQs, and presentations to download on these topics
- The site also has a recommended reading list that covers relevant topics, and the "Weblinks" database of relevant Internet sites

### Contact 2GC

- Let us know if you have a question you can't answer, we'll do what we can to help...
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