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INSIGHT, EXPERIENCE & IDEAS FOR STRATEGY-FOCUSED ORGANIZATIONS

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In This Issue:

Special *Book Preview*

ON*Balance*

Managing Innovation

by Robert S. Kaplan

As a measurement/management system, the Balanced Scorecard is consistently lauded for its beautiful simplicity. But for users, the nuts and bolts of scorecard building can seem far from simple. Robert Kaplan and David Norton's next book, due this fall, will be devoted exclusively to strategy maps and key strategic themes in the organization's internal process and learning and growth perspectives that create and deliver the strategy. The book promises readers a rich array of real-world examples and templates to guide them in developing their own maps tailored to their particular strategy, business, and industry.

Over the next four issues, *BSR* will feature previews of Kaplan and Norton's new book. The installments will cover four core processes: product innovation, operations management, customer relationship management, and social and environmental strategies. In this first excerpt, Robert Kaplan probes the process of innovation — all that it comprises and how it is managed — offering a general strategy map and representative objectives and measures.

To sustain competitive advantage, organizations must continually innovate. Successful innovation — creating new products, services, and processes that are well matched to customers' needs and expectations — drives customer acquisition and margin enhancement. Without innovation, a company's value proposition can eventually be imitated, leading to competition based solely on price for its now commoditized products and services.

Companies create considerable competitive advantage when they have the capability to bring innovative products to the market fast and efficiently. In certain dynamic, technologically based industries, such as pharmaceuticals, semiconductors, and telecommunications, product innovation is a prerequisite to even participating. Exceptional innovation capability determines who will be the industry's leaders. That's why innovation should be a component of every organization's strategy.

The Internal Processes of Managing Innovation

Innovation rarely emerges from random experimentation. It needs to be actively managed just like any core process. Our discussion below emphasizes processes for product innovation, and many of the processes should also apply to service innovation. Innovations in the service sector, however, seem to be copied quickly by competitors and thus may not be as valuable a source of competitive advantage.

Managing innovation involves four important processes:

1. Identifying opportunities. Ideas for new products can arise from many sources. Typically, the research and development organization generates ideas based on the skills

Continued on next page

and technological understanding it has accumulated from past innovations. But organizations should not be too inwardly focused in their search for new ideas. They need to generate ideas from external sources, such as research laboratories, universities, and, especially, suppliers and customers. Companies that treat suppliers as strategic partners, rather than just as sources of low-priced materials, can benefit from suppliers' new capabilities and product ideas. Leading-edge customers are, likewise, often a prime source of ideas for new products and capabilities. For example, medical-instrument manufacturers continually speak with leading physicians around the world to discover opportunities for new capabilities that can improve their care delivery. Some typical objectives and measures supporting idea and opportunity innovation are shown in *Figure 1*.

2. Managing the research and development portfolio. Once new product ideas have been generated, managers must select which projects to fund, which to defer, and which to kill. They must determine whether a project should be undertaken entirely with internal resources; collaboratively, in a joint venture; licensed from another organization; or outsourced entirely. Even after a new project is funded, managers must continue to review, in light of new opportunities and resource constraints, whether to keep supporting it at the current level of resources (i.e., money, capital equipment, and people) or to reduce resource commitments that could be redeployed elsewhere. Through the project evaluation process, managers should craft an aggregate project plan that defines the organization's portfolio of projects, their individual objectives, the resources they require, and the mix of internal and external sources that support them.

The research and development portfolio should include a combination of projects:

Basic research and advanced development projects create new science and technology knowledge that can subsequently be used for commercial applications.

Breakthrough development projects create entirely new products, based on applying science and technology in an entirely new way. Typically, such projects establish a new product category or a new line of business.

Platform development projects produce the next generation of products in a given category. The new platform defines the basic architecture for an extended set of products likely to be developed and launched over the next several years.

Derivative development projects enhance or emphasize particular features of the platform product to deliver a modified product targeted to a specific market segment.

Alliance projects enable a company to acquire a new product (or process) from another firm, either through licensing or subcontracting.

Typical objectives and measures for managing the R&D portfolio are shown in *Figure 1*.

3. Designing and developing new products. Through the design and development process — the core of product development — companies bring new concepts to market. A successful design and development process culminates in a product with two key characteristics: its desired functionality is attractive to the target market, and it can be produced with consistent quality and at the targeted cost. Of course, the development process itself must meet its own completion time and cost targets.

Product development involves a complex set of activities that cut across the multiple functions of a business. The typical product development process involves several stages:

Concept development. The project team studies market research, competitive products, and the company's existing technology and production capabilities to define the new product's basic architecture. This stage concludes with a conceptual design that defines the product's functionality and attributes, its estimated price, the potential size of its market, and targeted production costs.

Some references in the To Learn More sections may require readers to join *BSC Online*. If you are not yet a member, we invite you to become one — membership is free. For details, visit **http://www.bscol.com.**

Balanced Scorecard Report

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Figure 1. Innovation Theme: Balanced Scorecard Template

Perspectives		Typical Objectives	Typical Measures
Financial		• Return on R&D investment • Revenue growth: existing customers • Revenue growth: new customers • Manage life-cycle costs	• Return on technology spending • Break-even time • Revenue from new products (existing customers) • Revenue from new products (new customers) • Maintenance cost/manufacturing costs • Disposal cost/manufacturing costs
Customer		• Offer enhanced functionality • First to market • Expand to new segments	• Customer satisfaction with new features • Number of products first to market • Lead time over competition • Number of new applications from platform products
Internal Process	• Identify opportunities	• Anticipate future customer needs • Discover new products and services	• Time spent with target accounts • Number of new projects based on client input • Number of new projects presented for development • Number of value-added services identified
	• Manage R&D portfolio	• Manage product portfolio • Extend current product platforms • Extend portfolio through collaboration	• Portfolio mix (platform, derivative, alliance) • Reach (customer feedback, revenue projections) • Option value of portfolio • Number of life-cycle extension projects • Number of joint projects • Number of technology and product partners
	• Design and develop new products	• Manage project portfolio • Reduce development cycle • Manage development-cycle cost	• Number of patents, citations • Percentage of projects advancing from stage to stage • Total time: concept to market • Average stage time: develop, test, launch • Actual vs. budget (by stage)
	• Launch new products	• Rapid launch • Effective production • Effective marketing and distribution	• Time from pilot to full production • Manufacturing-process yield • Number of failures and customer returns • Initial warranty costs • Number of safety incidents • Six-month revenues
Learning & Growth		• Achieve deep functional expertise • Develop interdisciplinary (ID) teams • Deploy advanced modeling tools • Use technology for rapid launch • Capture knowledge from external community	• Human capital readiness (strategic job families) • Percentage of R&D employees on ID teams • Percentage of R&D employees using tools • Percentage of products launched with CAD/CAM • Peer review of capabilities

Menu of typical objectives and measures.

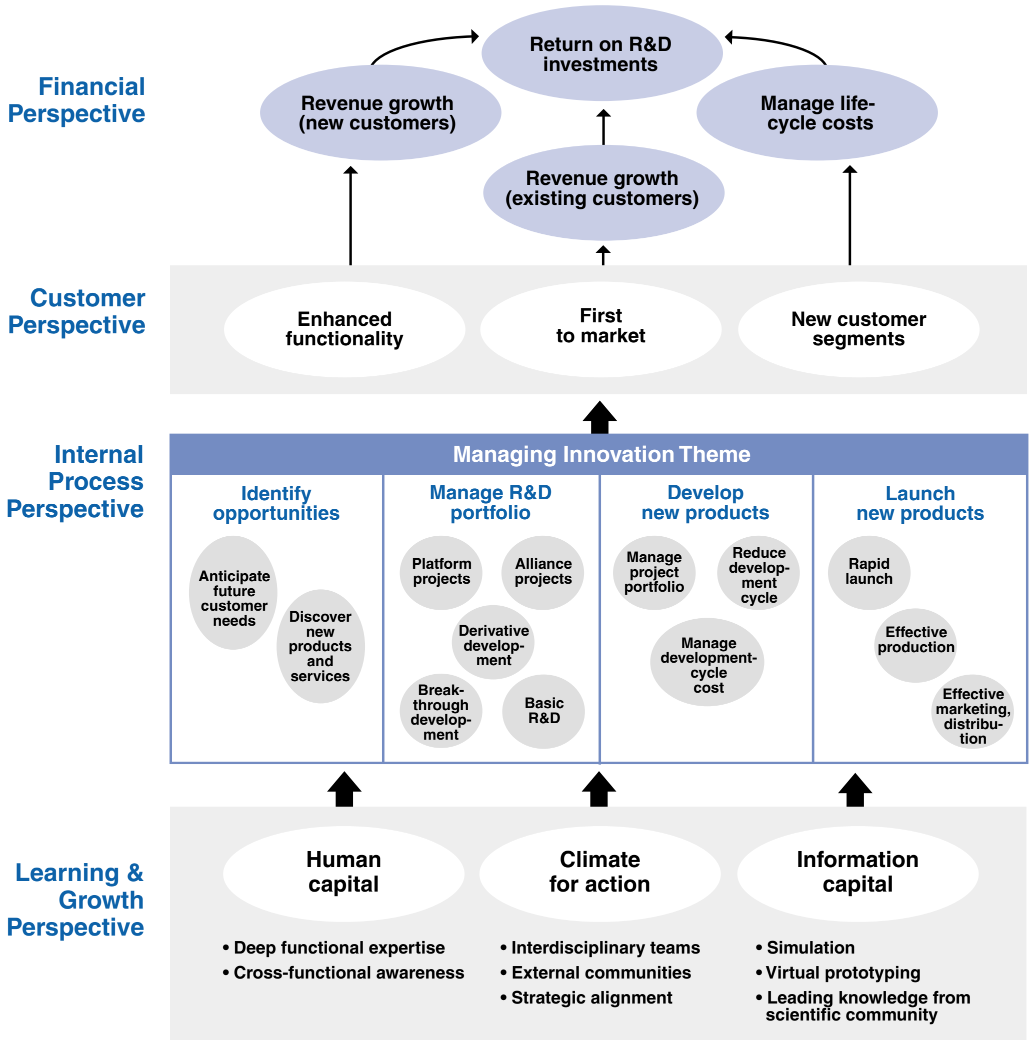
Product planning. Next, the project team tests the product concept through model building and small-scale testing. It also assesses the product's economic viability through investment and financial planning.

Detailed product and process engineering. The project team then designs and produces working prototypes. Simultaneously, they design the tools and equipment necessary for large-scale production. Several design-build-test cycles can occur (often involving customers). Each cycle modifies the product design and the production process to achieve the desired performance characteristics of functionality, cost, and quality.

Some companies use a so-called stage-gate model for evaluating a project's progress and authorizing additional funding. Each gate in the model represents a go/no-go decision; engineers and managers compare the project with others in the company's new-product pipeline that compete for the same scarce development resources. The stage-gate model provides discipline to the often chaotic product-development processes. It forces managers to review periodically every project in their pipeline. It also gives them the option to pull the plug on any projects that, based on new information, no longer seem promising. Thinning the project population enables the company to focus its development resources on the most promising opportunities.

Continued on next page

Figure 2. Innovation Theme: Strategy Map



With the considerable diversity in project management processes across industries, generic objectives and measures won't do. Companies need to develop their own customized objectives and measures; ideas to stimulate readers' thinking appear in *Figure 1*.

4. Bringing new products to market. When the product-development cycle concludes, the project team releases the product for initial ramp-up to commercial production. In this fourth process, the project team starts pilot production to finalize production specifications. The team builds all the components on the prototype production equipment and then assembles and tests the finished product to answer the following questions: Can new or modified manufacturing processes produce the finished product at commercial volume levels that meet functional, cost, and quality standards? Can suppliers deliver their materials and components to spec, on time, and at targeted costs? When production feasibility has been proven, the company begins commercial production at low-volume levels to ensure that its production processes and those of its suppliers can consistently produce and deliver the product. At the same time, the marketing and sales organizations begin to sell the new product. As customer orders increase and the supply and production processes stabilize, production is ramped up further. The development project concludes when the company achieves sales and production levels that meet their desired targets for product functionality, quality, and cost. Representative objectives and measures are listed in *Figure 1*.

Innovation Linkages to the Customer Perspective

Companies with excellent innovation processes offer customers a two-pronged value proposition. (See *Figure 2*.) The first (Enhanced Functionality) represents the specific performance attributes of the company's products and services. These attributes describe how the new product or service outperforms competitive offerings. By communicating the most important functionality aspects of new products and services, the company is also teaching its employees about the specific performance dimensions that the company must continually strive to enhance. The second component is time (First to Market). Companies that excel at innovation and product leadership bring their superior products and services to market faster than competitors. Faster availability, in turn, delivers a competitive advantage to customers.

A third customer objective (New Customer Segments) relates to the company's ability to extend its new product capabilities into new markets. Pharmaceutical and agricultural chemical firms frequently discover that a new compound is effective for applications beyond the one initially targeted. Since the compound has already passed governmental tests for safety and toxicity, the approval process for its new applications is far less onerous.

Customer objectives and measures for managing innovation effectively therefore encompass functionality, timeliness, and market innovation, as shown in both figures.

Linkages to Financial Objectives

The financial objectives of the innovation theme relate, of course, to revenue growth and enhanced margins from new products. (See *Figure 2.*) New products that are first to market and that offer distinct advantages over competitive products should either command a price premium or generate above-industry-average sales growth. Thus, revenue and margin objectives can be developed for both existing and new customers. Another important objective is to earn a return on R&D spending.

Innovation is not often associated with productivity and cost reduction. But there are decided benefits to recognizing the linkage between innovation and cost management. The main one is the opportunity to manage costs over the entire life cycle of a product. Companies may wish to establish an objective for lowering the cost of maintenance, repair, and disposal of their products. Product environmental issues are especially important in European countries, where regulations require companies to internalize the cost of "put back" (recycling) for their products.

Learning and Growth Linkages

Competencies (Human Capital)

Clearly, innovation would be impossible without deep expertise in the science and technology underlying new products and processes. Innovative companies need scientists and engineers with the appropriate education and experience in the organization's fundamental technologies. But deep competency in a given science or engineering field is, by itself, unlikely to create successful innovation. Most important advances today require integrating science and technology from multiple disciplines. Another key competency, therefore, is employees' ability to work with scientists and engineers from other disciplines and backgrounds and to integrate diverse knowledge bases into product performance breakthroughs.

Beyond their ability to integrate technical expertise, product development engineers need to interact effectively with employees from functions outside of R&D, such as marketing, operations, and finance. Such integration is essential if development projects are to meet their goals for functionality, quality, manufacturing cost, and launch time.

Thus, the competency theme supporting innovation processes calls for scientists and engineers who have strong skills in the underlying technical disciplines and an ability to work effectively on multidisciplinary projects with multifunctional teams.

A summary of all learning and growth objectives and measures appears in *Figure 1.*

Technology (Information Capital)

Increasingly, information technology (IT) is a vital component of any important product-development process. Project teams use advanced three-dimensional simulation in lieu of physical mockups to experiment with and test alternative designs. Virtual prototyping is faster, is less expensive, and allows more design cycles and learning than traditional prototyping with physical models. In pharmaceutical research, computational skills and capabilities have become as central to the research effort as biology and chemistry skills.

Information technology should also enhance the sharing of knowledge and project experiences across the organization's functions, departments, and geographic units.

And IT is embedded in flexible manufacturing equipment that allows new products to be introduced into production quickly and produced at commercial levels without the company having to acquire entirely new machines. The handoff from design to manufacturing is expedited considerably when project engineers' computer-aided design (CAD) terminals interface with production's computer-aided manufacturing (CAM) equipment.

Climate for Action

As we've said, teamwork — including cross-disciplinary, cross-functional cooperation — is critical for successful innovation projects. But employees must also embrace a culture of creativity and invention. The organizational climate should foster the acquisition of knowledge from outside the company and overcome the natural tendency to derogate advances made by scientists and engineers outside the company ("NIH" — not invented here). Company scientists and engineers should continually be engaged — at scientific conferences, with leading universities, and in the scientific literature — so that they remain active participants in the underlying scientific bases of their companies' products and services.

Next in the series: Strategy Maps for Operations Management

Reprint #B0301A

A New Road Map to Performance Management: Volvofinans and the BSC

by Lauren Keller Johnson

When Sweden's Volvofinans made its first foray into building a Balanced Scorecard in 1996, its executives never dreamed that within a few years it would someday be named to the BSC Hall of Fame — or that it would receive the highest overall ranking among Swedish finance companies. But Volvofinans won both honors in 2002. For this small but powerful lender, the Balanced Scorecard has illuminated a route to impressive success — though not without a few bumps along the way.

A Rocky Start

The story begins in 1996, when Volvofinans started looking for a new performance-management system to address a troubling lack of shared vision throughout its workforce. The company, headquartered in Göteborg, Sweden, cast about for a tool that would enable it to involve all employees in working toward established targets, as well as to assess its own overall performance. Intrigued by Sweden-based insurer Skandia Group's experience with the Balanced Scorecard and by Kaplan and Norton's *Harvard Business Review* articles on the subject, the company's then managing director and its business controller, Marianne Söderberg, assembled a scorecard team.

Though Volvofinans's finance head had BSC oversight, scorecard team members found the scorecard's inclusion of nonfinancial perspectives particularly attractive. This offered a way to measure and communicate intangible assets, such as intellectual capital, that would enable them to treat employees as the vital asset they are in any service company.

Despite the team's enthusiasm, the project soon stalled, according to Söderberg, because of the lack of a clear connection to the company's mission. Consisting solely of PowerPoint slides and Excel spreadsheets, the scorecard was also difficult to circulate and use by more than one person at a time. As Söderberg explains, "It became what we call a 'sleeping mission' — just a lot of good words that we put in a drawer."

KEY STRATEGY-FOCUSED ORGANIZATION PRINCIPLE

Making Strategy Everyone's Job

Building

Nearly one-third of Volvofinans's workforce took part in BSC-building seminars.

An open, decentralized culture encouraged employees to challenge managers' ideas — on everything from strategic vision to language used in BSC.

There was an emphasis on nonacademic, accessible language.

The company allowed extra time for BSC development to ensure employees understood this was their tool, not just management's.

Sustaining

Frequent use of the BSC in internal meetings helps everyone see where they contribute to strategy and performance targets.

BSC is intranet-accessible to all employees.

New hires get BSC orientation.

Employees are educated through ongoing communications: mailings, meetings, and seminars.

A Second, Better Try

The scorecard remained in the drawer until August 2000, when Björn Ingemanson became Volvofinans's new managing director. Concerned by internal surveys that revealed declining employee commitment, satisfaction, and knowledge of company goals, Ingemanson set out to revive the earlier effort. He felt confident that the BSC would prove a natural fit for Scandinavian business culture, which emphasizes consensus, goal setting, and follow-up. (It's no surprise that as many as 50% of Swedish companies are believed to use the BSC.) The impending divestiture of AB Volvo's 50% ownership stake in Volvofinans to Ford Credit International added to the pressure for change.

But this time around, Volvofinans did things differently. It built a new IT system that facilitated easy BSC use and circulation on the company intranet. In addition, it sought guidance from Balanced Scorecard Collaborative's Swedish office.

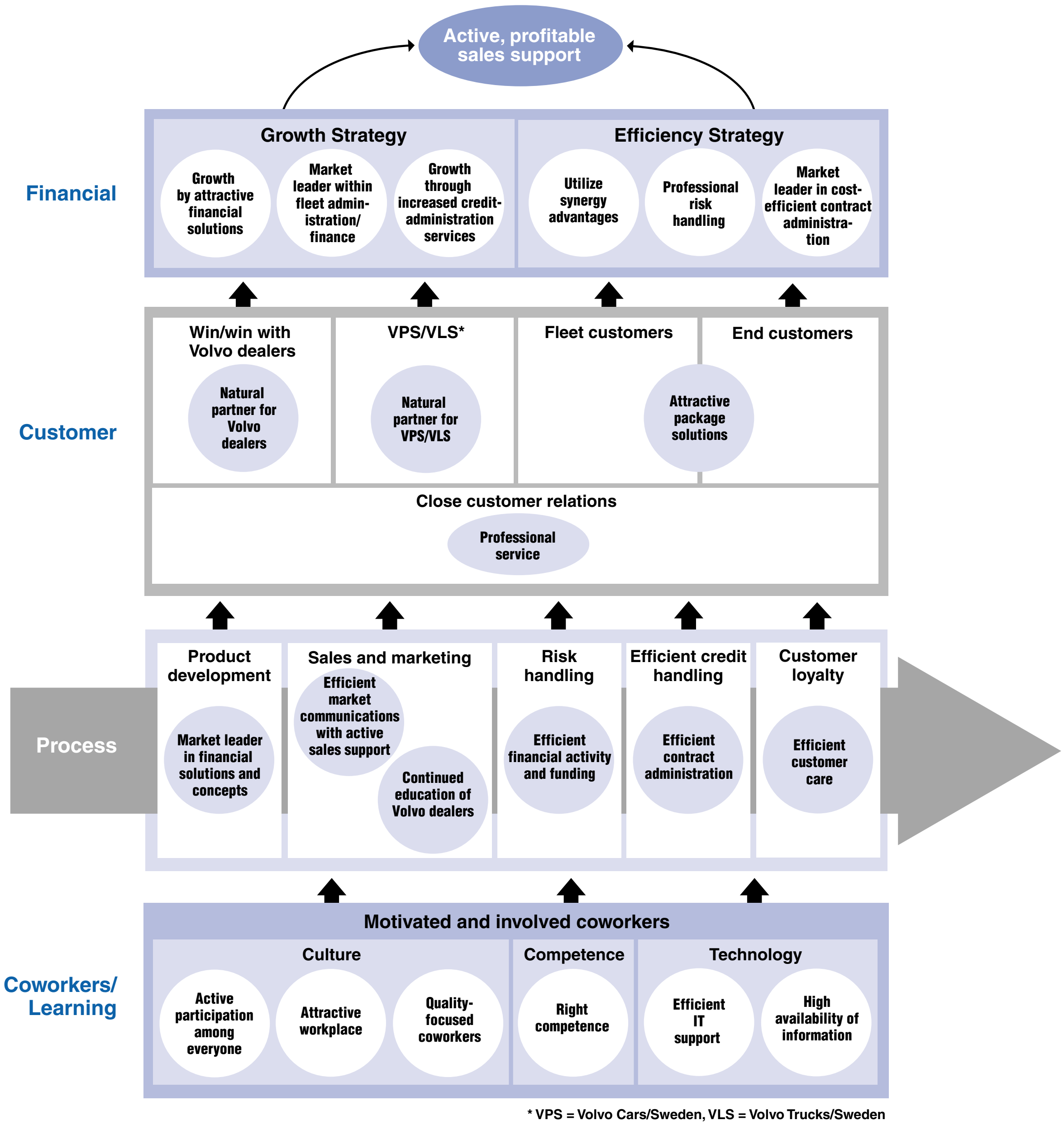
The company also focused the new incarnation of its scorecard on the Strategy-Focused Organization principle of "making strategy everyone's job." According to Ingemanson, at that time most of Volvofinans's employees still lacked a clear picture of the company's vision and goals. Moreover, few people outside the management team participated in strategy discussions and the development of current and future business. Yet the company boasted an open, decentralized culture in which employees felt free to speak their minds and challenge management's ideas.

It was time to take advantage of all that intellectual capital.

Building the Scorecard

From the start, the principle of making strategy everyone's job powerfully shaped the scorecard-development process. For example, the scorecard team offered a series of seminars attended by managers and employees from a cross-section of functions and levels — a whopping attendance rate of one-third of the company's workforce at the time. As

Figure 1. Volvofinans's* Vägvisaren *(Road Map)



Volvofinans's rank-and-file employees defined most of the scorecard's objectives and measures.

Volvofinans's management team suggested perspectives and objectives, employees began defining performance metrics. The goal was to identify the activities and targets needed to align the workforce behind the company's strategy of promoting the sales of Volvo and Renault vehicles in Sweden through competitive sales-financing solutions attractive to dealers, private customers, and companies.

The seminars lasted several days, during which the employees challenged managers' ideas, suggested different metrics, and shared their visions of Volvofinans now and in the future. As Söderberg points out, it was the lower-level employees who translated the managers' more abstract language into concrete, accessible terms. And it was these same employees who ultimately defined most of the scorecard's objectives and measures. The employees far outnumbered the managers, so it wasn't surprising that these meetings turned lively.

During this phase of the project, the Balanced Scorecard team faced two big challenges: ensuring that the scorecard's language wasn't overly academic and that employees understood that the tool was intended as much for them as for management. The scorecard team addressed these challenges by devoting more time to the development process than members had first anticipated. Their patience paid off: the team managed to get all departments onboard with the project.

Continued on next page

By spring of 2001, the team had put the final touches on their Balanced Scorecard "Vägvisaren," or Road Map. (See *Figure 1*.) As the rest of that year unfolded, they began cascading the scorecard down to the various departments. By the end of 2002, all departments had their own road map populated with measurable targets supporting the company's overall strategy.

Impressive Results

Volvofinans's second scorecard effort has produced remarkable results. For example, a recent employee survey showed that employees have a markedly stronger grasp of strategy at both the department and company levels than in 1996 — when the survey revealed no common vision among employees at all. According to this same survey, morale and commitment to company goals have also improved substantially, as has the workforce's mastery of general industry information. As Söderberg explains, employees throughout Volvofinans talk about strategy more often and more openly than before. They know more about how the industry and the company work, and they understand what's most important to the firm.

The widespread awareness and support of strategy has sparked tangible results, too. In 2001, the company's total lending climbed 13%, to SEK 23.5 billion (about $3 billion). By the end of that year, its contracts numbered 213,500 — a 5% increase over the previous year. (By contrast, Sweden's GDP grew 1% in 2001.) Its share of the new-car financing market through Volvo dealerships in Sweden reached 57% — up from 51% in 2000. For used-car financing, the figures were 45% and 44%, respectively. Volvofinans achieved all this during a year in which car sales and new registrations actually declined.

To Ingemanson, the BSC has not just honed Volvofinans's competitive edge, but it has also further stimulated creative thinking. The company launched "Volvo Carloan," an innovative way to finance a car that includes an insurance component that pays the customer's monthly auto-loan bill if she loses her job or develops a long-term illness. Today, more than 100,000 customers are on the Volvo Carloan plan (and almost all of Volvofinans's competitors have since launched similar products). In addition, the company's efficient service is reflected in its cost per administered contract — the lowest in its market. In fleet management, customers order their company car via the Internet, a lower-cost solution because it requires less human interaction.

The financing industry has taken notice. In 2002, Volvofinans moved to first place in Image Survey International's ranking of Swedish finance companies — up from third place the year before. According to the survey respondents (600 randomly selected decision-makers from firms with more than 20 employees), Volvofinans ranked higher than any other Swedish finance company on six measures: fees and interest rates, availability, customer service, handling of loan applications, adaptation to customers' needs, and marketing communications. Its scores on three additional criteria — reliability, staff expertise, and flexibility of terms — also topped the industry average.

Volvofinans's Road Map: Now and in the Future

Currently, Volvofinans's management team meets monthly to review the scorecard, update its metrics in real time, and make strategic decisions. During the few days before each meeting, managers review their entries and add comments. Any employee can view the scorecard at any time he wishes. The BSC's steady presence serves as a reminder that everyone is invited to propose new and better ways of doing things. "Since our strategy is known to every employee and broken down into local BSCs at each department," Ingemanson explains, "it becomes more obvious to coworkers how each and every one contributes to achieve the strategies and the targets."

To further sustain the principle of making strategy everyone's job, the company has also established a process for educating employees on the scorecard. All new hires receive a two-hour introduction to the Balanced Scorecard, and that learning is reinforced through frequent mailings, departmental meetings, and seminars throughout the company. In addition, a portion of managers' bonuses are linked to scorecard performance. In the future, Ingemanson expects that the entire bonus system will be linked to the BSC.

Volvofinans communicates the scorecard to other constituents as well. For example, the board of directors sees the scorecard during some quarterly meetings. In addition, at its annual gathering with Sweden's 85 Volvo dealers — who own the other 50% of Volvofinans and constitute a core customer segment — the management team presents parts of the scorecard and the company's performance record for that year.

What about additional future changes to the scorecard? In the coming year, Volvofinans plans to update its Road Map again to reflect its recent decision to reduce the number of objectives and add a new one on quality, which was prompted by problems it recently experienced with its IT system. Moreover, the company is considering cascading some objectives down to the individual level.

As Ingemanson notes, Volvofinans is well on the road to addressing the concerns about shared vision that it had identified back in 1996. Satisfied — and more professional — employees, he says, are now creating satisfied customers, who, in turn, are becoming loyal devotees of both the Volvo brand and Volvofinans.

To Learn More

Visit www.volvofinans.se.

Reprint #B0301B

Catalyst for Convergence: The BSC Makes News at Media General

An interview with J. Stewart Bryan, Chairman and CEO, Media General
by Avery Hunt

J. Stewart Bryan

Through the 1990s, Media General, the Virginia-based independent communications conglomerate, underwent a massive transformation, shedding old businesses and acquiring others that fit the company's new regionally focused strategy. Competitive pressures and technological changes in the media business demanded rapid revenue growth and greater synergy among its many (and disparate) media businesses. Here's how CEO J. Stewart Bryan orchestrated, with the help of the Balanced Scorecard, a successful reorganization that positions Media General for the 21st century.

BSR: *Could you set the stage for Media General's need for change?*

J. Stewart Bryan: Even though we've been in business for more than 150 years, we are a relatively young company as we're structured today. We can map that change from 1990, when we faced a number of competitive challenges, including the growing popularity of cable TV and the advent of the Internet. There was also a general decline in newspaper circulation. To grow and be successful — to generate new revenues and operating synergies — we had to become more focused. The course we chose was to adopt a regional focus, returning to our roots here in the Southeast.

BSR: *How did Media General return to its roots?*

Bryan: Getting there required some difficult measures. Our businesses were spread all across the U.S., each run as a separate entity. Step one was to sell a number of our properties outside of the Southeast. By 1995, we had three newspapers, three TV stations, a cable system, and a newsprint operation. Step two was to grow. From 1995 through 2000, we made several strategic acquisitions, buying 22 newspapers and 23 TV stations, and selling our cable and newsprint operations. And that's when we recognized the need for innovative measurement systems. We had our earliest discussion about the Balanced Scorecard in 1998. At that time, our planning was focused on identifying goals and critical success factors, but there was no real measurement system to track our progress.

BSR: *How has your regional strategy worked?*

Bryan: Our regional focus has many advantages that have helped fuel our growth. It has allowed us to cluster and converge our operations, which means not only that we use our resources more effectively, but also that we can sell our products and services across various markets and media. That substantially strengthens our revenues. The regional focus also enables us to cover issues of common interest on a variety of subjects, from college sports to local politics to regional business.

BSR: *Describe Media General's goals.*

Bryan: Our mission is to be the Southeast's leading provider of information, news, and entertainment. And we are well on our way to accomplishing that by developing and providing high-quality content that we want to deliver to our customers wherever, whenever, and however they want it. Our belief in high-quality journalism isn't just altruistic; if we offer the best local news and local information and accompany that with community service (a long-term commitment for us), we know we will be successful. By bringing together the unique strengths of our newspapers, television, and Internet media, we are giving our customers a much richer and higher-quality product through what I call "convergence." And by combining that richness of content with our multimedia advertising packages, we generate new revenues.

BSR: *Please explain "convergence" in more detail.*

Bryan: Convergence means coordinating our different media in a given market or region to provide quality information in the way each does best — but delivered from a comprehensive and unified perspective. Editors from our newspapers, broadcast stations, and interactive Web sites sit together at a common news desk and make daily decisions on covering a given story from their three vantage points. We've begun implementing convergence in six markets. In Tampa, where we are well

Continued on next page

At a Glance

Media General
Richmond, Virginia

Founded: 1850 (with the *Richmond Dispatch*); Media General (conglomerate) formed in 1969. CEO Bryan's great-grandfather was one of the company's earliest owners.

Holdings: 25 daily newspapers, 26 TV stations, Internet operations.

Key markets: Southeast U.S., from Virginia to Tampa, Fla.

Market position: Ninth-largest publicly traded publishing company.

BSC adoption: 2000.

along that path, we've already demonstrated that enhanced product quality does indeed provide opportunities for new revenues.

With convergence, we're trying to make our journalists understand and use the various strengths of our different media. We don't expect our newspapers to be TV stations; we want them to use their own particular strengths — in-depth coverage, historical perspective, and analysis. Conversely, we're never going to replace what's good about our local TV stations — their strong video coverage. And the Internet has several unique strengths — 24/7 coverage that can be continually updated and the unlimited capacity to post speeches word for word or give detailed box scores. When these three media work together, something larger and better than the sum of their parts is created.

BSR: *How has the Balanced Scorecard helped Media General achieve convergence?*

Bryan: Even without the scorecard, convergence would have happened. However, the BSC has really put us on track, by helping us articulate and communicate our values to everyone. It has given us a common language — across our different media platforms — and common ways to measure our successes.

Don't think this is easy. Convergence requires strong teamwork, communication, and a high level of cooperation across divisional, traditionally separate (to the point of rivalry) lines. Broadcast, newspaper publishing, and interactive media represent three very different cultures. For the past two years, the Balanced Scorecard has helped facilitate massive culture change. Employees who otherwise would never cooperate now work toward common goals. By developing the BSC, our employees understand our mission and our strategy. At the same time, we've gained a much deeper understanding of our customers' needs.

Customer surveys are one of the major initiatives that evolved from our Balanced Scorecard process. Through these surveys, we determine what we need to do to provide our customers with superior products and services and to measure how well we do these things.

We also use community feedback to determine top community concerns. We then measure how often and how comprehensively we cover these issues in our newspapers and newscasts.

BSR: *What advice would you give executives about implementing the BSC?*

Bryan: Regardless of the size of your implementation team (we had six people from a cross-section of our media and business sides), it's important to stay in close touch with your executive leaders. You should also look for ways the scorecard can replace existing processes. It should not just become one more thing to do; that kills buy-in from already busy department heads. The scorecard really needs to be integrated into the mainstream of management activity. It's not an alternative, but must be how you report results on a regular basis.

If you begin with a committee, be sure to make the handoff to operational managers. You can't run a company by committee. Ownership of the scorecard needs to be taken over by the regular management structure.

Finally, I'd encourage you to stay flexible on targets. Unlike financial budgets, many of these items are being measured for the first time. If a department head calls and says that he or she has a better idea on a measurement or can't imagine what the thinking was when targets were set, be willing to make changes. Flexibility is very helpful to generating buy-in. Keep in mind that the scorecard is different from a strict financial budget. For example, you don't want to set 100% as a target for on-time press starts when you know that late-breaking news will make that target unrealistic.

BSR: *What has been Media General's BSC timeline — and what's next?*

Bryan: In 2000, we rolled out a program in the publishing division called "Measures of Success," where department heads used the Balanced Scorecard framework but identified their own measures. Over time, we've gradually standardized more of the process.

In 2001, we began to deploy the scorecard across all of our divisions and administrative departments. That process is still going on today.

Our focus for 2003 is on simplification and software implementation. We're currently deploying performance management software from an outside vendor to make scorecard data collection and reporting much easier. Up to this point, we've been collecting our data on paper and entering it manually into Excel spreadsheets and an Access database, which is very labor-intensive. With this new software, we'll be able to focus more on performance analysis, goal setting, and communications. Beginning in 2003, most of our measures will be reported on a monthly versus quarterly basis. By improving the speed of scorecard communications, we'll make it a better tool for decision making.

In time, we also plan to link scorecard results to incentive compensation. However, this is an area that requires caution. Before you make the link to compensation, it's important to make sure that you have the right measures and that you are not just using a lot of self-reported data.

To Learn More

Visit Media General at www.mediageneral.com.

*"How and Why to Build an Internal Marketing Campaign" (*BSR *May–June 2002) describes in detail Media General's multilayered communications campaign that accompanied its BSC rollout (Reprint #B0205C).*

Reprint #B0301C

Board Governance and Accountability

An interview with Edward E. Lawler III, Professor of Management and Organization, Marshall School of Business, University of Southern California

Edward E. Lawler III

Known as much for his contributions to the field of human capital as for his work in organizational development and effectiveness, Professor Edward Lawler is director of USC's Center for Effective Organizations, which he founded in 1979. He is coauthor, with Jay A. Conger and David L. Finegold, of *Corporate Boards: New Strategies for Adding Value at the Top* (2001). Robert Howie, Jr., *BSR* copublisher, recently discussed board governance with Lawler.

Robert Howie: *Before the recent U.S. corporate financial collapses placed governance and accountability on everyone's agenda, you prophetically advocated new strategies to help boards of directors govern more effectively. What are those strategies?*

Edward Lawler: Certainly the key one is having independent directors. We recommend that boards have about 70% to 80% of their members who could be classified as outside directors. There's an advantage to having a few insiders just to bring relevant information to the table, particularly since they can sense issues about which the board should be aware. A board, however, should be able to act independently of the CEO in times of crisis or threat or inadequate performance by the CEO.

We also suggest that the board meet without the CEO present in order to improve its communication and its ability to act. If the CEO is ordinarily in control of what happens in the boardroom, there should be a lead director or chairman — apart from the CEO — who has the ability (through a formal structure) to control the agenda and facilitate discussion of tough issues. As for Balanced Scorecards and the kind of metrics that board members get, we strongly emphasize the board being privy to and regularly being able to collect sensing data about the organization's culture, management's credibility, and organizational ethics — including how the organization responds to improper behavior.

RH: *If it is behavior, and not practices, that really counts, what kinds of behavior would increase board effectiveness?*

EL: All too often individual board members don't behave effectively in board meetings. They don't raise the right issues and are hesitant or unwilling to challenge the CEO and the management team. That's seen as impolite. Although about 70% of public companies formally evaluate their CEO, the process is often not very effective because the data they use is provided entirely by the CEO and the internal management system. In terms of their own behavior, board members do not get much feedback; they aren't assessed on their contribution. We strongly suggest that companies run assessments of board effectiveness, including that of individual board members, looking at their behavior at meetings, the expertise they bring to the board, and the kind of contributions they make.

> **"A board should be able to act independently of the CEO in times of crisis or threat or inadequate performance by the CEO."**

RH: *In the aftermath of the Enrons and the WorldComs, what constitutes an effective board?*

EL: From the point of view of outcomes — and that is why we have boards — there's a lot of debate among proponents of the current board system and the advocates of change. We must distinguish between shareholder- and stakeholder-oriented boards. The argument for a shareholder board is that boards exist primarily to guard, worry about, and focus on the total return that investors get. Boards ensure that the organization is optimally effective in terms of its financial return, and that there is a strong CEO in place to ensure the company produces the kind of returns that shareholders want. The stakeholder model, more popular in other parts of the world than in the U.S., says that that's too narrow a charter. Boards should also be concerned about the organization's impact on its employees, the communities in which it operates, its social responsibility, environmental sensitivity, and other behavior. We believe U.S. corporations have gone too far toward a pure shareholder model. While shareholders are an important constituency and boards certainly have to focus on the outcomes shareholders get, it's a mistake to go too far in that direction.

It's partly because of the obsession with shareholder return that we ended up with some of the recent corporate ethics problems. Some boards looked the other way or at least didn't look hard enough to find violations or practices that were not in the best interests of all stakeholders. Ultimately,

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this emphasis on the shareholder wasn't in anyone's interest because the behaviors that it produced led to the collapse of the stock price of those companies, obviously decreasing shareholder returns. The pressure to meet Wall Street's expectations has put pressure on the way some companies produce the numbers to meet those expectations.

> **"A board should be focused on lead indicators… employee attitudes are a good lead indicator because they give you a sense of the human capital and retention issues the company is likely to face."**

RH: *You've said that board members need better, timelier information and easy access to a broader set of leading indicators of organizational effectiveness. How can that be accomplished?*

EL: All this underscores the need for a Balanced Scorecard and a full accounting of the company's impact on all its stakeholders. Boards need information about how employees are being treated and how the company operates — that includes providing direct access to the board to employees who have a feeling that the company has acted unethically. It means getting measures that are outside of the traditional accounting measures that boards typically spend most of their time reviewing. Boards need to review information about the culture of the organization. They need indicators of how customers and employees feel they're being treated. To get this information, they may need to hire independent researchers with the ability to probe deeply into the organization to find out how actual transactions — financial as well as customer — are being handled. Boards should be more discriminating in who they hire as external consultants and how they gather and act upon their own data, advise the CEO, and measure their own performance and contribution. Boards need a more balanced view of how the company is functioning and more information that is collected independently of the existing management structure.

RH: *What is the proper balance between the board's role in monitoring performance and its role in supporting the organization's strategy execution?*

EL: A board should be focused on lead indicators. The challenge is to know what the right lead indicators are — which ones are unique to the organization and its business model. In most organizations, employee attitudes are a good lead indicator because they give you a sense of the human capital and retention issues the company is likely to face. They also give you some idea about how employees are going to deal with customers and a bit of an idea about the norms and expectations related to performance — as well as to honesty, integrity, and reporting.

Most board members would say that their most important role is contributing to strategy. That is also an area where they feel they don't do a particularly good job or have enough opportunity to perform. And one of the reasons they feel that way is precisely because they don't get the kind of lead indicators that they need to be meaningful partners in a strategy discussion.We expect that more and more boards will demand not only broader data, but data that help them talk with the management team about strategy and the strategic direction of the business.

RH: *To contribute to strategy execution, must directors take more time to understand the strategy and its drivers?*

EL: Absolutely. There's no question that people on boards are going to have to spend more time on it in the future. Doing the reviews — checking the credibility of some of the financial numbers, looking at lead indicators, participating in strategy discussions — all of this represents a major time commitment. The 90 hours the average board member spends annually is not enough in today's environment. And this is now causing more board resignations. Directors are also concerned about liability and publicity — not just financial liability, but the risk to their reputations. People on the Enron board saw their reputations pretty much destroyed.

RH: *How do you see the relationship between CEOs and their boards evolving over time?*

EL: That's an open question. The answer will vary by corporation. Some CEOs will see the increased activity level of their boards as a threat and will resist it to keep themselves in control. They're quite happy to have the board as an inactive partner in managing the business. I think the right stance for CEOs is to see this as a chance to capture the resources and talent that are available on the board to help board members do a better job of executing strategy, aligning the organization, and achieving results for all stakeholders.

To Learn More

Among the most recent of Dr. Lawler's 32 books are Corporate Boards: New Strategies for Adding Value at the Top *(with Conger and Finegold; Jossey-Bass/Wiley, 2001) and* Organizing for High Performance *(Jossey-Bass, 2001).*

Contact the Center for Effective Organizations at www.marshall.usc.edu/ceo.

"Smelling Smoke: Why Boards of Directors Need the Balanced Scorecard" (interview with Professor Jay W. Lorsch), BSR *September–October 2002 (Reprint #B0209C).*

Reprint #B0301D

Ten Lessons for Implementing the Balanced Scorecard

by Bill Catucci, CEO, Regulatory DataCorp International

Veteran Balanced Scorecard practitioner Bill Catucci shares his finely honed "Ten Lessons" for senior executives, which reflect his best moves and occasional missteps across three impressive BSC implementations.

Bill Catucci

Bill Catucci knows a thing or two about the Balanced Scorecard. This savvy corporate counsel turned chief executive used it to engineer a speedy turnaround at the near-moribund AT&T Canada (*BSR* January–February 2000). Next, he brought it to Equifax, the global credit reporting organization, during his two-year stint there as a senior executive, where it helped boost the company's share price, improve domestic operations, and deliver profit margins to Equifax's lagging U.K. division (*BSR* March–April 2002). Then, on the eve of his retirement in 2002, Catucci was lured to head up Regulatory DataCorp International (RDC), a New York–based start-up designed to help financial institutions bolster their global due diligence to combat money laundering, terrorist financing, and other such contemporary risks. At RDC, Catucci has already implemented a Balanced Scorecard — and put it online. He plans to unveil it to his board of directors as a corporate governance tool in early 2003.

Catucci's "Ten Lessons" reflect his best moves and occasional missteps, such as "going to the wrong people," "not explaining things properly," and "thinking just because I'm the CEO, things would happen." He has refined this list over the years and graciously shares it here with *BSR* readers.

Lesson #1 — Take Personal Ownership

Actively participate. Provide guidance to the team. Don't delegate overall BSC ownership. Be relentless. Send a consistent message. Be recognized as the champion of the scorecard.

Lesson #2 — Develop a Core Group of Champions

First, seek volunteers. Populate the core group with a diverse group of champions from the organization's major disciplines to help develop the BSC. Assign your core BSC team Kaplan and Norton's book *The Balanced Scorecard.* Spend time educating the team and sharing the vision.

Lesson #3 — Educate Team Members

Discuss your organization's strategic objectives. Explain why you're adopting the scorecard. Communicate your expectations. Get and give feedback. Discuss the book. But don't assume everyone will read it. Compose a memo explaining in plain English — and from your personal perspective — what the BSC is and what it can do for your organization. Customize the BSC to your organization. Set expectations about each team member's role with your BSC initiative.

Lesson #4 — Keep it Simple

Don't get caught up in the details. Don't let process or technology become obstacles. For example, a simple traffic-light system — red/yellow/green — works just fine as an indicator of performance status.

Lesson #5 — Be Ruthless About Implementation

Prepare for naysayers. Think up a list of the most common objections to the BSC and come armed to meetings with counterarguments. Some typical ones: "I don't have the time"; "It's just the latest flavor-of-the-month"; "We don't have the resources to implement it."

Lesson #6 — Integrate the Scorecard into Your Leadership System

The Balanced Scorecard is not a panacea; it's meant to be part of an integrated system of corporate leadership, which every organization should have. Be consistent, focused, and disciplined. And show up. Being there makes a big statement that the CEO is the champion.

Lesson #7 — Orchestrate the Dynamics of Scorecard Meetings

Pick the invitees. My direct reports were permanent members of our

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Prepare for Naysayers

Typical Objections to Implementing the Scorecard

"I'm too busy. I don't have the time."

"It's just another financial exercise."

"It's just the latest flavor-of-the-month program."

"We don't have the resources to implement a scorecard."

"It won't work."

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Balanced Scorecard Council. We scheduled monthly meetings one year in advance. Establish and rigorously observe meeting guidelines. Above all: don't shoot the messenger. The whole idea is to encourage people to be candid — not to whitewash poor or lagging performance. Create a supportive, collegial atmosphere that encourages people to fess up to problems and solve them together. Make the scorecard relevant to the day-to-day work of the organization. Make the meetings fun. Use them to provide timely information — an added incentive to attend.

Lesson #8 — Communicate the Scorecard Widely

Explain the scorecard — often and in as many ways as you can. Share top-level results at "town hall" meetings and with sales teams. Invite people to participate. Share it with all employees — and with customers, analysts, and other stakeholders. Make it contagious. Of course, take care to protect sensitive information.

Lesson #9 — Resist the Urge for Perfection

Delay is your enemy. Implement the BSC quickly. Be clear that it will always be a work in progress.

Lesson #10 — Look Beyond the Numbers

The BSC is more than a measurement tool. Recognize the power of its process: sharing the right kind of information; educating, inspiring, and working as a team; and focusing people on the important areas and enabling them to connect the dots — these are all invaluable to the success of any organization. If implemented properly, the scorecard can be a catalyst for cultural transformation.

Reprint #B0301E

Human Capital Research Report Released

Balanced Scorecard Collaborative (BSCol) and the Society for Human Resource Management (SHRM) announce the publication of *Aligning HR with Organization Strategy.* The report, based on a survey of selected SHRM and BSCol members, covers a wide range of topics — strategic direction, strategic planning, evaluating strategy, the use of the Balanced Scorecard, human capital, budgeting, linking goals and incentive compensation, and the role of HR — topics that are all top of mind for leading executives who seek to manage human capital strategically. (David Norton analyzed preliminary findings in "Strategic Alignment Surveys Show Misalignment of Intangible Assets" in the last issue of *BSR*.) The survey results, along with best practices, will be featured February 26 through February 28 at Balanced Scorecard Collaborative's Human Capital Summit 2003. To learn more about the conference, go to www.bscol.com/humancapitalsummit. Full survey results are available at www.shrm.org.

In *the News Briefs*

Learn from a doer: The new book by Paul R. Niven (***Balanced Scorecard Step-by-Step,*** John Wiley & Sons, 2002), former BSC project leader at Nova Scotia Power, provides details on how to implement a BSC. …**Dalbar,** the financial services market research firm, has developed **a BSC to help investment and insurance firms rate their suppliers** — thereby reducing risk and saving time. …Banking on the BSC: *The Service Industries Journal* (October 2002) observes that the BSC can be a valuable tool in interstate and cross-border **banking mergers and acquisitions,** which continue to rise in the U.S. and the EU. The BSC can bring clarity to analysis and help establish the strategic fit — important benefits, given the high rate of failure of mega-mergers. …Do Not Pass Go: Publishing division executives at **Media General** (see *Executive Insight,* p. 9) developed a BSC board game to help inject fun into strategic thinking and BSC skill building. …**Some new corporate users, big and small:** Global giants **Phillips Electronics, Ford Motor Company,** and South Korea's **POSCO** (the world's largest steel maker) and **Pal's Sudden Service,** a Kingsport, Tenn., fast food chain with just 17 locations. The hot dog purveyor is a 2001 Malcolm Baldrige National Quality Award winner. …**Why do so many companies fail to get the maximum benefit from their IT?** "Fragmented implementation" is the culprit, according to a recent **Hackett study** published in the firm's *2002 Book of Numbers: Strategic Decision-Making.* Managers fall back on the general ledger as the key source of information or resort to gut instinct because of too much — or too little — information. …In year one of its operational BSC, the **Defense Logistics Agency** (*BSR* Nov–Dec 2002) saved $130 million, realized major supply-chain improvements, and processed $2.2 billion more requisitions for its customers, the U.S. military and other government agencies. …Watch the loyalty effect: In today's era of vastly lower employee turnover, HR experts exhort companies to track **the link between loyalty and corporate performance** (October 2002 *Controller's Report,* the Institute of Management and Administration). Balanced Scorecards and core accounting measures should measure employee value, not just costs.

BSC Software Enables Early Adopter to Gain Competitive Edge Amid Industry Turmoil

by Christopher Palazzolo, Senior Business Analyst, Balanced Scorecard Collaborative

Traditionally low-tech and tactical, travel agencies aren't known for their sophistication at performance measurement or strategic analysis. Adopting the Balanced Scorecard was, then, a daring move for McCord Travel Management (now WorldTravel BTI). Automating its BSC — an even bigger undertaking — proved far-sighted. It paved the way for the company's standout growth and success amid the industry turbulence exacerbated by the rise of Internet travel services, 9/11, and today's uncertain economy.

QUICK STUDY

Third in our series on the use of BSC software

When McCord Travel Management introduced its Balanced Scorecard in 1998, the organization had just completed three major acquisitions in different regions across the U.S. Cohesion was sorely needed — and a savvy McCord executive saw the scorecard as just the ticket for organizational alignment. Recognizing the urgency of buy-in at the frontlines, McCord took the unusual step of cascading, from the get-go, a single scorecard with a concise set of common objectives and measures down to the individual agent level.

A pilot program of 70 BSCs quickly revealed to management the benefits of performance measurement in general and the BSC in particular. Now, the agency could readily collect and track data it had never before had access to, such as the percentage of flight bookings for which agents also made hotel reservations — a more profitable sale. Within three months, the agency found it was averaging only 23% combined bookings, versus the 75% it had previously assumed. This gaping discrepancy afforded senior executives a greater understanding of their business and of the opportunities for change. The availability of such strategically significant information sealed buy-in at the top. At the individual level, travel counselors responded with equal enthusiasm to never-before-available information about their bookings, such as quality of service and customer satisfaction.

Six months later, the pilot program was expanded to 700 personal scorecards across every business unit nationwide.

Newbie in a Nascent Market

Well before the rollout it became apparent that the company would need a more robust technology solution than Microsoft's Excel spreadsheet to manage the complexities of data collection and BSC reporting.

> **"You can't anticipate every detail, and, ultimately, success was driven by our ability to remain flexible in problem solving."**

At that time (1999), there were only a handful of off-the-shelf BSC software products on the market. In addition, notes Robin Bermudez, director, Balanced Scorecard at WorldTravel, the Balanced Scorecard Collaborative's software certification program didn't yet exist. "We were pretty much on our own" in assessing functionality. McCord chose Hyperion's Performance Scorecard software, based on several factors: Hyperion's true-to-form adoption of the Kaplan-Norton BSC methodology, its flexible application, the agency's positive experience as a user of other Hyperion products, and the software provider's willingness to work in partnership.

While the implementation of Hyperion proved very successful, McCord nonetheless faced significant challenges. As a pioneer in automating the scorecard, it had no established industry best practices to refer to. Furthermore, like most travel agencies at the time, McCord's major technology was a third-party hardware/software platform. Bermudez relied heavily on Hyperion's technology consultants in the initial BSC implementation. "In a perfect world, we would have liked our organization to better understand the technology infrastructure and expertise required to implement the software," she says. "But you can't anticipate every detail, and, ultimately, success was driven by our ability to remain flexible in problem solving."

Tougher still, each of the company's recent acquisitions had different IT infrastructures, networks, and ticketing systems. McCord had to make a significant investment to bring each organization's technology in line sufficiently to install the BSC software. Since Hyperion's software didn't support distributed data processing (it does now), the agency developed a centralized network with a shared drive specifically for BSC data collection from all of its offices. The investment paid off handsomely, advancing both cultural and technological unity.

With its software up and running and a shared drive for data collection in place, McCord was able to gather and assess performance data quickly and accurately from across its operations. Instead of having to rely on the airlines for ticketing data (which involved a six-month lag), data was now avail-

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able immediately for managers to analyze and respond to. Variations in data (e.g., slower sales, other market trends) could be traced directly back to their source, allowing quicker response. When executives observed a decline in agents' bookings with preferred airlines during one period, they were able to quickly attribute the change to a start-up airline's aggressive price discounts to the agency's customers. McCord was able to relay that information back to its preferred providers, who then matched the discounts.

McCord also began tracking such information as the percentage of customers who were using e-tickets, which were not yet in wide use. Once the airlines began charging extra for paper tickets, McCord was able, thanks to its BSC software, to immediately track what percentage of its customers' employees were using the more expensive paper tickets, thereby offering customers a new value-added.

Nimble response has always been important in the promotion-oriented, price-competitive travel industry. But the Internet heightened this need. By cutting out the middleman, it has encroached dramatically on travel agencies' traditional revenue source. After the airlines rescinded booking fees, travelers had to pay for what once was ostensibly free. To survive, companies have had to shift from a commodity mindset to one of value-added provider. While many travel agencies have perished in this new business climate, WorldTravel has been able to distinguish itself as a premier provider of travel counseling. The scorecard and BSC automation have enabled it to focus on key metrics, enabling instant visibility of performance at all levels, as well as providing quantified evidence of their value to otherwise wary customers.

With each new release of Hyperion, the company has updated its BSC. (The latest version, released in late 2002, allows an organization to build a BSC online — something, notes Bermudez, that is of great benefit to a national company with many locations.) Since McCord's merger in February 2002 with Atlanta-based WorldTravel BTI (the nation's third-largest travel management company), its BSC tool has been grandfathered for existing client relationships and adapted and implemented for additional clients on an ongoing basis. The automated BSC has helped WorldTravel navigate the treacherous waters of the new travel industry environment and transform itself into a strategy-driven consulting organization that is committed not just to its own bottom line, but to the customer's.

To Learn More

For more on WorldTravel BTI, visit www.worldtravel.com.

Information on BSC certified software vendors is available at www.bscol.com/certified.

Reprint #B0301F

Coming Up *in BSR*

- Strategy Maps for Operations Management: an excerpt from Kaplan and Norton's forthcoming book
- Integrating a Global Enterprise: medical manufacturer Datex-Ohmeda's BSC experience
- *BSR* Roundtable: Healthcare executives discuss defining (and enhancing) the customer relationship via the BSC
- Change Agents Dialogue
- What's behind CMA Canada's landmark new accounting guidelines

In *the News*

It's Here: A Balanced Scorecard for the Board of Directors

Despite the endless postmortems and the deep soul-searching triggered by the past year's corporate failures, there has been precious little remedial action by corporations and their boards to clean up their performance. It's not for want of good ideas. But the Certified Management Accountants (CMA) of Canada, in an effort to jump-start reform, just issued a new corporate governance guideline to help improve board and CEO performance. While other organizations focus on bolstering compliance with existing accounting and auditing standards, CMA Canada's approach addresses broader governance issues. And at the heart of the proposed new system is the Balanced Scorecard.

"A Balanced Scorecard for a Board of Directors" (which features a preface by scorecard co-creator David Norton) advocates applying advanced management accounting practices to corporate governance. Through a three-tiered BSC system (corporate, CEO, and board BSCs), boards should be able to improve their due diligence, get a better fix on strategic performance information, and better distinguish between CEO and share performance — in short, strengthen their internal and external accountability. The guideline even calls for establishing performance measures for board members themselves.

Apart from its immediate value in helping prevent malfeasance and forestalling disastrous performance, the BSC for boards should help fight board myopia. A recent London Business School study found that boards devote nine times more attention to spending and counting cash flow than to wondering where it comes from and how to augment it.

Look for the inside story on the guideline by its authors, Marc J. Epstein and Marie-Josée Roy, in *BSR*'s March–April issue.