HARVARD BUSINESS PUBLISHING

Palladium Executing Strategy

Balanced Scorecard Report

THE STRATEGY EXECUTION SOURCE

MARCH–APRIL 2012 : VOL 14 NO 2

Successful Strategy Execution—Part II: What Does It Look Like?

By David Norton

Robert Kaplan and David Norton have written extensively about how organizations can use the Balanced Scorecard (BSC) as the central organizing concept for an integrated strategy management system. In this article (Part I was published in the January–February 2012 issue), Norton shares his latest thoughts and observations about how the most successful adopters of this management tool—members of the Balanced Scorecard Hall of Fame—use this approach to achieve improvements in performance. Norton explores the role of execution measures—and achievement measures—within each of the four BSC perspectives. In Part I, he provided a detailed discussion of the role of these measures in the financial and customer perspectives. In Part II, he completes this analysis for the internal process as well as the learning and growth perspective. He also takes a closer look at the special role that "achievement measures" play in strategy execution.

Enhancing the Performance of Internal Business Processes

Business processes are the vehicles through which organizations create value. As an example of such value, we showed in Part 1 of this series how reducing customer dissatisfaction by 50% over three years can create as much as a 150% increase in shareholder value. An organization can achieve such improvements in customer satisfaction by enhancing performance in internal processes that greatly affect its strategy. For instance, KeyCorp, a regional U.S. bank, focused on reducing nonperforming loans as a foundation for its customer-intimacy strategy. Infosys, the India-headquartered global technology services company, achieved 44% of its revenue (up from 30% three years earlier) from new products—the key measure of the company's ability to innovate. Thai Carbon Black achieved an overall plant effectiveness of nearly 99% as the cornerstone of its lowest total cost strategy. In each case, executives and managers identified, managed, and improved processes that exerted the greatest impact on their organization's strategy.

Figure 1 depicts the processes and results achieved by a sample of 20 Hall of Fame organizations. The key processes, objectives, and measures these companies used fell into the following categories:

- ***Timeliness:*** reduction in the time required to perform a key process
- ***Quality:*** reduction in errors and defects associated with a key process

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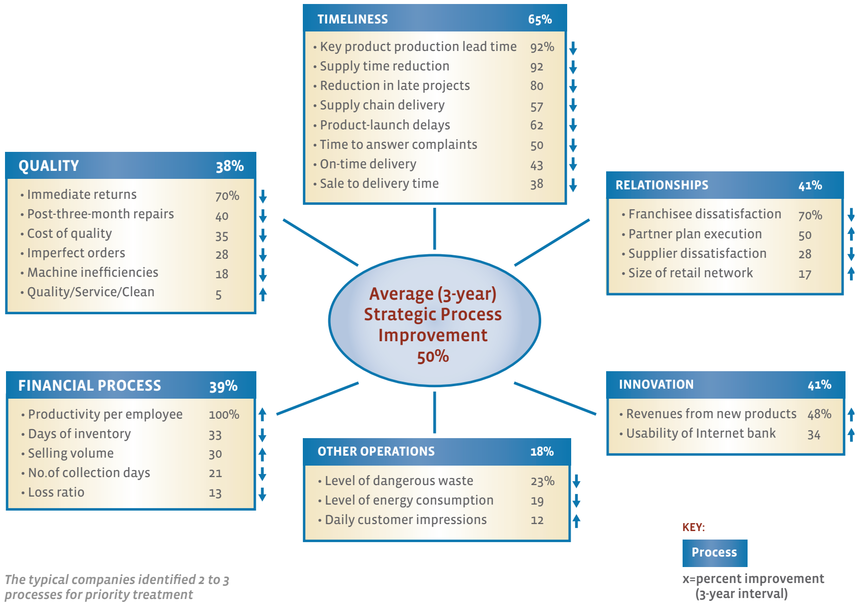

FIGURE 1: *IMPROVEMENTS IN STRATEGIC PROCESSES—HALL OF FAME COMPANIES*

Organizations improved significantly in five separate categories: timeliness, relationships, innovation, financial processes, and quality. Other operational improvements were also achieved. On average, process improvements of 50% were achieved over three years.

- ***Relationships:*** improvement in the teamwork between the company and key partners
- ***Innovation:*** improvement in the effectiveness of processes that create new products or services
- ***Financial process:*** improvement in the effectiveness of financial management
- ***Other operations:*** improvement in operations not covered above

A typical Hall of Fame company uses between two and three process measures to manage strategic performance. To illustrate, Millipore (a bioscience research and manufacturing firm competing through a product leadership strategy) measured "average product launch delays" (timeliness), "R+D projects on-time" (timeliness), and "cost of quality" (quality).

Within the six categories identified in Figure 1, the processes the Hall of Fame companies selected are identified, along with the percentage improvement in performance over a three-year interval. Processes associated with timeliness are the most susceptible to improvement, showing a 65% gain over three years. The Indonesian pharmaceutical firm SOHO, for instance, competing with a product leadership strategy, achieved a 92% reduction in its measure "key product production lead time." Meanwhile, Hindustan Petroleum (which has a customer-intimacy strategy) reduced "supply time" by 92%. TNT (a UK/Ireland package-delivery business competing with a lowest total cost strategy) improved "on-time delivery" by 43%. Note that practitioners of each generic strategy type cited above (product leadership, customer intimacy, and lowest total cost) all used the timeliness dimension of key processes to improve their performance.

We can make the same generalization about quality-related processes. The overall quality category shown in Figure 1 depicts a 38% improvement in key process performance over three years. U.S. communications technology giant Cisco (with its customer-intimacy strategy) showed a 70% reduction in "immediate returns." Volkswagen of Brazil (having defined a lowest total cost strategy) showed a 40% reduction in "post three-month repairs." And Millipore (using a product leadership strategy) showed a 35% reduction in "cost of quality."

Relationship-based processes showed an average improvement of 41%, approximately the same level as quality-based processes (38%). Consider Thailand-based Minor Food Group (with a customer-intimacy strategy), which achieved a 70% reduction in "franchisee dissatisfaction." For its part, Chinese retailer Rainbow Stores (competing through a low total cost strategy) brought "supplier dissatisfaction" down by 28%.

Innovation-based processes achieved an average 41% improvement in performance. Infosys, for instance (with its product leadership strategy), saw a 48% increase in "revenues from new products." And New Zealand's KiwiBank (having defined a product leadership strategy) showed a 34% increase in "usability of our Internet bank."

Finally, several Hall of Fame companies identified financial management processes as most influential to their success. These organizations were competing primarily on a lowest total cost strategy. Rainbow Stores, for example, achieved a 33% reduction in "inventory levels"; Borusan (the Turkish logistics firm), a 21% decrease in "collection days." Financial services company Mapfre of Brazil (competing on a customer-intimacy strategy) enjoyed a 100% increase in "employee productivity" and a 13% reduction in "loss ratio," the measure of underwriting effectiveness.

In summary, to successfully execute its strategy, an organization must identify the key processes that will most affect its customer value proposition. Enterprises in this sample of Hall of Fame inductees typically selected three such processes and associated measures. Over a three-year period, the organizations achieved performance improvements of approximately 50%.

Timeliness-based process improvements saw rates of improvement considerably higher (65% over three years) than processes related to quality, relationships, innovation, and financial management (40%), even though each company selected processes from each of these categories to execute its strategy. We offer the following guidelines for setting internal process targets for BSC-based strategies.

Guidelines for Target Setting: Internal Processes

- *Select two or three key processes that have a dominant impact on the strategy.*
- *Set targets that strive for 50% improvement in performance of these processes over a three-year period.*

Establishing a Strong Learning and Growth Foundation

Improving critical business processes to create value for customers and shareholders hinges on a workforce's competencies. Simply put, new processes require new skills. And new strategies call for new cultural characteristics, values, and attitudes. The learning and growth perspective in an organization's strategy map and scorecard serves as the foundation for all of this. *Figure 2* summarizes the human capital practices deployed by 11 Hall of Fame companies we examined. Specifically, we looked at the following:

- ***Human capital development approach:*** The approach used to develop the human capital required by the organization's strategy. An emphasis on human capital development is a *driver* of human capital performance.
- ***Employee satisfaction:*** Emphasis on human capital development and the strategy creates an improvement in employee satisfaction (an *outcome*).
- ***Employee turnover:*** Improvement in employee satisfaction creates a corresponding reduction in employee turnover (an *outcome*).

Company	Human Capital Development Approach: Employee Engagement	Human Capital Development Approach: Employee Development	Employee Satisfaction (3 year Δ)	Employee Turnover (3 year Δ)
Deposit Trust	• Mission Understood (%)		59 70%	
KiwiBank	• Employees Engaged (%)			26 14%
DataCraft		• No. of Days Training	66 74%	30 17%
Volkswagen/ Brazil	• Employees Engaged • Ideas per Employee		Gallup 100 111%	Absenteeism 2.8 2.5%
Hindustan Petroleum	• Strategic Readiness (%)			11 6%
AKSA		• No. of Days Training	76 81%	13 6.5%
Merck	• Customer Focused Culture (%)	• No. of Black Belts • No. of Change Agents		6.8 2.7%
TNT	• Employees Engaged (%)			25 8%
Borusan		• No. of Hours Training	55 89%	14 10%
Minor Food		• Succession Plan (No. of Leaders per Position)	85 90%	26 5%
Rainbow Stores		• No. of Six Sigma Trainees	55 61%	
			Percentage Increase in Employee Satisfaction +20%	*Percentage Decrease in Staff Turnover* -50%

FIGURE 2: *BSC HALL OF FAME—HUMAN CAPITAL DEVELOPMENT*

A strong emphasis on learning and growth objectives provides a solid foundation for strategic success. Human capital—the talent and teamwork within the organization—is an essential ingredient to achieve breakthrough performance.

We observed two general approaches to driving human capital development in these BSC Hall of Fame organizations:

1. Engage employees with the strategy. The philosophy here is an extension of our principle to "make strategy everyone's job." Figure 2 shows that six of the 11 Hall of Fame companies we examined used statistical surveys to identify the percentage of the workforce that understood the strategy.

2. Train employees in the new requirements. Three of the companies in Figure 2 (DataCraft, AKSA, and Borusan) used level of training (measured by number of days or hours) as their surrogate for strategic readiness. Two of the organizations (Merck and Rainbow Stores) introduced Six Sigma programs as part of their process strategy. They monitored the number of Black Belts as well as other levels of certification. Merck specifically addressed the development of "change agents" to facilitate strategy execution. Minor Food focused on developing its next generation of leaders.

Although no standard approach is apparent in these human capital development practices, each company emphasizes either employee *engagement* by creating awareness of and participation in the strategy or employee *development* through training and education. Only Merck, an organization known for its visionary human capital practices, emphasizes both.

The right-hand side of Figure 2 shows the improvements in two important barometers: employee satisfaction and employee turnover. The seven companies that measured employee satisfaction showed, on average, a 20% improvement (three-year interval). These organizations were led by Borusan, which moved its satisfaction from 55% to 89% (a 57% improvement). The nine companies that measured employee turnover showed a 50% average reduction, led by TNT (25% to 8% turnover), Minor Food (26% to 5%), DataCraft (30% to 17%), and KiwiBank (26% to 14%). Five companies measured both satisfaction and turnover. Building on its leadership development program, Minor Food saw a 6% improvement in satisfaction (85% to 90%) complemented by an 81% reduction in staff turnover (26% to 5%). Building on its staff training program, DataCraft achieved a 12% improvement in satisfaction (66% to 74%) and a 43% drop in turnover (30% to 17%). And thanks to its staff training program, Turkey's AKSA Acrylic Chemical created a 6% improvement in satisfaction (76% to 81%) along with a 50% reduction in turnover (13% to 6.5%).

We offer the following guidelines for setting learning and growth targets for BSC-based strategies.

Guidelines for Target Setting: Learning and Growth

- *Identify the human capital processes that create staff engagement and/or staff development.*
- *Set a target to improve employee satisfaction by 20% over the next three years.*
- *Set a target to reduce employee turnover by 50% in the next three years.*

Execution Measures versus Achievement Measures

The best-performing organizations actively manage measures that *enhance* performance (drivers) or *reflect* performance (outcomes) that occur within the strategy action cycle (typically quarterly). We refer to these as "execution measures." But we have also seen many Hall of Fame organizations using a second type of measure. These measures are externally derived (for example, by third-party experts) and/or use a longer time horizon. They describe the longer-term evolution and success of the organization's strategy. Most important, they indicate how the organization converts its strategy into a sustainable advantage that enables it to grow earnings over time. We refer to these as "achievement measures."

PERSPECTIVE	EXECUTION MEASURES	ACHIEVEMENT MEASURES
FINANCIAL	☐ Operating Profit ☐ Net Income ☐ Profit Margin ☐ Revenue Growth ☐ ROC/ROE	☐ Credit Rating ☐ Debt Equity Ratio ☐ Price/Earnings Ratio ☐ Market Cap
CUSTOMER	☐ Customer Satisfaction ☐ Customer Retention ☐ Customer Growth	☐ Market Share ☐ Brand Value
PROCESS	☐ Timeliness ☐ Quality ☐ Relationships ☐ Innovation ☐ Financial Process	☐ External Awards ☐ Certifications & Competencies • Six Sigma • ISO • Risk
LEARNING & GROWTH	☐ Employee Engagements ☐ Employee Development ☐ Employee Satisfaction ☐ Employee Turnover	☐ External Awards • "Best Employer" • "Best Managed"

FIGURE 3: *EXECUTION VERSUS ACHIEVEMENT MEASURES*

Execution measures identify the drivers that enhance performance and the outcomes that are achieved as a result. Achievement measures constitute external recognition of the organization's achievements and are conferred by others.

Figure 3 identifies typical achievement measures used by the Hall of Fame companies we reviewed. An organization's credit rating is a typical financial achievement measure. Consider the City of Corpus Christi, Texas, which borrows money in the form of bonds to finance a variety of long-term municipal projects (such as schools, water, utilities, and roads). The City introduced the Balanced Scorecard to manage its new strategy. After reviewing this strategy and management approach, Moody's S&P increased the City's bond rating from A3 to A2, citing in part the municipality's new management practices. This improvement cut the City's cost of existing debt by $500,000.

Nemours, the Florida-based children's healthcare provider, achieved a AAA bond rating by clarifying and communicating its strategy to bond rating agencies, gaining 50 basis points of incremental savings ($35 million). Like other achievement measures, credit-rating changes are externally driven, they seldom change, and they are an outcome of execution of the organization's strategy.

SOHO provides an example of achievement measures in the customer perspective. As cited earlier, this company increased customer satisfaction from 40% to 80% over a three-year interval. Complementing this performance, SOHO's market share nearly doubled (4.78% to 7.9%), and the enterprise received a "Top Brand" award from Frontier, an independent market research bureau.

Minera Los Pelambres, the Chilean copper and molybdenum mining company, illustrates achievement measures for internal processes. This organization experienced explosive growth (sales up 400%, EBITDA up 540% over six years), thanks in part to surging demand for minerals from Asia. The company's execution measures were complemented by two significant achievements: It won the Chilean Association Chile Qualidad Award for safety and won the Energy Efficiency Award from the Chilean Ministry of Economy and Energy.

Infosys illuminates achievement measures in the learning and growth perspective. The company's revenues and profits grew by 300%, while its number of active customers expanded from 300 to 500. Revenues from new products soared by 48%. Successfully managing this type of hypergrowth testifies to the Infosys management system and its people. Perhaps not surprisingly, Infosys was ranked "#1 Employer in the IT Sector" by Dataquest, "Best Employer in India" by Hewitt, and "Best Company to Work for in India" by Mercer.

Because achievement measures are external, have a relatively long time horizon, and are random in their timing, some observers might question their relevance in setting targets with which to manage an organization's strategy. We maintain that organizations and their management systems exist not only to improve performance—but also to sustain these improvements. The Balanced Scorecard framework helps organizations carry out their strategy by focusing the attention of executives, managers, and employees on execution measures. But it's the achievement measures that enable them to sustain enhanced performance.

Why? Several reasons. First, achievement measures show that the organization has converted some dimension of performance into a competency. For example, ISO certification or "Best Place to Work" awards indicate that the company is capable of continuing this performance into the future. Second, receiving recognition from expert third-party sources gives an objective opinion to reinforce the organization's execution results. Recognition awards put a spotlight on some dimension of performance and thereby tend to make continued performance self-fulfilling.

Although achievement measures appear intangible on the surface, they exert a major impact on shareholder value—which is very tangible, indeed. Good management, supported by a good management system, lowers the risks facing investors. Earlier, we cited the tangible value created for the City of Corpus Christi and for Nemours through improvements in their credit ratings from external agencies. More broadly, organizations that sustain superior performance can be expected to receive higher price-to-earnings ratios from investors—the ultimate measure of shareholder value.

We offer the following guidelines for using achievement measures to create sustainable performance and another layer of shareholder value.

Guidelines for Target Setting: Achievement Measures

- *Select a set of achievement measures that complement the execution measures in each of the Balanced Scorecard perspectives*
- *Tell the story of "sustainable" performance improvement to investors and other stakeholders*

Quantitative target setting, which has been a routine part of operational and financial management processes, has proved more problematic for the strategy management process. Since most organizations have not historically executed strategy successfully, there are no benchmarks or norms to work from. Managers tend to set targets for parameters in isolation from other parameters, ignoring the cause-effect linkages on which strategy is built.

Having meaningful targets is an important part of the management process because targets help to set expectations in the workforce, build credibility, guide investments, and enable organizations to manage results. Yet a primary barrier to setting strategic targets is the lack of benchmarks to serve as points of reference. The Balanced Scorecard Hall of Fame has addressed this lack by giving us access to more than 150 organizations that have successfully executed their strategies and that have the quantifiable results to prove it. By analyzing how these organizations manage strategy, we have been able to build a composite picture of what a successfully executed strategy looks like. Examples include the following:

- 150% growth in shareholder value built on 180% growth in profits and 120% growth in revenue (three-year period)
- 50% improvement in customer satisfaction
- 50% improvement in key process effectiveness
- 25% improvement in employee satisfaction leading to a 50% reduction in employee turnover

Analysis of the Balanced Scorecard and strategy map frameworks along with the strategy benchmarks achieved by BSC Hall of Fame organizations fills a void in the strategy management process by enabling managers to define credible expectations. We believe that credibly formed expectations will, in turn, provide a new level of motivation to organizations seeking to lead their industries. As with Roger Bannister (see Part 1 of this article series), the target becomes the obsession. Pursuing the target through the organization's strategy, abetted by the strategy management system, is the pathway to the record book and to the Balanced Scorecard Hall of Fame. ■

This concludes Part II of this article. Part I appears in the January–February 2012 issue.

David P. Norton, along with Robert S. Kaplan, created the Balanced Scorecard concept. The two have coauthored five books (most recently, The Execution Premium, *2008) and nine articles for* Harvard Business Review, *and dozens of articles for* Balanced Scorecard Report. *They have also been named among the world's most influential business thinkers by Suntop Media's "Thinkers 50."*

To learn more

"Linking Strategy to Operations: Process Models and Innovation," BSR *July–August 2009 (Reprint #B0907A)*

"Managing Human Capital for Strategic Advantage: Three Challenges," BSR *September–October 2007 (Reprint #B0709D)*

"Using Customer Profitability Analytics to Execute a Client-Centric Strategy," BSR *March–April 2007 (Reprint #B0703D)*

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