Balanced Scorecard in Automotive Industry
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Talk Objectives

- Why the need of Balanced Scorecard
- What is BSC
- Balanced Scorecard in Automotive
- How does BSC Look Like: Case Study
- How to use BSC
- How to Implement BSC in Automotive
- Self Diagnostic: Are we ready?
Speaker’s Profile

NARESH SPECIALIZES IN STRATEGIC MANAGEMENT AND ORGANIZATIONAL TRANSFORMATION

- MSID, CMC, MBA, PGDMSM, B.Sc., B.Coach, CCS
- 23 years international experience: Europe & Asia
- Specialist in Strategy Management and Org. Transformation
- Previously with GE (India), The Alexander Consulting Group
- 150 Consulting Assignments in 11 countries
- 107 Balanced Scorecard Assignments in Switzerland, Singapore, Thailand, Malaysia, Qatar, Philippines, India and Indonesia
- Recipient of Rotary, ADB, NORAD, ISS and IUJ Scholarships
- **BSC Clients in Singapore:** IDA, NLB, EDB, EPC, Shell, Goldcoin Group, Ministry of Law, Centrepoint Properties, etc.
- **BSC Clients in Automotive/ Manufacturing:** Astra International, Astra Daihatsu, Auto 2000, Katsushiro, Caterpillar (Indonesia), United Tractors (Komatsu), etc
- Author of the book “Balanced Scorecard in Asia” with James Creelman

“This work by Creelman and Naresh Makhijani is the first to be devoted to the Asian Region. They provide an excellent synopsis of the global management principles with the Asian cultural spin. The regional focus is quite powerful and provides an excellent guide to organization in that region who are considering a Balanced Scorecard program.”

Dr. David Norton, Creator of Balanced Scorecard
Seminar Rules

**Speaker**
- Provide knowledge, structure, framework and process
- Facilitate & stimulate the discussion
- Challenge the assumptions and content
- Manage the pace & agenda

**Participants**
- Participate actively
- Provide content
- Speak-up
- Make decision & get closure

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Participant Rules

RULES

- Please switch off your mobile phones
- Be punctual
- Respect views of others
- Follow 20/80 rule
- No side talks
The Need for BSC in Automotive Industry
Economy is Changing

Agriculture → Industrial Age → Information Age
Difficult to Implement Strategy

Business and Business Strategy Have Changed!

<table>
<thead>
<tr>
<th>From Industrial Age</th>
<th>To Knowledge Era</th>
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<tr>
<td>Production Driven</td>
<td>Customer Driven</td>
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<td>Functional (Silo)</td>
<td>Process (Integrated)</td>
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<td>Tangible Assets</td>
<td>Intangible Assets</td>
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<td>Top Down</td>
<td>Bottoms Up</td>
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<td>INCREMENTAL CHANGE</td>
<td>TRANSFORMATIONAL CHANGE</td>
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<td>MANAGEMENT</td>
<td>LEADERSHIP</td>
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*Management Systems have been designed to meet the needs of a stable, incrementally changing world. They do not meet the needs of today’s dynamic economy.*
Strategy Implementation is Vital

Ever Shorter Opportunity Cycles

Value of a Single Strategic Decision

Value of Effective Execution

© Naresh Makhijani
So What is Happening to Strategy Implementation

Less than 10% of strategies effectively formulated are effectively executed…

*Fortune Magazine*

Two thirds of Re-engineering efforts achieve marginal or no results all…

*CSC Index*
Yet Strategy Implementation is Very Important

68% of top-managers: “a better translation of strategy into action would improve operating income by 20%”…………………………..European Survey

Business strategy is now single most important issue…………………………..Business Week, August 96
Barriers to Successful Execution of Strategy

Vision Barrier
Strategy is not understood by those who must implement it ... and not translated into objectives.

Management Barrier
Management systems are designed for operational control and tied to budgets, not strategy.

People Barrier
Personal goals, knowledge building and competencies are not linked to strategy implementation.

Operational Barrier
Key processes are not designed to leverage the drivers of strategy.
The Need for BSC

Highly competitive business environment – Key to differentiation

- Increasing globalization
- Deregulation means more competitors
- Products easily replicated
- Customer loyalty is dead
The Need for BSC

- Highly competitive business environment – Key to differentiation
- Implement Vision/ Mission / Strategy
- Understand profitability of sales channels/ products
What is Balanced Scorecard
Balanced Scorecard Management System has enjoyed phenomenal success since its introduction in 1992

<table>
<thead>
<tr>
<th>Books &amp; Articles</th>
<th>Software</th>
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<td>About 20 books</td>
<td>Over 60 Software Solutions</td>
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<td>Over 50,000 Articles</td>
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<th>Websites</th>
<th>seminars</th>
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<td>More than a million websites</td>
<td>Over 100,000 seminars</td>
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© Naresh Makhijani
**History of Balanced Scorecard**

Balanced Scorecard Management System has continually evolved since its introduction in 1992.

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<tr>
<td>Measurement and Reporting</td>
<td>Alignment and Communication</td>
<td>Acceptance and Acclaim: “The Balanced Scorecard” is translated into 18 languages Selected by Harvard Business Review as one of the “most important management practices of the past 75 years.“</td>
<td>Enterprise-wide Strategic Management</td>
<td>Converting Intangible Assets into Tangible Outcomes</td>
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</table>

Balanced Scorecard Management System has continually evolved since its introduction in 1992.
What is Balanced Scorecard

A Management System to manage the implementation of strategy, measure the performance beyond mere financials and to communicate the Vision, strategy and performance expectations to stakeholders!
What is Balanced Scorecard

Balanced Scorecard – Four Perspectives

Source: Translating the strategy into action by Robert Kaplan and David Norton

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What is Balanced Scorecard

The Balanced Scorecard provides a framework to translate a strategy into operational terms.
What is Balanced Scorecard

A Framework

*Focuses on shareholder, customer, internal and learning requirements Creates a system of linked objectives, measures, targets and initiatives Describes the strategy And how strategy can be achieved*
What is Balanced Scorecard

Balanced Scorecard - Concepts

- Strategy Map
- Financial and Non-Financial indicators
- Lead and Lag indicators
- Internal and External indicators
What is BSC - Concepts

Traditionally, the Balanced Scorecard provides a four-perspective framework to translate strategy into operational terms.

- Measurement is the language that gives clarity to vague concepts
- Measurement is used to communicate, not simply to control
- Building the scorecard develops consensus and teamwork throughout the organisation

*Source: Balanced Scorecard Collaborative Materials
What is BSC - Concepts

Financial

Customer

Internal/Business Process

Learning and Growth

ROCE

Customer Loyalty

On-time Delivery

Process Quality

Process Cycle Time

Employee Skills
What is BSC - Concepts

Return on Investment (ROI)

Asset Utilization
Cost Reduction

Revenue Growth

Sales per Store
Average Store Size

Sales per Customer

Share of Wardrobe (Sales Mix)
* Shirts
* Bottoms
* Dresses
* Accessories

Fashion Leader
Quality Products
Selling Skills

Number of Stores

Nonmalls
Malls

New
Current

Retention

New Promotion

Fashion Leader
Quality Products
Selling Skills
What is BSC – Strategic View

**Balanced Scorecard**

- Internal Business
- Financial Perspective
- Customer Perspective
- Innovation & Learning

**Vision Statement**

- **People** Our people are our most important asset.
- **Customers** Our customers are the key to our future.
- **Stakeholders** Our responsibility to the stakeholders is second only to our fellow employees.
- **Community** We are committed to being an active and positive force in our local communities.
What is BSC - Cause & Effect Linkage

The Revenue Growth Strategy
“Improve stability by broadening the sources of revenue from current customers”

The Productivity Strategy
“Improve operating efficiency by shifting customers to more cost-effective channels of distribution.”

Improve Returns

Broaden Revenue Mix

Improve Operating Efficiency

Increase Customer Confidence in Our Financial Advice

Increase Customer Satisfaction Through Superior Execution

Understand Customer Segments

Develop New Products

Cross-Sell Product

Shift to Appropriate Channel

Minimize Problems

Provide Rapid Response

Increase Employee Productivity

Develop Strategic Skills

Access to Strategic Information

Align Personal Goals

Financial Perspective

Customer Perspective

Internal Perspective

Learning & Growth Perspective

Source: Translating strategy into action by Robert Kaplan and David Norton
## What is BSC - Measures

<table>
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<tr>
<th>Strategic Objectives</th>
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<tr>
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<td>F1 - Improve Returns</td>
<td>Return-on-Investment</td>
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<tr>
<td>F2 - Broaden Revenue Mix</td>
<td>Revenue Growth</td>
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<tr>
<td>F3 - Reduce Cost Structure</td>
<td>Deposit Service Cost Change</td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td></td>
</tr>
<tr>
<td>C1 - Increase Customer Satisfaction with Our Products and People</td>
<td>Share of Segment</td>
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<tr>
<td>C2 - Increase Satisfaction “After the Sale”</td>
<td>Customer Retention</td>
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<tr>
<td><strong>Internal</strong></td>
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</tr>
<tr>
<td>I1 - Understand Our Customers</td>
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<td>Cross-Sell Ratio</td>
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<td>I3 - Cross-Sell Products</td>
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<td>I4 - Shift Customers to Cost-Effective Channels</td>
<td>Service Error Rate</td>
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<td>I5 - Minimize Operational Problems</td>
<td>Request Fulfillment Time</td>
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What is BSC - Measures

Top Management Executive dashboard

Balanced Scorecard
- Internal Perspective 100%
- Customer Perspective 96%
- Financial perspective 116%
- Innovation Perspective 107%

- Customer Survey 105%
- Consumer Contacts 92%
- Customer Service 95%
- Complaints 88%
- Positive Contacts 103%
What is BSC

The Executive Area Scorecard defines overall strategic priorities.

Each Unit develops a plan for 'best practice' sharing to create synergy across Administrative Units.

Each Organisation develops its plan and BSC consistent with Agency’s focus areas.

Teams and Individuals develop personal goals consistent with Organisation strategy.

*Source: Balanced Scorecard Collaborative Materials*
What is BSC

Effect Of The Focus Of The Balanced Scorecard

*From a Management Control System*

- Designed around a short-term control-oriented financial framework
  - Strategy and Vision
  - Budget
  - Personal Incentives
  - Planning and Capital Allocation
  - Review & Reorient

*To a Strategic Management System*

- Designed around a longer-term strategic view
  - Formulate
  - Communicate
  - Execute
  - Navigate
  - Strategy Leadership

*Source: Balanced Scorecard Collaborative Materials*
What is BSC

Benefits of Balanced Scorecard

<table>
<thead>
<tr>
<th>Company</th>
<th>Year</th>
<th>Status</th>
<th>Profit</th>
<th>Stock</th>
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<tbody>
<tr>
<td>Mobil (USM&amp;R)</td>
<td>1993</td>
<td>#6 in profitability</td>
<td>$x</td>
<td></td>
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<tr>
<td></td>
<td>1995</td>
<td>#1 in profitability</td>
<td>$8x</td>
<td></td>
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<tr>
<td></td>
<td>1996</td>
<td>#1 in profitability</td>
<td>$13x</td>
<td></td>
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<tr>
<td></td>
<td>1997</td>
<td>#1 in profitability</td>
<td>$19x</td>
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<tr>
<td></td>
<td>1998</td>
<td>#1 in profitability</td>
<td>$x</td>
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<tr>
<td>CIGNA Property &amp; Casualty</td>
<td>1993</td>
<td>Losing money</td>
<td>$275M loss</td>
<td>$59</td>
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<td></td>
<td>1994</td>
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<td>$15M</td>
<td>$74</td>
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<td>$60M</td>
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<td>1998</td>
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<td>$94M</td>
<td>$249</td>
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<td>Brown &amp; Root Engineering</td>
<td>1993</td>
<td>Losing money</td>
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<td>(Rockwater)</td>
<td>1996</td>
<td>#1 in growth and</td>
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<td>profitability</td>
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<td>Chemical Retail Bank</td>
<td>1993</td>
<td>Profits = $x</td>
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<td></td>
<td>1994</td>
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Balanced Scorecard in Automotive
TATA MOTORS
A Case Study
TATA Motors

(Commercial Vehicles Business Unit)
With the Balanced Scorecard Tata Motors CVBU achieved a significant turnaround in its overall performance, helping its parent move from a loss of US$ 108.62 million in the year 2000 to a profit of US$ 107 million in 2002.

- New Executive Director appointed
- Introduced BSC
- Focus on turnaround and then sustainable growth and profitability
- Lowest cost of production strategy
TATA Motors

Some Results

2001 – 2003

- Achieved revenue growth of 40%
- Turned loss of US$ 108.62 Million into $65 Million profit
- Increased production from 72,612 to 104,626

Focus, Accountability and Ownership

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Challenges
- Making momentum
- Continuous improvement
- Continuous communication
- Aligning individual and compensation performance on BSC
- Data uploading online

Critical Success Factors
- The active and visible support of senior management
- A strong review process
- A knowledgeable team to drive and support scorecard deployment.
The Strength of the Balanced Scorecard is its Flexibility and Adaptability.

“It has become extraordinarily difficult to judge the overall success of the Balanced Scorecard as a management tool because what the term ‘Balanced Scorecard’ means to one practitioner may be dramatically different to what it means to the others.”

-Nigel Penny
MD, Claritas Asia, Ex VP-BSCOL (Asia)
Balanced Scorecard in Automobile/ Manufacturing - Sample Cases
United Tractors Pandu Engineering is subsidiary of PT United Tractors Engineering – Maker of Komatsu Heavy Vehicles

Sample Cases

Business Challenges

- Align business initiatives to strategy
- Monitoring Business Performance

Our Solution

- Performance Management Model Building
- Installation, Customisation training and maintenance of BSC Software PBViews

The Results

- Workshop Performance Management System
- Rated as “Best” BSC Implementation within Astra Group in 2002
Sample Cases

Katsushiro Indonesia (part of Katshushiro International) is a steel plate product producers for Heavy Equipment, Civil works and General Industrial Machineries

Business Challenges

• Define clear strategy to enable Katsushiro Indonesia to achieve its mission
• Ensure that Katsushiro initiatives are aligned to its vision and strategy

Our Solution

• Conducted series of workshops with Management and Senior Staff to formulate strategy clarification and alignment
• Developed Balanced Scorecard and Key Performance Indicators aligned to vision and strategy
• Implemented PBViews to keep the BSC Systems alive and dynamic

The Results

• Clear understanding of key strategies to achieve mission and vision.
• BSC with KPI to measure performance.
• Develop people competency plan aligned to strategy
• Tripled the sales revenue in 4 years!!
How to Use BSC
How to Use BSC

It is ideal to implement the Balanced Scorecard throughout the enterprise because that framework helps foster alignment between business and IT.

- David Norton, cocreator of the Scorecard and president of the Balanced Scorecard Collaborative.
How to Use BSC

Balanced Scorecard

- Clarifying & translating vision & strategy
- Strategic feedback & learning
- Planning & target-setting
- Communication & linking
How to Use BSC

- Resource Allocation
- Performance Management
- Process Management
- Communication & Feedback
- Human Resource Systems
How to Use BSC

“What gets measured, gets done”

- Peter Drucker -
How to Use BSC

Four check points

1. Prepare the organization for change
2. Devise the right metrics
3. Get buy-in at all levels
4. Plan to follow through to completion
How to implement BSC
BSC Implementation

Implementation Starts From Understanding Of Vision, Mission & Strategy

Balanced Scorecard

- Internal Business
- Financial Perspective
- Customer Perspective
- Innovation & Learning

Vision Statement

People Our people are our most important asset.

Customers Our customers are the key to our future.

Stakeholders Our responsibility to the stakeholders is second only to our fellow employees.

Community We are committed to being an active and positive force in our local communities.
Then begins the process of translating this vision, mission and strategies into a strategy map

Traditionally, the Balanced Scorecard provides a four-perspective framework to translate strategy into operational terms.

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- Building the scorecard develops consensus and teamwork throughout the organization
BSC Implementation

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“Improve stability by broadening the sources of revenue from current customers”

The Productivity Strategy
“Improve operating efficiency by shifting customers to more cost-effective channels of distribution.”

Financial Perspective
- Improve Returns
  - Broaden Revenue Mix
    - Increase Customer Confidence in Our Financial Advice
      - Understand Customer Segments
      - Develop New Products
      - Cross-Sell Product
    - Shift to Appropriate Channel
    - Minimize Problems
    - Provide Rapid Response

Customer Perspective
- Improve Operating Efficiency
  - Increase Customer Satisfaction Through Superior Execution
    - Shift to Appropriate Channel
    - Minimize Problems
    - Provide Rapid Response

Internal Perspective
- Increase Employee Productivity
  - Develop Strategic Skills
  - Access to Strategic Information
  - Align Personal Goals

Learning & Growth Perspective

Source: Translating strategy into action by Robert Kaplan and David Norton
BSC Implementation

For each strategic objective the Appropriate kpi’s are defined

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<td>with Our Products and People</td>
<td>Depth of Relationship</td>
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<td>C2 - Increase Satisfaction ‘After</td>
<td>Customer Retention</td>
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<td>Satisfaction Survey</td>
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### BSC Implementation

<table>
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<th>Strategic Theme: Advocacy</th>
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<tr>
<td>Deliver Value for Money</td>
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<td>Achieve Return on Advocacy</td>
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<tr>
<td>Improve Advocacy Planning</td>
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<td>Grow Advocacy Action</td>
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<tr>
<td>Develop Mission Critical Environments Scan</td>
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<tr>
<td>Meet Family Needs</td>
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<td>Meet Children Needs</td>
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<tr>
<td>Ensure Rights Persons/Right Jobs</td>
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<tr>
<td>Use Right Tools</td>
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<tr>
<td>OUR WAY (Call to)</td>
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### Measures

**How success in achieving the strategy will be measured and tracked**

- Plans developed/initiated
- Time spent with Policy makers

### Owner

The person in charge “to make it happen”

### Initiatives

Key action programs required to achieve objectives

- Develop Advocacy Database

**Strategy Map and accompanying Scorecard is a hypothesis. It is management’s best guess as to what is required to implement the strategy.**
Companies may choose to automate the balanced scorecard which gives top management an executive dashboard to see the progress of strategy and take corrective actions.
BSC Implementation

BSC implementation is a 6-steps process which takes 3-5 months for completion

1. Step 1: Vision/Strategy Clarification
2. Step 2: Management Understanding
3. Step 3: Corporate BSC Building & Detail
4. Step 4: Data Harvesting Plan
5. Step 5: Software Implementation
6. Step 6: User Training & Go live

3 - 5 months
BSC Implementation

Requirements for Successful Implementation

- Understand why you want Balanced Scorecard
- Be clear about the senior management’s role
- Build the Capability
- Use consultants wisely
- Build Strategy Map
- The BSC is Not a Measurement System
- Recognize the importance of Strategic Initiatives
- Be clear as to how far down the organization to devolve the scorecard
- Understanding the cultural barriers of scorecard roll-out
- Think carefully about compensation
- Think carefully about performance appraisal
- Communicate, Communicate, Communicate
- Think about automation
- Align budget with scorecard
- Make the scorecard central to all management meetings
- The best time to start is NOW
Successfully Implementing BSC
Avoiding the Pitfalls
Successfully Implementation

**Do’s - Key Success Factors**

- Vision and Strategy
- Top Management Commitment
- Middle Management Buy-in
- Resources and Investment
- Training and Facilitation
- Feedback Mechanism
Successfully Implementation

Do’s - Executing Successfully the Important Steps

- Awareness
- Buy in
- Ownership
Successfully Implementation

Do’s - Monitoring and Auditing BSC Implementation

- Regular Meetings with Management Team
- On-going Communication with Senior Management
- Demonstration of Management Commitment
- Follow 80/20 Rule:
- Just Do It
Successfully Implementation

Some Killer Factors That Cause Failure

Management...

- Lack of Time
- Fear of Committing to the Future
- Lack of Management Support
- Secrecy & “Need to Know”
- Consultant will give the report!
- Incentive blank spots
Successfully Implementation

Some Killer Factors That Cause Failure

Strategic Intent...

- Industry generic
- Unintegrated perspectives
- Customer values not defined
- Missing internal/operational link
- Levels in the organization not distinguished
Successfully Implementation

Some Killer Factors That Cause Failure

Process…

- No executive consensus
- Roll-out before completion
- Tie to incentives too quickly
- Too many people, too long
- Lose momentum
Successfully Implementation

Some Killer Factors That Cause Failure

Measurement…

- Too many measures
- Unrealistic, unrepeatable
- Too easy targets
- Activities instead of measures
- Misleading
- All financial
Benefits of BSC
Benefits of BSC
Using the Technology
Self Diagnostic: Are you ready to implement BSC?
Questions and Answers