

## Chapter 2

# Balanced Scorecard in Developed and Transitional Economies

by Irv Beiman and Christian C. Johnson

The Balanced Scorecard (BSC) was created by Harvard Business School Professor, Dr. Robert Kaplan, and his partner, Dr. David Norton. It continues to evolve through the work of Drs. Kaplan and Norton and the consultants of Palladium and the Balanced Scorecard Collaborative, as well as other consulting firms and the companies that use the BSC to create improvement in enterprise business performance.<sup>6</sup> Palladium is now the largest global firm focused exclusively on strategy execution.<sup>7</sup>

More than 100 books have been written about the BSC, but this book is the first to be focused on the use of the BSC framework for state-owned enterprises (SOEs) in transitional countries. The Balanced Scorecard Collaborative ([www.bscol.com](http://www.bscol.com)) online bookstore lists 48 books on various aspects of the BSC.

The proven benefits of using the BSC Methodology is consistent with numerous government objectives for their SOEs, including

- improving enterprise profitability;
- providing guidance to enterprise managers using modern management concepts, methods, and tools;

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<sup>6</sup> eGate Consulting ([www.egate-china.com](http://www.egate-china.com)) is a member of the Balanced Scorecard Collaborative and partnered with BearingPoint ([www.bearingpoint.com](http://www.bearingpoint.com)) on ADB TA-3933.

<sup>7</sup> See [www.palladiumES.com](http://www.palladiumES.com).

- stimulating identification, analysis, and resolution of problems interfering with improvement of enterprise performance; and
- building consensus and improving communication among management, employees, and stakeholders.

The BSC has a dynamic history over the last 15+ years. The BSC approach has gone through several stages of evolutionary development:

- From 1990 to 1996, the focus was more on how to use the BSC to *measure* performance;
- From 1996 to 2000, the focus shifted toward improving the *management of performance* at the organizational level;
- From 2000 up to the present time, the BSC Methodology has evolved into a clear, ongoing, and replicable process for *strategic management*.

The BSC and its associated management tools are now being used not only in developed economies, but in transitional economies as well. Having been successfully used to drive alignment and strategic results in the private sector, governments are increasingly using the BSC in government organizations and SOEs as part of an integrated strategy management process. (Later chapters review recent case studies that illustrate how various types of SOEs use BSC tools to describe, measure, align, and manage their strategies.)

The four key aspects of strategy management are

- **Describe the strategy** in a strategy map that illustrates key objectives in four perspectives;
- **Measure the strategy** via a BSC that includes objectives, measures, targets, and strategic initiatives;
- **Align the organization(s) with the strategy** by cascading the strategy map vertically downward throughout the organization and building cross-functional/cross-organizational alignment through shared strategic themes and objectives; and



- **Manage the strategy** in an ongoing process that includes periodic strategy review sessions, plus establishing linkages of the strategy with budgeting, human resources policies and practices, and information technology.

## USE OF THE BALANCED SCORECARD IN DEVELOPED COUNTRIES

As indicated previously, the BSC is the most widely used organizational system in the world for measurement and management of enterprise business performance. The BSC is used by more than 70% of the Fortune 500 companies. Additionally, numerous studies and BSC implementations have proven the effectiveness of the BSC. For example,

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- Mobil Oil (North America) increased cash flow by \$1.2 billion and return on investment from 6% to 16% between years 2 and 5 after implementing the BSC. Within 2 years of implementing the BSC, Mobil moved from last place in industry profitability to first place. Mobil North America held that first place position for 5 straight years, before it was acquired by Exxon.
- UPS (United Parcel Service) increased revenues by 9% and net income by 33% within two years after BSC implementation.
- Three years after implementing the BSC, Wells Fargo Bank increased its customer base by 450% and was rated the Best Online Bank. Also, as a result of the BSC implementation, the company added 750,000 online customers over a 2-year period and decreased its costs per customer by 22%.
- Chemical Bank increased its group company profits 20-fold over a 4-year period after implementing the BSC. The Chemical Bank Vice-Chairman, Michael Hegarty, (of what is now Chase Manhattan Bank) stated: *“The balanced scorecard has become an integral part of our change management process, enabling us to look beyond financial measures and concentrate on factors that create economic value: quality, organizational learning, and focusing on customers. The scorecard has delivered on our major goals in communication, teamwork, learning, and commitment.”*

- The world famous advertising firm Saatchi and Saatchi achieved a five-fold increase in market capitalization to \$2.5 billion within 3 years of implementing the BSC. The company—which won major awards at the Cannes International Advertising Festival, the leading industry benchmark—was ranked as the #1 creative agency 2 years in a row after implementing the BSC. William H. Cochrane, Chief Financial Officer, stated: *“The balanced scorecard has not only helped us manage our human capital, it has transformed our agencies into being action-oriented and client-focused. And it has put everyone in the same ballpark with a consistent definition of what we call ‘permanently infatuated clients’ and consistency in measures.”*
- Texaco Refining and Marketing increased profitability by \$29 million in 1 year—a 1,500% return on investment from their BSC initiative. Al Derden, Director of Quality and Productivity, stated: *“If we truly believed that the only difference between our competition and ourselves was our people, then we had to find a way to tap into what Federal Express CEO Frederick W. Smith described as ‘discretionary effort.’”* Texaco used the BSC Methodology’s five principles for creating a Strategy Focused Organization to mobilize and focus this “discretionary effort.”
- Siemens IC Mobile increased sales 76% to euro (€)9 billion within 1 year of BSC implementation. Rudi Lamprecht, member of the managing board at Siemens AG and President of Siemens IC Mobile, stated: *“We’ve always had strategies, but through the balanced scorecard we bring them to life.”*

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Increasingly, the BSC is being used by non-profit, government, and state-owned companies to improve performance and achieve strategic alignment and focus. For example, Dubai in 1997 began designing an automated BSC system to monitor the performance of Dubai government departments. The PRC, Thailand, Malaysia, and Fiji are also among the transitional governments using the BSC to monitor and improve performance. The BSC is also a popular management tool for public sector enterprises in the United States, Australia, the United Kingdom (U.K.) and Scandinavia. For example,

- The US Postal Service (USPS) first implemented the BSC in 1996. Since then, USPS has been able to increase on-time delivery of mail by 20%, increase productivity by almost 3% per year while decreasing overall employment by full-time equivalent (FTE) of 60,000, increase employee and customer satisfaction, and deliver mail at rates a about half those of Germany or Japan.
- The Defense Accounting and Finance Service (DFAS) of the US Department of Defense first implemented the BSC in 2001. Since then, DFAS has been able to increase customer satisfaction by an average of 2% per year; increase employee satisfaction by 14%; reduce overall employment by 30%; cut its federal budget allocation by half and, most importantly, align and clarify its mission to its customers, employees, and managers.
- The UK Ministry of Defense implemented the BSC in April 2000. The Ministry is one of the largest government departments in the United Kingdom, with a budget of £25 billion or 2.5% of GDP; it employs more than 300,000 military and civilian personnel and has fixed assets of £87 billion.

As a part of the UK Government's wider modernizing agenda, in April 2000, the Ministry released its first BSC that established clear strategic goals, targets, measures, and initiatives. The results have been clear and visible: simplified strategic objectives, better communication of strategic intent, improved resource allocation, greater accountability, better decision making, and enhanced military capability and readiness.

The BSC has also been used successfully in some transitional economies, particularly the People's Republic of China (PRC). The most important success factor for these BSC projects in the PRC has been the top executive's commitment and support for implementation of the BSC Methodology. This requirement and other important success factors were summarized in a recently published management book in both Chinese and English language

versions by Dr. Irv Beiman and Dr. Yong-Ling Sun: *Balanced Scorecard and Strategy Execution: Applications in China* (Beijing: China Machine Press, 2003).<sup>8</sup>

The book introduces readers to the BSC as it can be applied to the varied challenges and unique aspects facing organizations in the PRC. The book includes chapters on measuring performance objectives; creating horizontal and vertical alignment; and integrating the BSC with business process improvement, human resource systems, leadership and change management. The final chapter offers predictions about how the BSC is likely to evolve in the PRC based on scientific application of the methodology.

To provide some insights into the application of the BSC in emerging markets, four case studies of BSC implementations in the PRC are provided below.

### PRC'S FIRST USE OF THE BALANCED SCORECARD<sup>9</sup>

The BSC has been in use in the PRC since 1996. In 1996, the largest food company in the world sought consulting support for an organizational transformation project in its PRC operations. The project included multiple elements: localization of the General Manager, BSC deployment, business process improvement, management development, team building, and culture change.

The BSC was the central organizing framework and system for creating focus and alignment within an organization that was challenged by numerous growth opportunities and conflicting stakeholder needs. The project was successful, as the General Manager position was localized on schedule, the BSC was deployed successfully, and profitability was established.

The BSC assisted the senior management team to identify key customer needs and the critical process improvements necessary for meeting those needs. Additionally, the management team identified

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<sup>8</sup> This book may be ordered online. The web link to the online bookseller can be found at [www.egate-china.com](http://www.egate-china.com) > thought leadership > books.

<sup>9</sup> This case is summarized in *Balanced Scorecard and Strategy Execution: Applications in China*, by Dr. Irv Beiman and Dr. Yong-Ling Sun.

the learning and growth objectives critical to achieving the desired process improvements. This linkage of learning, process, customer, and financial objectives was central to implementation of the BSC Methodology.

As a result of the implementation, the management team improved the organization's overall performance and profitability by focusing on objectives in the four perspectives of the BSC. These improvements were a critical success factor that enabled the organization to be sold to an even larger global consumer products company.

### THREE SOE BALANCED SCORECARD CASE STUDIES

Three SOE case studies of BSC implementations are summarized below to provide an overview of the challenges and opportunities SOEs can expect when seeking to adopt this management tool as a means to improve performance. Please note that these are “early” case studies in the PRC. After a short period of time, more sophisticated approaches for SOEs have been developed in the PRC and are described in Chapter 6 of this book. It is noteworthy that SOEs in the PRC have learned and adapted so quickly to this best practice management tool.

#### SOE Balanced Scorecard Case Study 1: Improving Performance Management at Jinshan Telecom<sup>10</sup>

Jinshan Telecom is a branch unit of China Telecom (an SOE). Jinshan Telecom has four sections, 17 substations, and more than 20 retail service offices. In 2001, Jinshan's performance measurement and appraisal system did not reflect the company's strategic priorities. Jinshan Telecom's Key Performance Indicators (KPIs—another term used to describe the “measures” were not linked to the company's strategy. Each employee at Jinshan had 30–50 KPIs for which the

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<sup>10</sup> Reported by Mr. Xia Pei Yun, General Manager of Jinshan Telecom, in a presentation entitled, “Using the BSC to Implement Performance Management”, at the *First BSC Forum in China*, Shanghai Jin Mao Conference Center, 19 December 2003.

employee was responsible. The numerous KPIs deterred employees from focusing on what was most strategically important. Moreover, it was difficult for the company to analyze, consolidate, or discuss the KPIs in management's efforts to execute their strategy more effectively.

Further investigations found that Jinshan Telecom's cross-departmental teamwork and cooperation was weak. The existing performance appraisal system lacked focus and did not align the organization horizontally across sections. The eGate consulting team assisting Jinshan was told by several managers that many of the KPIs were difficult (or impossible) to accurately measure, and that the performance appraisal system had become a formality that provided no real value. This can be a common situation in the PRC.

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As a result of using the BSC Methodology, Jinshan Telecom's top management developed a clearer understanding of the Group Company's business strategy and how it should be cascaded down throughout the organization. As a starting point in the project, the top management team agreed on Jinshan's strategic objectives and incorporated these objectives into a company-level BSC.

The resulting BSC for Jinshan Telecom was cascaded down to all departments and individuals. As a result, company employees had clearer objectives, measures, and performance "targets". Also, a variable pay incentive system was established while deploying the BSC Methodology. This led to an increase in employee motivation for improving business results. The company achieved significant improvements in vertical and horizontal alignment, as well as significant improvements in cross-departmental teamwork and cooperation as a result of its BSC implementation.<sup>11</sup>

Measurable improvements in quantitative performance, as reported by Mr. Xia Pei Yun, General Manager of Jinshan Telecom, included the following:

- Jinshan Telecom's 2003 growth rate was more than three times the Group Company's growth rate. Jinshan grew by 14%,

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<sup>11</sup> For an extensive discussion of organizational alignment issues and solutions in the PRC, see Chapter 7: Designing Organizational Alignment with BSC in *Balanced Scorecard and Strategy Execution: Applications in China*, by Dr. Irv Beiman and Dr. Yong-Ling Sun.

compared to the Group Company's 4% growth rate (Jinshan was the first branch unit in the group company to deploy the BSC).

- Jinshan's superior growth rate was enabled by reaching or exceeding strategic performance targets in the Customer, Process, and Learning areas.
- Jinshan's results on five performance measures met or exceeded targets: Key Account Satisfaction, Commercial Account Satisfaction, Repair Cycle Time, Connection to Internet Success, and Implementation of Planned Trainings.

### SOE Balanced Scorecard Case Study 2: CCTEC – Continuous Casting Technology Engineering Co., Ltd.

CCTEC is a scientific and technology holding company formed by the China Metallurgy Construction Group. CCTEC is the largest continuous casting professional engineering company in the PRC. The company's core business activities include continuous casting, continuous casting and rolling, steel surface engineering, industrial auto control systems, etc. The company's mission is to create value for customers, shareholders, and employees through creative activities and to develop the company's business by developing its people.

In 2002 CCTEC had a large market share and positive customer recognition, but it was facing important challenges.

- Weak protection of intellectual property and low barriers to market entry had created significant low-price competition.
- Multinational companies were reducing their prices to the point they were approaching that of the low-price competitors.
- Management had recently developed a new strategy focusing on high-technology products and development of international markets. Implementation and execution of this strategy was proving to be difficult.
- CCTEC had hired many qualified technical professionals, from varied locations and cultural backgrounds. This led to different understandings and interpretations of the company's new strategy. There were also different interpretations of the

strategy at branch locations, such as Beijing and Anhui, which contributed to further difficulties and misunderstanding.

- As a result of these factors, the company leaders wanted a systematic management tool that would enable the company to clearly and consistently communicate its strategy and objectives to its various organizational units.

Late in 2002, CCTEC decided to implement the BSC Methodology with guidance from external consultants. The top management team clarified their strategy and formulated the company objectives for their BSC. For example, part of their strategy emphasized developing overseas markets, as well as enhancing their company culture.

CCTEC cascaded the company scorecard to different branch locations and to different functional departments. These units developed their own BSCs in a manner that was in alignment with and supported achievement of the company-level objectives. This cascading process emphasized improvement of cross-departmental communication and cooperation. CCTEC also implemented a variable pay system to support the company BSC project.

CCTEC's revenue in 2002 was yuan (CNY)150 million. Their revenue target for 2003 was CNY270 million—a targeted increase of 80%. With the help of the BSC, CCTEC's actual 2003 results exceeded their revenue target by more than 10%. After implementing the BSC, CCTEC achieved an annual revenue increase of more than 100% (to more than CNY300 million).

After implementing the balanced scorecard, CCTEC achieved an annual increase in revenue of more than 100%

The CEO of CCTEC stated: *"The balanced scorecard is an excellent communication tool. We are a newly built company with employees from many different locations. Different cultural backgrounds make communication difficult. It is very important for our business to have smooth cross-departmental communication. The balanced scorecard helped us solve this problem and brought significant value to our company."*

### SOE Balanced Scorecard Case Study 3: Strategic Change at First Level ABC Bank<sup>12</sup>

ABC Bank (the actual name of the bank is not provided to ensure confidentiality) was a successful first-level subsidiary of a Chinese state-owned bank. It had been ranked as the #1 performer among its parent bank's first-level subsidiaries for 4 consecutive years. It had also been ranked #1 in revenue growth and profitability among all competitors in the city where it was located.

ABC Bank had been successfully implementing its strategy of innovation and product leadership. It was the first bank in its home city to establish three special centers: for housing mortgages, for car loans, and for currency trading. These special centers had attracted many new customers.

ABC Bank had also created many new financial products for the private sector, including telephone banking, Internet banking, government bonds, foreign exchange products, stock investment banking cards, etc. The bank had established a reputation for product leadership. However, other state-owned banks in the local area had begun following ABC Bank's business model and competition was intensifying.

Despite its success, ABC Bank's business model did not promote a customer-focused approach. For example, a high net worth individual had to travel to one special center for a housing mortgage, and a different center for a car loan. Also, ABC Bank did not provide customers with total solutions, and the bank's culture was not focused on the customer. Another shortcoming was that ABC Bank did not maintain a customer database, as was the case with most Chinese banks. Moreover, departments and branches focused on their own specialty functions and responsibilities, without consideration of cross-departmental processes. While ABC Bank was focused on its financial goals, the bank had not yet identified goals in other areas, such as customer, process, and learning and growth.

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<sup>12</sup> This case was summarized by Dr. Yong-Ling Sun of eGate Consulting, and reported by Dr. Robert Kaplan in his 2 June 2003 Shanghai Seminar entitled, *Strategy Maps: The Continuing Journey of the Balanced Scorecard*.

The CEO of ABC Bank had led the bank from a new start up in 1999. He was an innovative leader, and frequently implemented new management ideas. He recognized that private banking provided significant growth potential and had learned that ABC needed to be more customer-focused so it could provide more complete solutions to its customers.

The CEO also realized ABC needed to focus on process improvement and employee competency development. The CEO read about the BSC Methodology, and he believed the methodology could help ABC implement an improved business strategy and create the necessary cultural change to implement the new strategy successfully.

Subsequent analysis suggested that three major external factors were important for the bank to consider for its new strategy:

1. The Post World Trade Organization (WTO) external business environment was becoming more competitive and market-oriented
2. Local competitors were attempting to rapidly change and improve
3. Customers expectations were changing and intensifying in three critical areas:
  - a. Customized financial solutions and total financial solutions
  - b. New products and services
  - c. Advisory financial services

This strategy map was used to identify the Bank's strategic themes and objectives, and to communicate the strategy to all managers and employees. (see Appendix 1)

ABC Bank sought consulting support for using the BSC to clarify and implement its new strategy. A strategy map was developed to describe the new strategy on a single page. Both ABC Bank's Strategy Map and BSC are provided in Appendix 1. This strategy map was used to identify the Bank's strategic themes and objectives, and to communicate the strategy to all managers and employees. The strategy map was also used to translate the new company strategy into company-level objectives within a BSC.

ABC Bank's BSC (also shown in Appendix 1) contained objectives, measures, and performance targets in four performance

categories (financial, customer, process, and learning/growth). Strategic initiatives and accountabilities for those initiatives were identified to enable achievement of the company's important objectives. The company-level BSC was then cascaded to all departments and branches, as well as to all individuals. This was accomplished in a manner that created vertical and horizontal alignment—an important goal of the CEO.

ABC Bank also used initiatives in the BSC project to drive business process improvement and competency development, resulting in an improved customer-focused culture. The BSC enabled the bank to create human resources systems that tracked performance management, competency development, and variable pay. The management team also successfully adopted the BSC Methodology as a strategy-execution system.

The CEO described his experience with the BSC as follows:

*“During balanced scorecard implementation, we could feel the changes the BSC brought to us. The bank’s strategy has been clarified and effectively communicated. The balanced scorecard helped us realize that we need to develop in a balanced way by evaluating our performance from multiple perspectives, rather than just a single financial perspective. The BSC data enabled us to do a better job in decision making and analysis. All of our people are moving forward in the same direction with objectives that are aligned. We developed many initiatives at the beginning of the year, which have been tracked and implemented by specific people who were accountable for results. In summary, the implementation of BSC has established a solid basis for our strategic performance management system and improving our strategy execution.”<sup>13</sup>*

The performance results are summarized below:

- Breakthrough progress in private banking business.  
Ranked #1 in the group company.

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<sup>13</sup> See Chapter 6 of the Beiman and Sun book for additional cases in which Strategy Maps and Balanced Scorecards are being used in an ongoing strategy management process to create organizational alignment and dramatic improvements in performance.

- Ranked in top 3 for 5 years in a row across more than 30 provincial banks within the group.
- The only organization recognized as “outstanding performer” for 5 years in a row.
- By deploying the BSC Methodology, the bank established a strategy management process consistent with the five principles of a strategy-focused organization.<sup>14</sup>
- The bank now reviews and evaluates BSC performance quarterly to fine-tune strategy execution and the management of initiatives.

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<sup>14</sup> See Robert Kaplan and David Norton (2000) *The Strategy-Focused Organization*. Boston: Harvard Business School Press.