

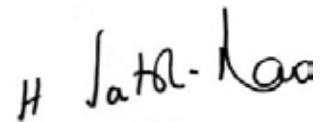
Foreword

The Asian Development Bank (ADB) is pleased to present this book on performance management and corporate governance, the culmination of more than 3 years of research and analytical work. The book is important for a number of reasons:

- First, it focuses on putting in place a framework for governments to strategically manage the organizations that they own and control. It introduces a methodology by which governments can (i) set strategic goals for their state-owned enterprise (SOE) sectors; (ii) measure progress toward achieving those goals; and (iii) stimulate their SOEs to improve performance through improved performance management.
- Second, it represents an attempt to focus attention on the responsibilities of governments to maximize the financial and nonfinancial performance of enterprises entrusted to their control.
- Third, the book presents eight different case examples in which this methodology is applied. These cases range from a national government operating through an agency to state-owned holding companies to individual SOEs.

The book grew out of an ADB-financed technical assistance project, the purpose of which was to further develop a Chinese performance measurement system that had been in place since 1999. The performance measurement system described herein is part of a broader approach toward stimulating an improvement in performance management effectiveness throughout the SOE sector. The book is a valuable contribution to our knowledge of the measurement and management of performance in both market and transitional economies.

It should be useful to enterprise managers, government leaders, bankers, policymakers, and development partners. The book will hopefully trigger further work and fresh approaches toward maximizing the contributions of government-owned corporations in Asia and the Pacific and beyond.

A handwritten signature in black ink that reads "H Satish Rao". The signature is written in a cursive style with a large initial "H".

H. Satish Rao
Director General
East Asia Department
Asian Development Bank

Table of Contents

Foreword	iii
Introduction	vii
Acknowledgments.....	ix
Abbreviations	xi
Chapter 1 - Introduction to the Balanced Scorecard and Performance	
Measurement Systems	1
The Balanced Scorecard	2
Activity-Based Management (ABM)	6
Economic Value Added (EVA).....	8
Quality Management.....	10
Customer Value Analysis and CRM.....	11
Performance Prism	12
Chapter 2 - Balanced Scorecard in Developed and Transitional Economies.....	15
Use of the Balanced Scorecard in Developed Countries.....	17
The People's Republic of China's First Use of the Balanced Scorecard	20
Three SOE Balanced Scorecard Case Studies	21
Chapter 3 - Balanced Scorecard Development for Individual State-Owned	
Enterprises (SOEs)	29
Determine Your Mission, Vision, and Strategic Focus	30
Link Enterprise Strategy to the Balanced Scorecard via a Strategy Map	38
Select Appropriate Measures for each Balanced Scorecard Objective	44
Cause-and-Effect Analysis of Objectives and Measures.....	48
Cascade your Balanced Scorecard to Subsidiaries and Other Business Units	51
Periodically Review Your Balanced Scorecard and Enterprise	
Strategy and Update.....	53

Chapter 4 - Balanced Scorecard Development for the Government Shareholder.....	59
Developing a Government Strategy for Managing SOEs.....	61
The People’s Republic of China’s Experience with Setting an Overarching SOE Strategy	64
Creating a Scoring Methodology for the Balanced Scorecard	68
Chapter 5 - Corporate Governance as an Internal Process Objective.....	73
Corporate Governance Rating Systems.....	77
Country “SOE Corporate Governance Rating Indexes”	80
Germany’s Corporate Governance Scorecard for Listed Companies.....	81
People’s Republic of China’s SOE Corporate Governance Rating Index (CGRI)	82
Brief Explanation of each Category of the Chinese CGRI	85
Chapter 6 - Managing SOEs for Improved Performance.....	89
Strategy Management Survey.....	89
Strategy Management Process: Describe, Measure, Align, and Manage.....	91
Three PRC SOE Cases of Balanced Scorecard Deployment for Strategy Management.....	93
Award-Winning Case: China Resources Microelectronics—First PRC Winner of the BSC Hall of Fame.....	100
Chapter 7 - Summary and Conclusions.....	105
Appendix 1 - ABC Bank’s Modified Strategy Map and Balanced Scorecard	109
Appendix 2 - DVFA Scorecard for German Corporate Governance	111
Appendix 3 - Sample Listing of Chinese Corporate Governance Legal Framework	117
Appendix 4 - CGRI Index for Non-100% Chinese Government-owned Companies.....	119
References	133
About the Editors and the Contributor.....	135

Introduction

This book is written to expand the benefits of the Balanced Scorecard (BSC) Methodology for strategic management from developed economies to transitional economies. Specifically, it provides a road map for governments and enterprise managers to adopt a performance management system (the BSC) in order to drive improvements in performance management and corporate governance among their state-owned enterprises (SOEs, also referred to by some as public-sector enterprises).

The BSC is the most widely adopted methodology in use today for the measurement and management of performance—both in the corporate world and in the nonprofit and government sectors. The BSC has also been ranked recently as one of the most important management concepts in the last 75 years by the Harvard Business Review. Moreover, it incorporates best practices from previous enterprise management systems developed over the last 40 years.

Governments and SOEs around the world are financially and resource constrained, yet governments and the SOEs they control are being called upon to provide better services to more people—often for cheaper prices. Considering that the BSC has helped countless organizations achieve strategic alignment, increase productivity, and become globally competitive, it follows that governments should learn about and adopt this important tool for the strategic management and improved corporate governance of enterprises.

Government officials, especially those in transitional economies, may not yet have learned much about enterprise performance measurement. Thus, Chapter 1 of this book provides an overview of the BSC and performance measurement systems. The use of BSC—the most widely used approach to performance measurement—is then more fully explained in Chapter 2. The BSC is a best practice tool, yet it can be used for much more than merely measuring performance at the enterprise level. It is widely used globally for managing enterprise performance in order to achieve improved strategic results. Chapter 2 includes several early case studies of successful deployments of the BSC among SOEs in the People's Republic of China (PRC) as a system for measuring, managing, and improving strategic performance.

Chapter 3 provides the framework for individual SOEs to adopt enterprise BSCs, either based on their government's overall SOE strategy or in isolation—should their government not be in a position to articulate an overall SOE strategy or scorecard. Chapter 3 describes, more specifically, the approach used in the PRC to measure, manage, and review performance in order to achieve improved strategic results.

Chapter 4 describes a process by which governments may adopt the BSC to measure, control, and strategically manage their SOE sectors. It is noteworthy that Chapter 4 deals with adopting a BSC to measure the performance of a portfolio of SOE enterprises, rather than an individual SOE. The chapter focuses governments on determining an overarching strategy for their SOE sectors, rather than setting the strategy of a single organization. This use of the BSC by countries and governments for their SOE sectors is a major, landmark evolution in the use of the BSC Methodology. This is the first book to describe and advocate use of the BSC approach for this purpose and, therefore, represents a milestone in the evolutionary development of the BSC approach to strategic management.

Because corporate governance is an area of increased focus for transitional economies, Chapter 5 suggests two steps that governments may take to improve the corporate governance of their SOEs. One step is to create a code of corporate governance for SOEs and the second step is to create a corporate governance rating index (CGRI). Chapter 5 provides two examples of CGRIs (one in Germany and another in the PRC) and describes how a CGRI can be adapted for use as an internal process measure in a BSC. The CGRI can also be used as a stand-alone tool for improving corporate governance.

Chapter 6 provides advice to governments and SOE managers who may be considering adopting the BSC as a measurement tool. The BSC Methodology enables much more than performance measurement. This chapter explains how to go beyond measurement to actually improving management of strategic performance at the level of holding companies and subsidiary enterprises. The content of Chapter 6 is based on lessons learned: (i) globally over the last 15 years by organizations specializing in deploying the BSC, and (ii) over the last 10 years in the PRC since the BSC was first introduced there in 1996. This chapter provides insights into what enterprises and governments need to do to measure, manage, and sustain improved SOE performance after adopting the BSC Methodology. Four case studies—including a more extensive case description about the PRC's first winner of the global Balanced Scorecard Hall of Fame for Executing Strategy™ (China Resources Microelectronics)—are presented.

Chapter 7 concludes the book by summarizing the information presented and offering some additional conclusions based on the research and experience of the authors.

Acknowledgments

This book is based, in part, on the work performed to implement a Technical Assistance (TA) Project for the Asian Development Bank (ADB), TA No. 3933-PRC: Improving Corporate Governance and Financial Performance of SOEs. This project was implemented by BearingPoint (www.bearingpoint.com) in collaboration with eGate Consulting (www.egate-china.com) and Dayue Consulting Beijing (www.dayue.com).

The content of this book benefited tremendously from the work performed by the Project Team, which included the following members: Mr. Christian C. Johnson (Team Leader) of BearingPoint; Dr. Irv Beiman of eGate Consulting; Dr. John Thompson of the Organisation for Economic Co-operation and Development (OECD); Mr. Frank (Ligun) Zheng of Dayue Consulting; and Mr. Liao Jiasheng, Mr. Sun Qinghong, and Mr. Sun Jianwei of the People's Republic of China's (PRC) State-owned Asset Supervision and Administration Commission (SASAC), the representative owner of the PRC's most important state-owned enterprises (SOEs). Mr. Geoffrey Elkind was the BearingPoint Project Manager for the TA Project. Ms. Shen Ying and Ms. Xu He provided substantial valuable input and direction throughout the course of the TA Project. Focused training in the Balanced Scorecard (BSC) approach was provided to groups of SASAC managers in the PRC, Australia, and Germany by Dr. Yong-Ling Sun of eGate Consulting. These two overseas educational trips were organized and implemented by BearingPoint, with support from Dayue Consulting.

The seven case studies presented in Chapters 2 and 6 are drawn from the experience of Dr. Irv Beiman and his work as Chairman of eGate Consulting, including 10 years experience in applying the BSC in the PRC.

Chapter 5 was developed based on consultations with Dr. John Thompson, who was one of the original members of the ADB TA Project 3933-PRC team. Importantly, Appendix 4 (CGRI Index for Non-100% Chinese Government-Owned SOEs) is largely attributable to Dr. Thompson's more than 20 years of experience at OECD .

Abbreviations

ABC	-	Activity-Based Costing
ABM	-	Activity-Based Management
ADB	-	Asian Development Bank
APEC	-	Asia-Pacific Economic Cooperation
BSC	-	balanced scorecard
BScol	-	Balanced Scorecard Collaborative
CCTEC	-	Continuous Casting Technology Engineering Company
CGRI	-	Corporate Governance Rating Index
CVA	-	Customer Value Analysis
CRM	-	Customer Relationship Management
DVFA	-	The Society of Investment Professionals in Germany
EFQM	-	European Foundation for Quality Management
EPES	-	Enterprise Performance Evaluation System
ERP	-	enterprise resource planning
EVA	-	economic value added
GM	-	General Manager
GMI	-	Governance Metrics International
ISS	-	Institutional Shareholder Service
IT	-	information technology
KPI	-	key performance indicator
MBO	-	management by objective
OECD	-	Organisation for Economic Co-operation and Development
OSM	-	Office of Strategy Management
PRC	-	People's Republic of China
ROE	-	return on equity
S&P	-	Standard & Poor's
SASAC	-	State-owned Assets Supervision and Administration Commission
SBU	-	strategic business units
SOEs	-	state-owned enterprises
TCL	-	The Corporate Library
TOR	-	Terms of Reference that contains the specific deliverables for the Project
TQM	-	Total Quality Management
WTO	-	World Trade Organization