Strategic Management for Competitive Advantage
Professor Sanjib Chowdhury
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur
Lecture - 39
Balanced Scorecard Approach

Welcome to the strategic course management for competitive advantage. In the last sessions, we talked about 4 types of strategic controls; we talked about premise control, we talked about strategic surveillance, we spoke about special alert control and implementation control. In the implementation control, we discussed many things.

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Now, today, I will show you those in implementation control; there are some real-life cases of how in a company, you track your strategies, those I will be showing today. And we will be discussing the Balanced Scorecard approach.

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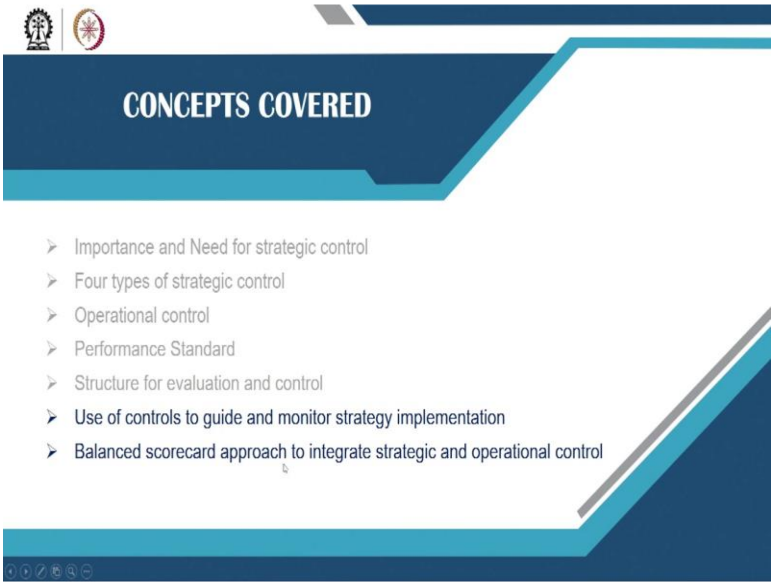

So, in this lecture, what will we be doing? These were the; these are the five topics we completed in the last session. Today, we will discuss the use of controls to guide and monitor strategy implementations and the balanced scorecard approach to integrating strategic and operational control.

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Now, in the last class, we talked about implementation control. So, how do you that implementation and all, how do you do that, monitor, and control the strategic initiatives; what are the Strategic Initiatives? The capital program and project monitoring? And, what you do, you do the KPIs and KPMs, key performance indicators and key performance measures, different companies, you develop as per the need of your measurement policies, you develop that, and you do it now if you will see how it is being done in real life.

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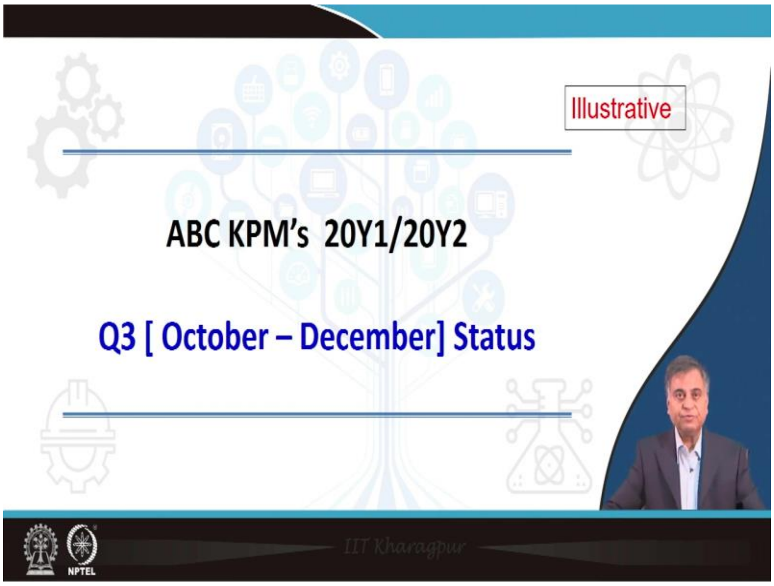

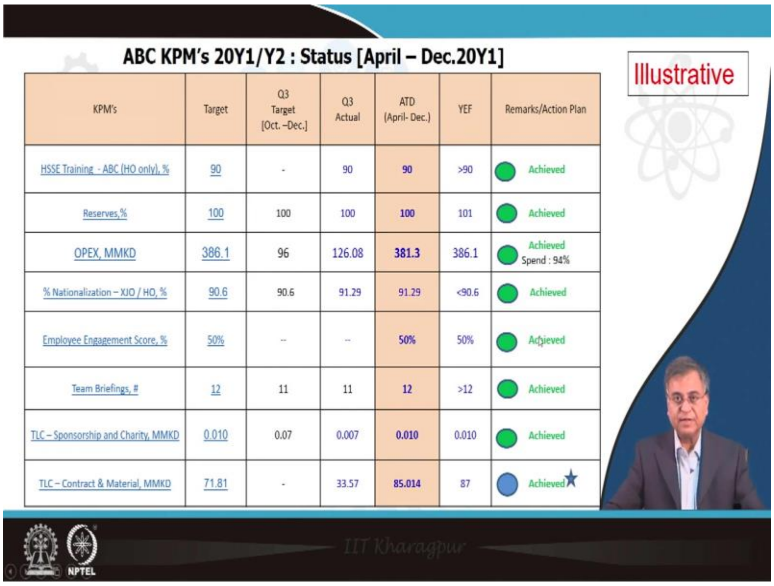

KPM's	Target	Q3 Target [Oct. –Dec.]	Q3 Actual	ATD (April- Dec.)	YEF	Remarks/Action Plan
HSSE Training - ABC (HO only), %	90	-	90	90	>90	Achieved
Reserves,%	100	100	100	100	101	Achieved
OPEX, MMKD	386.1	96	126.08	381.3	386.1	Achieved Spend : 94%
% Nationalization – XJO / HO, %	90.6	90.6	91.29	91.29	<90.6	Achieved
Employee Engagement Score, %	50%	--	--	50%	50%	Achieved
Team Briefings, #	12	11	11	12	>12	Achieved
TLC – Sponsorship and Charity, MMKD	0.010	0.07	0.007	0.010	0.010	Achieved
TLC – Contract & Material, MMKD	71.81	-	33.57	85.014	87	Achieved

We will be going through some real life, (say) it is ABC companies' key performance measure for some quarter since it is a real company's and all I must take out the name. So, you have a look; this is the status; these KPMs have their targets, then their quarterly targets, then quarterly actual, then actual to date, year-end forecast and the remarks and the action plans are given.

This is a simplified form in that company; these are measured in the computerised Hyperion system; there is much software for this. IBM Cognos is one such; so, this was in a Hyperion systems site that I could not show you the output from Hyperion because of confidentiality; I have just transferred it in this simple format for your knowledge. So, these are the KPIs. So, you measure it and whether these are green is these have been achieved, means these are satisfying performance.

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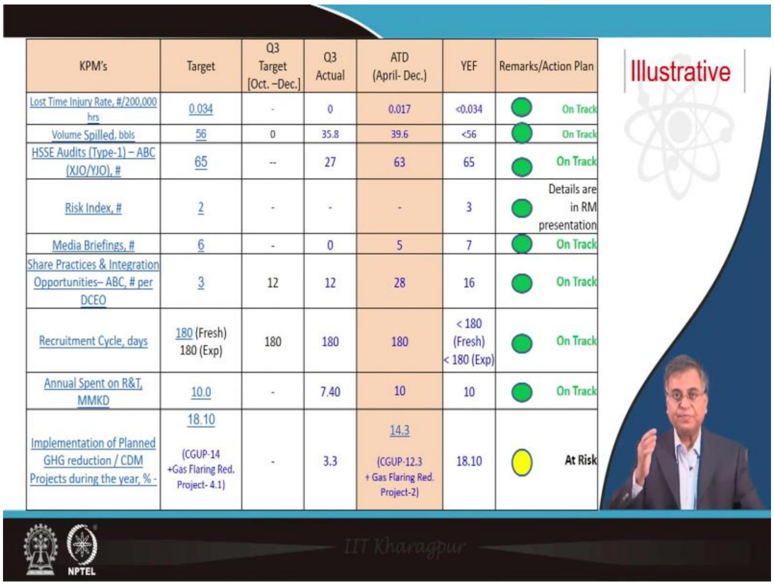
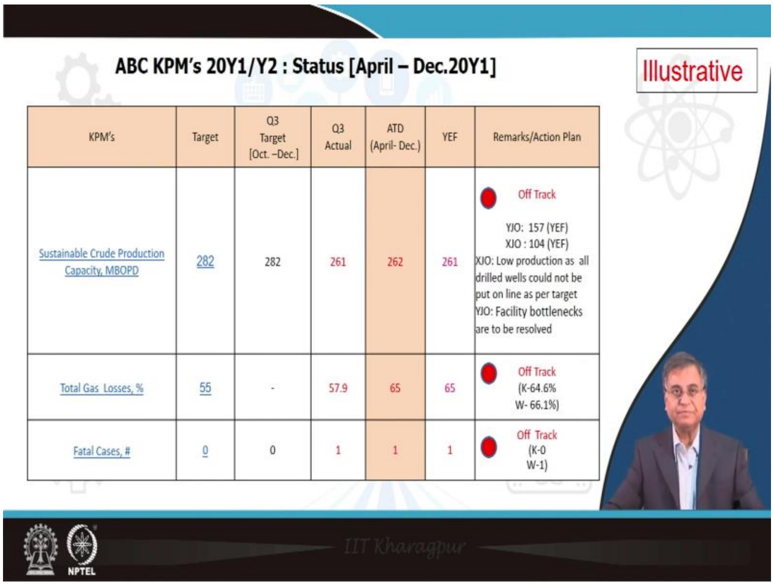


KPM's	Target	Q3 Target [Oct. –Dec.]	Q3 Actual	ATD (April- Dec.)	YEF	Remarks/Action Plan
Lost Time Injury Rate, #/200,000 hrs	0.034	-	0	0.017	<0.034	On Track
Volume Spilled, bbls	56	0	35.8	39.6	<56	On Track
HSSE Audits (Type-1) – ABC (XJO/YJO), #	65	--	27	63	65	On Track
Risk Index, #	2	-	-	-	3	Details are in RM presentation
Media Briefings, #	6	-	0	5	7	On Track
Share Practices & Integration Opportunities– ABC, # per DCEO	3	12	12	28	16	On Track
Recruitment Cycle, days	180 (Fresh) 180 (Exp)	180	180	180	< 180 (Fresh) < 180 (Exp)	On Track
Annual Spent on R&T, MMKD	10.0	-	7.40	10	10	On Track
Implementation of Planned GHG reduction / CDM Projects during the year, % -	18.10 (CGUP-14 +Gas Flaring Red. Project- 4.1)	-	3.3	14.3 (CGUP-12.3 + Gas Flaring Red. Project-2)	18.10	At Risk



ABC KPM's 20Y1/Y2 : Status [April – Dec.20Y1]

KPM's	Target	Q3 Target [Oct. –Dec.]	Q3 Actual	ATD (April- Dec.)	YEF	Remarks/Action Plan
Sustainable Crude Production Capacity, MBOPD	282	282	261	262	261	Off Track YJO: 157 (YEF) XJO : 104 (YEF) XJO: Low production as all drilled wells could not be put on line as per target YJO: Facility bottlenecks are to be resolved
Total Gas Losses, %	55	-	57.9	65	65	Off Track (K-64.6% W- 66.1%)
Fatal Cases, #	0	0	1	1	1	Off Track (K-0 W-1)

Similarly, these are the other KPM, and the targets are given your quarterly targets than actual and what are the remarks and all this is at risk; these give you a very good picture for your top management they can learn quickly they can go where they these are the off-track so, the red signal is given. So, immediately the top management can take decisions and can inquire about the reasons, and they can advise accordingly.

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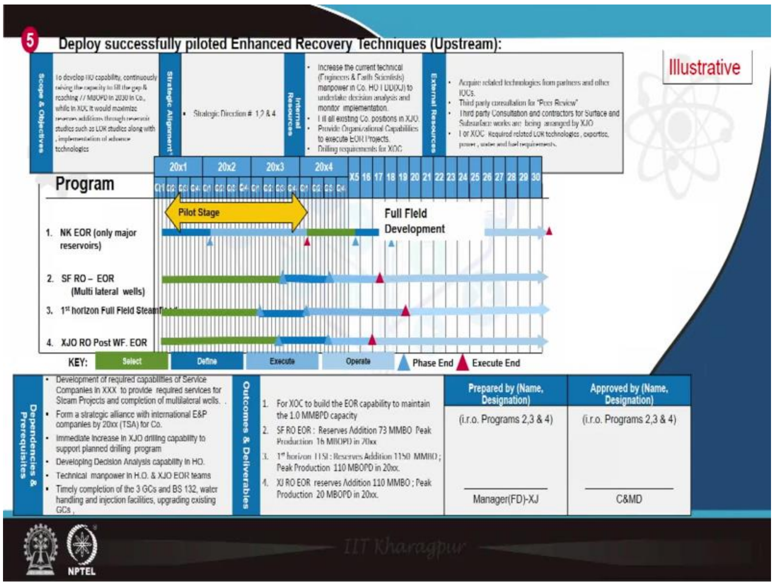

So, this is for those strategic; we talked about these strategic initiatives. Those are what are the initiatives? Those are higher in that strategic projects. These few press strategic projects make a strategic program; few programs make a strategic initiative that we discussed in implementation control. That you have seen that those same controls are that strategic thrusts are required, so, this is one such these are the strategic program's monitoring, and all you do is see, these are the big strategic programs, then you have their plan wise, phase wise that how it will be (say) different phases. So, different phases of how the programs will be completed, and this is just for your illustration purpose. You can monitor it quarterly.

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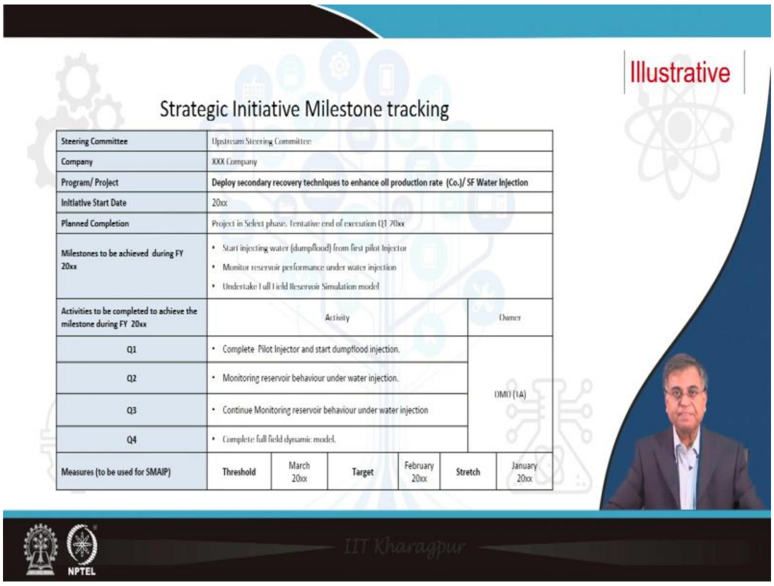

So, this is strategic initiatives milestones tracking that we talked about milestone review and all. So, this is initiatives milestone tracking; you do it here, you have a target, then you have a threshold, you have the et cetera. So, you can link it with your incentive plans. These are some of the best practices followed in certain industries. So, this is for your illustration purpose.

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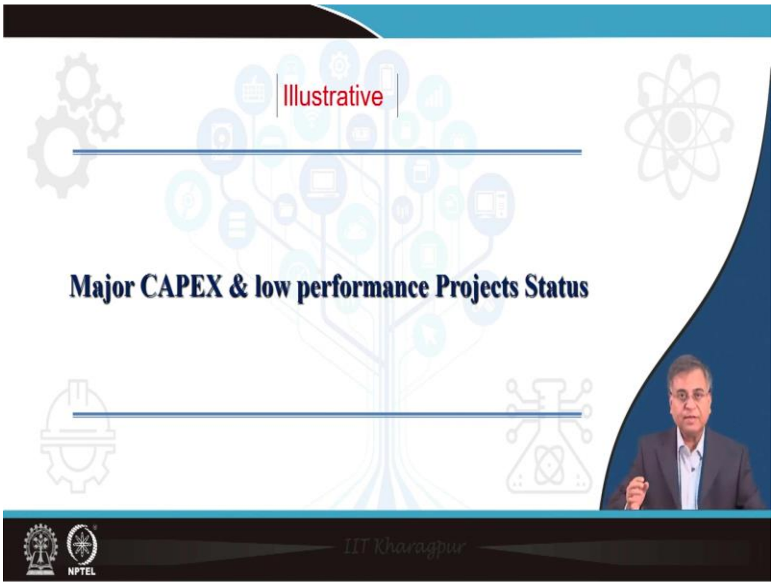

Similarly, as I told what do you in capital projects, what do you do? You see, CAPEX is a major capital expenditure because CAPEX will ensure that capital expenditures are for the future growth you are investing in the project, which will give you the future returns in the future days that infrastructure projects or growth projects.

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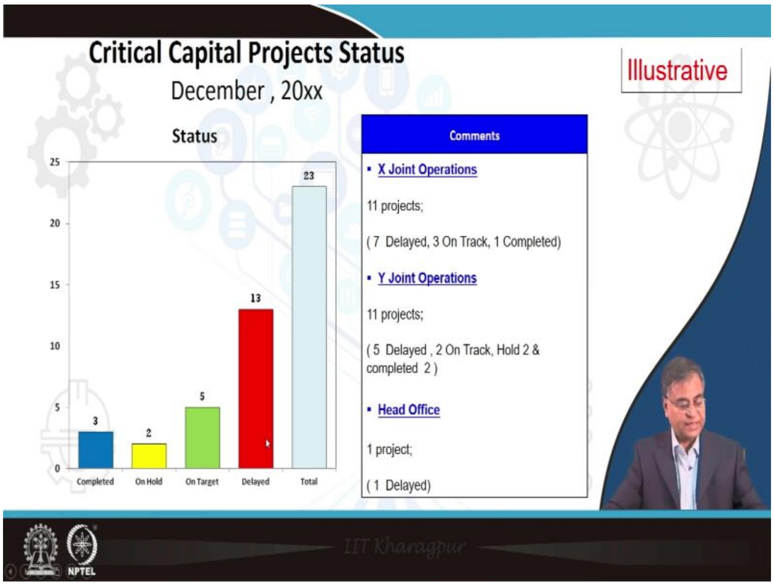

So, management must observe this project closely, and there may be many strategic projects in the organisations, but the management can't go for every project. So, they identify high-value or critical capital projects that they monitor. Here it is shown that (say) these 23 projects are, so these projects are (say) 500 million dollars and above. So, these are critical projects for them. So, they monitor this project (say) 23 projects out of these 3 have been completed, 2 are on hold, 5 are on target, and delayed projects are 13. So, they will management wants to know what are the delayed projects. So, they wanted to decide on it.

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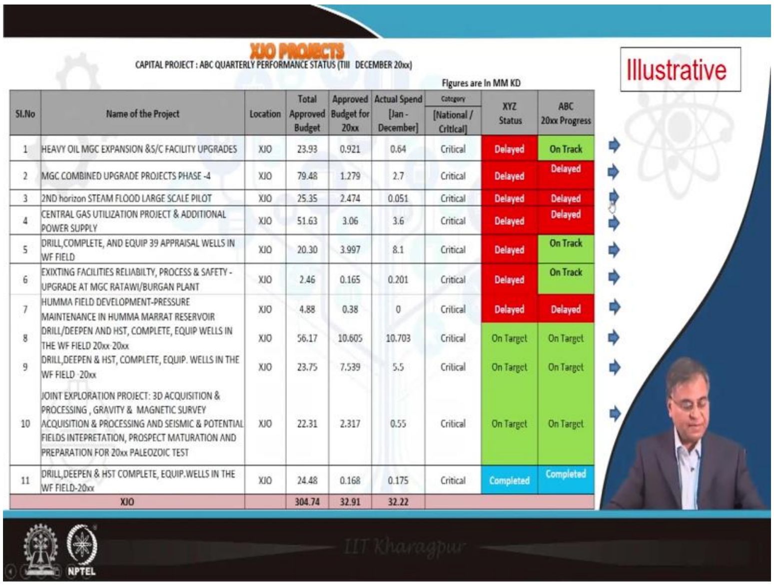

XJO PROJECTS

CAPITAL PROJECT : ABC QUARTERLY PERFORMANCE STATUS (TIII DECEMBER 20xx)

Figures are In MM KD

Sl.No	Name of the Project	Location	Total Approved Budget	Approved Budget for 20xx	Actual Spend [Jan - December]	Category [National / Critical]	XYZ Status	ABC 20xx Progress
1	HEAVY OIL MGC EXPANSION &S/C FACILITY UPGRADES	XJO	23.93	0.921	0.64	Critical	Delayed	On Track
2	MGC COMBINED UPGRADE PROJECTS PHASE -4	XJO	79.48	1.279	2.7	Critical	Delayed	Delayed
3	2ND horizon STEAM FLOOD LARGE SCALE PILOT	XJO	25.35	2.474	0.051	Critical	Delayed	Delayed
4	CENTRAL GAS UTILIZATION PROJECT & ADDITIONAL POWER SUPPLY	XJO	51.63	3.06	3.6	Critical	Delayed	Delayed
5	DRILL,COMPLETE, AND EQUIP 39 APPRAISAL WELLS IN WF FIELD	XJO	20.30	3.997	8.1	Critical	Delayed	On Track
6	EXIXTING FACILITIES RELIABILTY, PROCESS & SAFETY - UPGRADE AT MGC RATAWI/BURGAN PLANT	XJO	2.46	0.165	0.201	Critical	Delayed	On Track
7	HUMMA FIELD DEVELOPMENT-PRESSURE MAINTENANCE IN HUMMA MARRAT RESERVOIR	XJO	4.88	0.38	0	Critical	Delayed	Delayed
8	DRILL/DEEPEN AND HST, COMPLETE, EQUIP WELLS IN THE WF FIELD 20xx-20xx	XJO	56.17	10.605	10.703	Critical	On Target	On Target
9	DRILL,DEEPEN & HST, COMPLETE, EQUIP. WELLS IN THE WF FIELD -20xx	XJO	23.75	7.539	5.5	Critical	On Target	On Target
10	JOINT EXPLORATION PROJECT: 3D ACQUISITION & PROCESSING , GRAVITY & MAGNETIC SURVEY ACQUISITION & PROCESSING AND SEISMIC & POTENTIAL FIELDS INTEPRETATION, PROSPECT MATURATION AND PREPARATION FOR 20xx PALEOZOIC TEST	XJO	22.31	2.317	0.55	Critical	On Target	On Target
11	DRILL,DEEPEN & HST COMPLETE, EQUIP.WELLS IN THE WF FIELD-20xx	XJO	24.48	0.168	0.175	Critical	Completed	Completed
	XJO		304.74	32.91	32.22			

So, these are beneficial things. So, these are the (say) delayed projects. So, you have completed these are the name of the project, (say) locations of the project, total approved budget of the project, approved budget for that year, and then the total spent up to the previous quarter. The category of the project is a national project, critical project, and these are the on-track projects, these are the delayed project. So, it is linked with the hyperlinked with the further, what are the reasons for the delay and all everything analysis you must produce to the top management. So, these are in the backup; if you click on that, they will see the further reasons for the delay and take immediate action, or the decision can decide on the spot.

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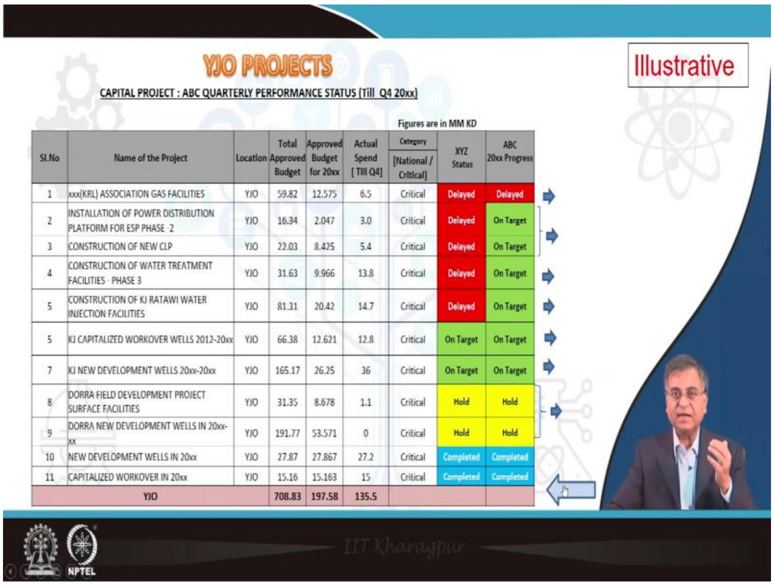

Sl.No	Name of the Project	Location	Total Approved Budget	Approved Budget for 20xx	Actual Spend [Till Q4]	Category [National / Critical]	XYZ Status	ABC 20xx Progress
1	xxx(KRL) ASSOCIATION GAS FACILITIES	YJO	59.82	12.575	6.5	Critical	Delayed	Delayed
2	INSTALLATION OF POWER DISTRIBUTION PLATFORM FOR ESP PHASE -2	YJO	16.34	2.047	3.0	Critical	Delayed	On Target
3	CONSTRUCTION OF NEW CLP	YJO	22.03	8.425	5.4	Critical	Delayed	On Target
4	CONSTRUCTION OF WATER TREATMENT FACILITIES - PHASE 3	YJO	31.63	9.966	13.8	Critical	Delayed	On Target
5	CONSTRUCTION OF KJ RATAWI WATER INJECTION FACILITIES	YJO	81.31	20.42	14.7	Critical	Delayed	On Target
5	KJ CAPITALIZED WORKOVER WELLS 2012-20xx	YJO	66.38	12.621	12.8	Critical	On Target	On Target
7	KJ NEW DEVELOPMENT WELLS 20xx-20xx	YJO	165.17	26.25	36	Critical	On Target	On Target
8	DORRA FIELD DEVELOPMENT PROJECT SURFACE FACILITIES	YJO	31.35	8.678	1.1	Critical	Hold	Hold
9	DORRA NEW DEVELOPMENT WELLS IN 20xx-xx	YJO	191.77	53.571	0	Critical	Hold	Hold
10	NEW DEVELOPMENT WELLS IN 20xx	YJO	27.87	27.867	27.2	Critical	Completed	Completed
11	CAPITALIZED WORKOVER IN 20xx	YJO	15.16	15.163	15	Critical	Completed	Completed
	YJO		708.83	197.58	135.5			

Similarly, these are the other assets projects those are delayed or on hold or completed this gives you so; these are some of the this is illustrative ones you can also similarly follow in your organisations.

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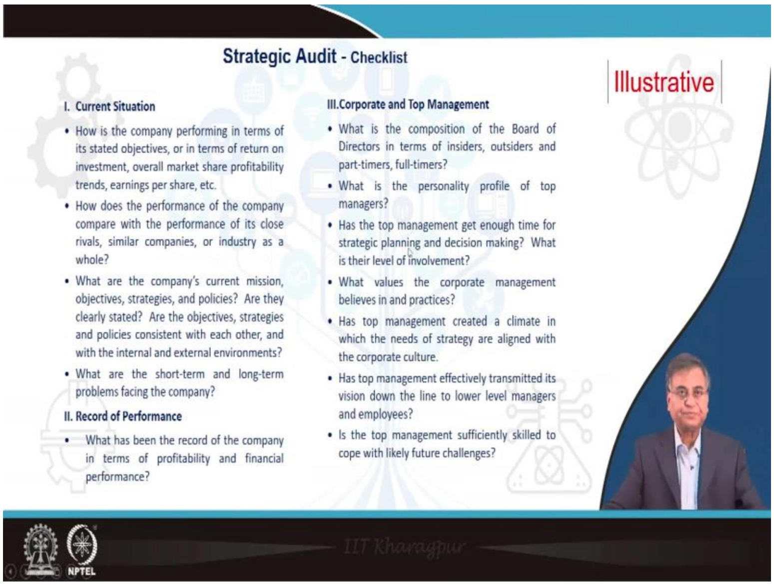

So, these are the (say) Strategic Initiatives capital and all, real-time, or you can monitor it. So, the further one is the strategic audit; that strategic audit is what? It is a checklist shot-up thing that you can also audit your strategy. There you develop a checklist and this checklist on different areas (say) current situation, how the company is performing in terms of the stated objectives or terms of return on investment, overall market share, profitability trends, earnings per share, et cetera. How does the performance of the company compare with the performance of its close rival, similar companies, or industry as a whole?

So, there may be many questions you develop, and you check with these your strategies positions with this whether your strategy is strong or has weakness or where you relatively stand. Similarly, corporate and top management related, what is the composition of the board of directors regarding insiders, outsiders, and part-time and full-time directors? What is the personality profile of top managers, has the top management got enough time for strategic planning and decision-making? What is their level of involvement? So, these are the checklist you do and compare them, and these are just for illustrations.

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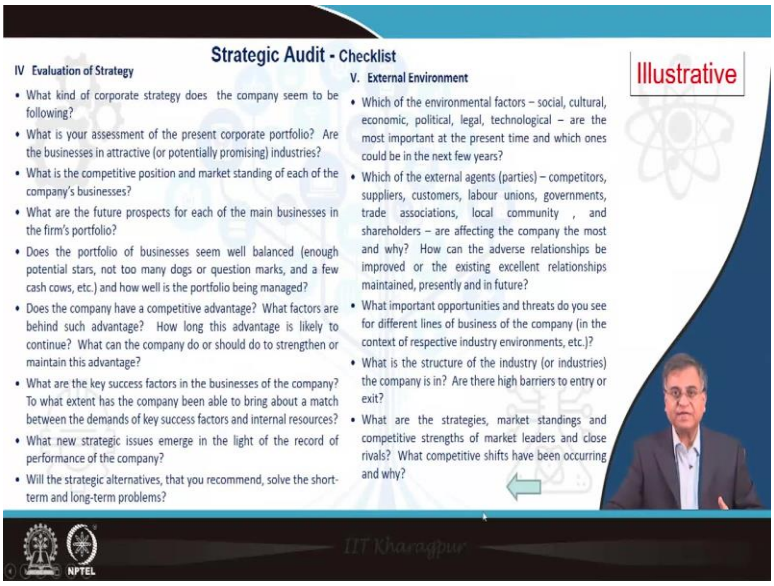

Similarly, in evaluating strategy, what corporate strategy does the company seem to follow? what is your assessment of the present corporate portfolio? Is the business in is in attractive or potentially promising industries? What are the competitive positions and market trend market standing of each of the company's businesses? So, for business evaluation of your strategy then external environment you check the external environment and audit which of the environmental factors, social, cultural, economic, political, legal, and technological, are the most important at present and which ones could be in the next five years. So, you asked for it, and you do strategic auditing.

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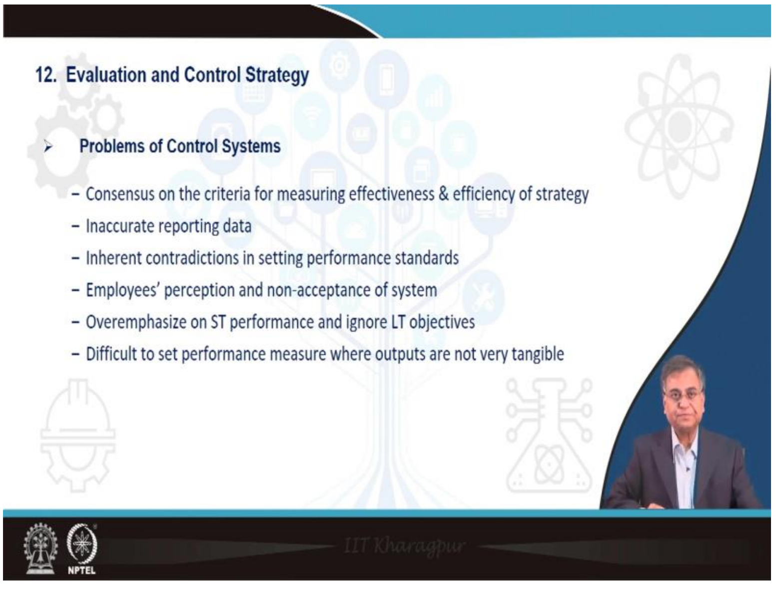

So, these are some of the ways you do it. So, next, what are the problems of the control system? There is not that control system you expect will work very seamlessly there are problems that arise in the control systems; these are some of the problems you can there be no consensus on the criteria for measuring effectiveness and efficiency of strategy, that may arise, and it may also happen inaccurate reporting of data.

So, if your data are inaccurate, your strategies and all will not be you will be having some misleading sort of thing. It is not desirable. The internal contradictions in setting performance and performance standards that are not internal it is inherent contradictions in setting performance standards. Suppose you are strategy is increasing the market shares and all, and there are expectations as your market share grows, and your total overall cost for marketing and all should be less these are the expectations that employees perceptions like employees may think that they have been treated in this strategy, they have been treated very poorly badly.

So, that may be non-acceptance. They may be going for the non-acceptance of the system, then that strategy may be the overemphasis on short-term performance and ignoring the long-term objectives, which may also be the case. So, you should avoid such things, but a short-term performance should be balanced at the cost of the long-term objectives because long-term objectives that we are looking for and also sometimes difficult to set performance measures where output is not very tangible. There are some abstractions there, so, that it will be some difficulty will be there. So, these are some of the problems of control systems.

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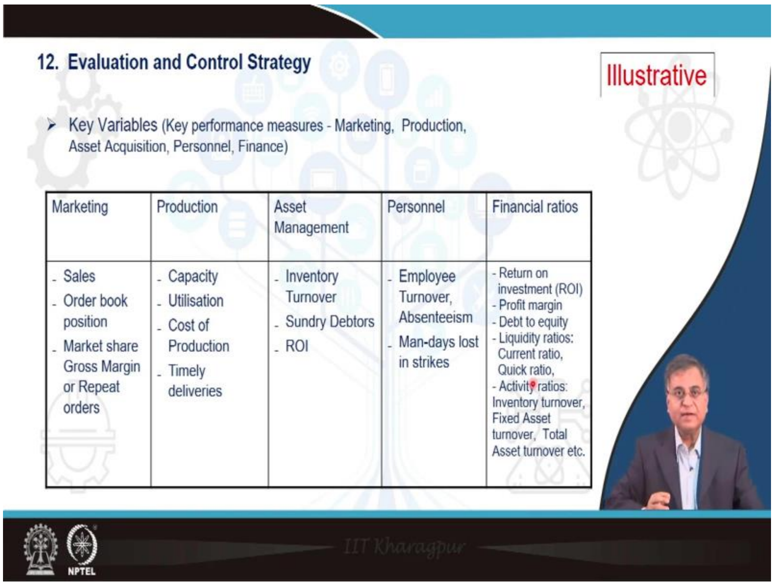

Next will be talking about every strategy when you do it. What do you do with those strategies? How do you create those control systems and all? You look at the key variables that are key performance measures; you look at the key success factors, and all those you will give you the field how to go about controlling the strategy like key performance measures, some of the key performance measures those are generally followed in the industries shown regarding marketing production, asset management personnel and financial ratios.

So, for marketing generally, that is, sales is one performance measure, key performance measure, order book position, market share, gross margin of or repeat orders, then that productions capacity, then utilisation of capacity, cost of production, timely delivery these are important key performance measures. Asset Management inventory turnover, sundry debtors, return on investment, then personnel employee turnover absenteeism, man-days lost and financial ratios return ROI, profit margin, debt to equity, all these are there are to give you a glimpse like what are the key variables you should look at it in different industries.

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Now, you also monitor strengths and weaknesses, opportunities, and threats; these are some questions you ask, are the strengths still strengths? Because the environment is dynamic, yesterday's strengths may not be your strength now because your competitors might have improved. Have we added additional strength? Weakness Similarly, Are the weakness still weaknesses? Because you are wanted to come out from overcoming the weakness, you are improving. Are opportunities still opportunities? And the threats you discover continuously by monitoring and using your appropriate use your controlling strategy in these strategic audits we have done it.

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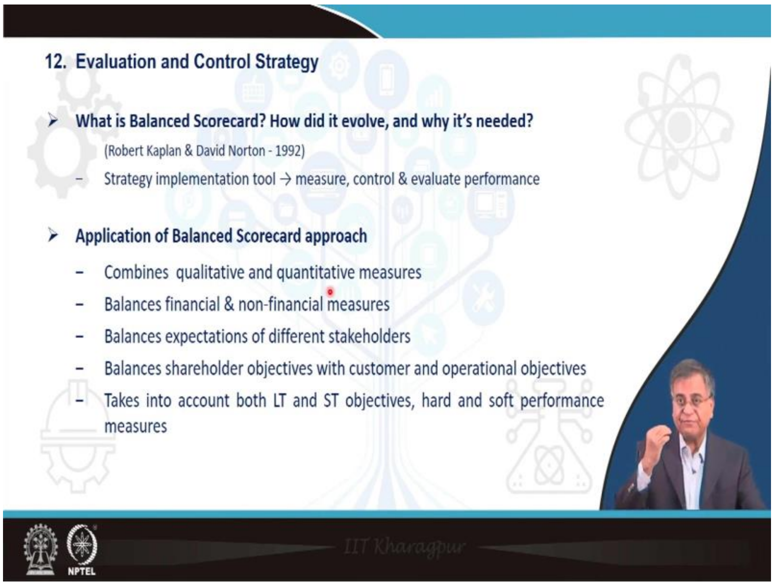

Now, we will discuss the last part is very important, which is a very important thing. So, you must have heard about the balanced scorecard; what is a balanced scorecard? That we will be discussing it. So, the basic questions will put, what is a balanced scorecard? How did it evolve, and why is it needed? So, these are very important things we will discuss now.

Robert Kaplan and David Norton developed the balanced scorecard in 1992 in their pioneering work. What was the evolution before that? Before, they found that companies used to measure their performance in terms of financial ratios in terms of only one perspective the finance that is inadequate to that can tell what the performance of the company at present is, but what will be the performance of the company at the future that it cannot predict or cannot say anything about it.

So, this is a shortcoming, plus they have also found a gap between the strategy formulations and the strategy implementation; why is that gap there? Because strategy cannot be measured usually that most companies implement the strategy. Still, the measurement of strategy could be more established, and the people who are implementing the strategy, they cannot make out what is their work performance, what the gap is, and how the strategy is being efficiently implemented or not. That gap exists because there were not many measurement criteria, what to measure and how to measure. That was not there. These 2 gaps they tried to overcome.

How do they overcome? They introduced or supplemented 3 more perspectives. Previously it was mostly the financial perspective and some operational KPM, but they introduced 3 supplementary perspectives. Namely, one is the customer's perspective, another is the internal business process perspective, and the third is the learning and growth that is innovative perspective. These 3 perspectives will not only tell the present standard performance standards of the organisation, but they will also help tell what will be the future performance of the organisation.

Because many of these works are for the future-oriented suppose, the innovation learning and growth this is for the pay the future how the company's R&D these will talk about the future growth of the company and how it will perform. So, this is the need for a balanced scorecard and how did it evolve that we have talked about.

Now, what is this balanced scorecard? This balanced scorecard is a basic strategy implementation tool, it measures, control and evaluates the performance of the organization, and it is also valid why it is called a balanced scorecard. Because it balances the expectations of many stakeholders, it balances the financial and non-financial performance, it balances the customer's expectations, and customer needs with the employee objectives. So, so many things are there. So, I will go one by one. What does it do? The applications of a balanced scorecard approach. What does it do? As I told you, it combines both qualitative and quantitative measures.

There may be some qualitative measures, but previously it was mostly quantitative. It balances the financial and non-financial measures, and the operational measures balance the expectations of different stakeholders. As I told you, it balances shareholders' and customers' and operational objectives. Also, it considers both the long-term and short-term objectives of the organisation. It also considers the hard performance measure and the soft performance measure all these it takes into account, and as I told you, it could measure, can forecast what will be in the future.

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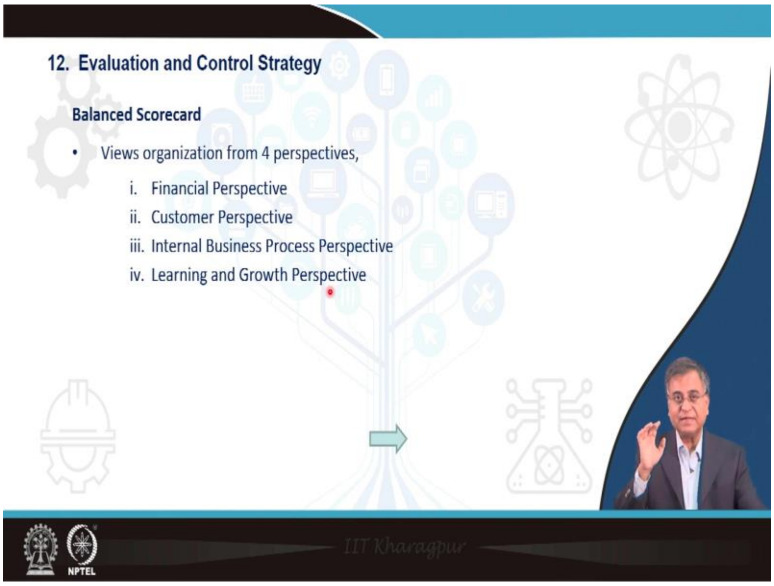

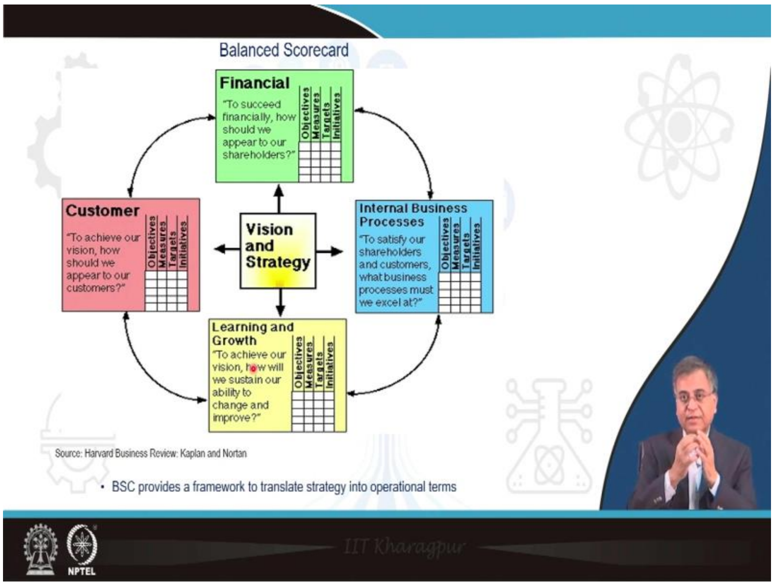

So, the views are organisation form a 4 perspective previously, it was only financial perspective. Now, it is 4 perspectives, one financial perspective, the customer perspective, as I told internal business process perspective, and the learning and growth perspective. So, how does it go like this? These 4 perspectives are like this; these are the balanced scorecard perspectives that, as I told are linked this way financially. Then you are at the core of the vision and strategy of the organisation. Though financial internal business processes are learning and growth customer to financials, we know those our return on investment, profitability, whatever you is your company's net present value, companies whatever the focus area, those are the financial perspective that gives you the return.

Now, the customer perspective is what? Customers' perspective deals with customer satisfaction, market share goal, how many market shares you want to have, product attributes, and service attributes. These contain the customer's perspective. The internal business process perspective is how you are improving your internal business processes like your supply chain management processes, your quality control processes, your training and development processes, your financial and accounting processes, and your HR processes. These are internal business processes.

So, these processes, if you strengthen for (say) the next 10 years objectives, that your growth strategy, this will can forecast how your company will be, how your company will be in the next 10 years, these are the internal business processes. Then learning and growth are the perspective of innovation like you develop, how you develop your human capital, your information capital, and your organisation capital, that is, skill sets, training, development, research and R and D research and development. So, all these things will tell you that, that your future growth and help you to be your future growth; these are the 4 perspectives. So, BSC or balanced scorecard provides the framework to translate strategy into operational terms. So, these are strategies you are transpiring to translate to operational terms. So, these are the balanced scorecard.

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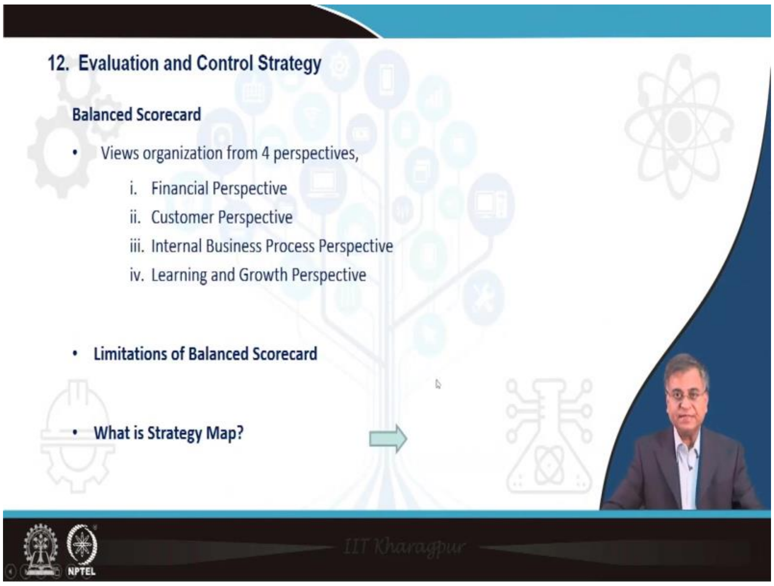

Now, I will talk about that there are some limitations of balanced scorecard that what are the limitations of balanced scorecards. These balanced scorecards have 4 perspectives, and these perspectives are not integrated that do not link with each other. So, you can have different, you can have different objectives, you can have as many objectives rather not different, as many objectives and as many KPM’s key performance measures, and you can develop in one perspective. Still, these are not linked with another perspective.

So, it is a silo sort of thing. Unless these are linked, your strategies will be a silo sort of strategy, it will not be a cohesive strategy, and it will not be an integrated strategy. So, you are required to integrate it; that balanced scorecard approach does not do that. So, these are the limitations of the balanced scorecard to overcome; how do you overcome these? To overcome these, the strategy map was developed; what is the strategy map?

Strategy map talks about integrating different balanced scorecard perspectives into a cohesive one, I will show you so that all these perspectives are integrated. So, if we have the (say) return on investment, some financial perspective, how it will come if it is integrated with your production, it is integrated with your supply chain management, the production will require the supply chain management or not. So, all these are interlinked. So, that is, I will show you some strategy maps in real life that will be, that will be.

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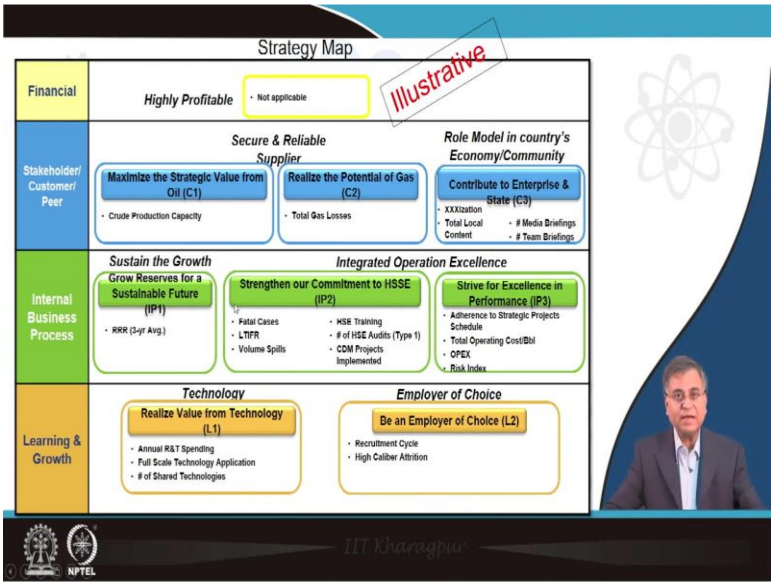

This is a real-life strategy map for one company. Here you see that these are the 4 balanced scorecards perspective, financial, stakeholder or customer perspective, internal business process learning and growth, and these are your KPMs. So, these all can be integrated, all these can be the growth of results sustainable future this, and this can be integrated, I will show you the integrations.

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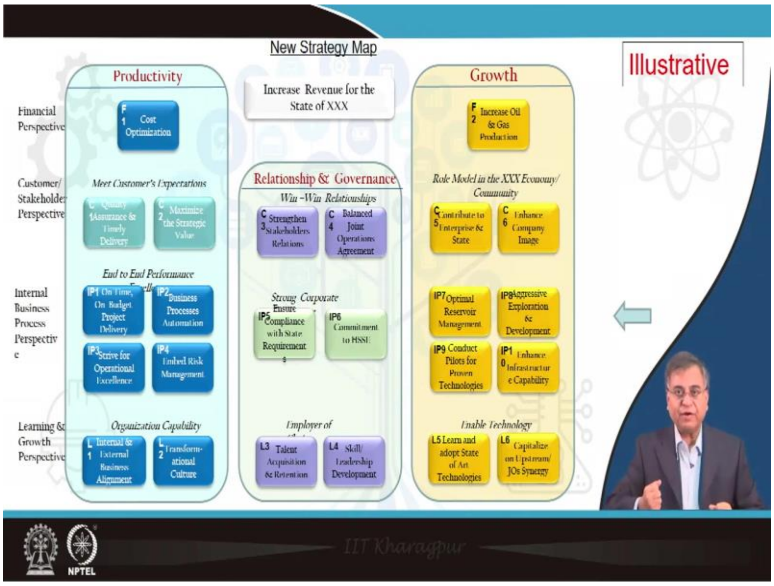

This is a new strategy map that the company developed that was the initial one; this is the next see these are the perspective under that (say) you can also these are the growth of these are the KPMs. So, these are all interlinked. These are productivity-oriented KPIs from a different perspective. So, these are the relationship and governance increase in revenue for the state of that country to the company was contributing. So, these are all interlinked. So, this cohesive strategy map gives you the that overcomes the silo non-integrated strategy of a balanced scorecard to a cohesive and integrated strategy. So, nowadays, mostly, it is used for that purpose for the organization's this, this is the strategy map.

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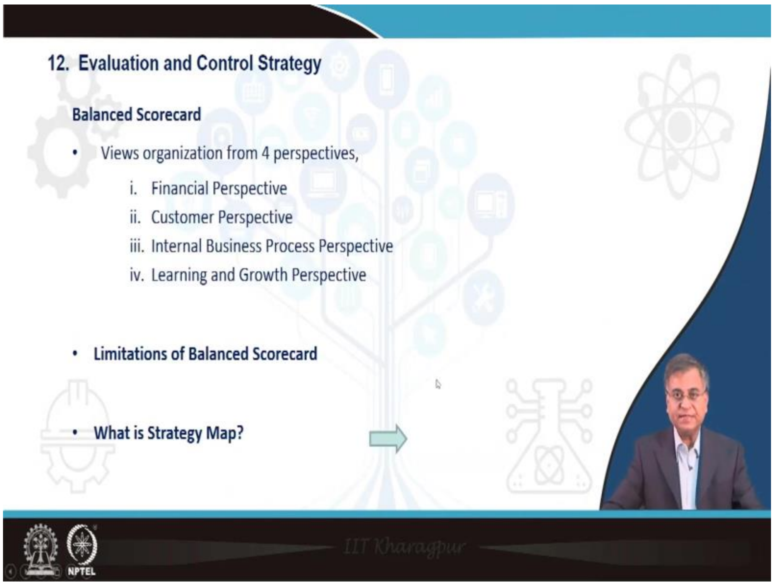

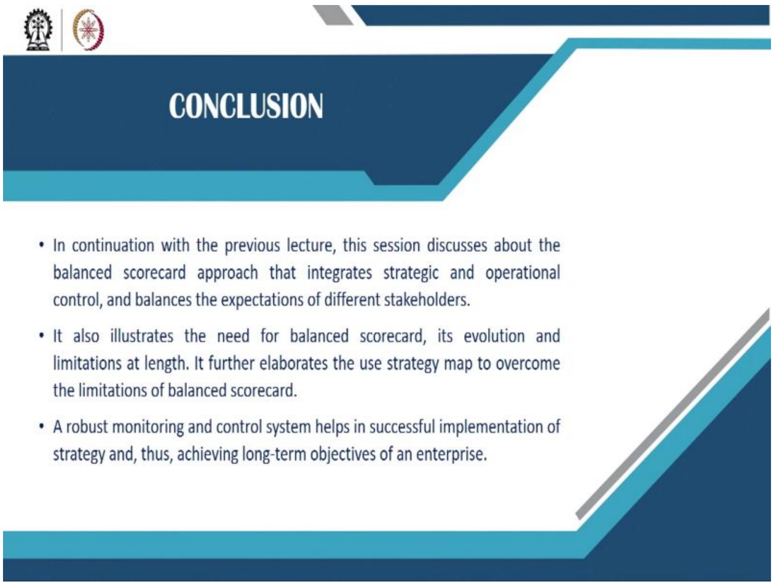

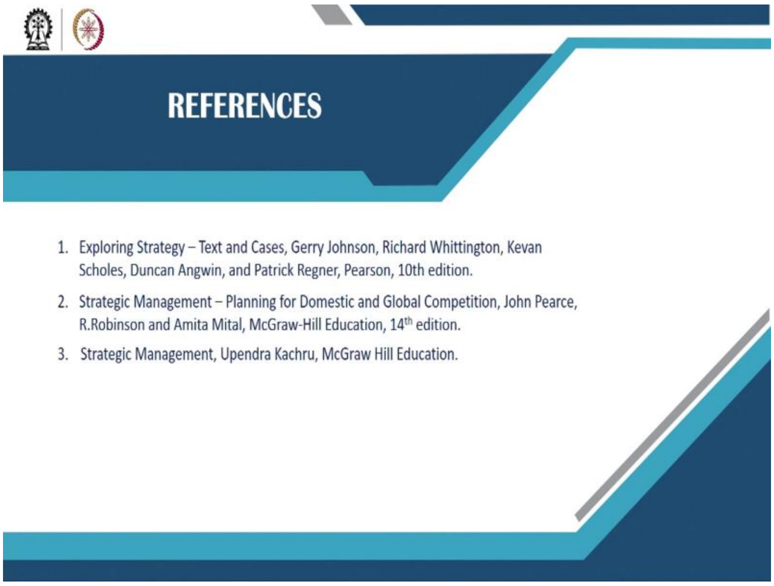

So, next, we have discussed here the balanced scorecard and the limitations of the balanced scorecard and what is that strategy map. So, now, I think we will wrap up whatever we have discussed in this session will summaries in continuation with the previous lecture; this session discusses the balanced scorecard approach that integrates strategic and operational control and balances the expectations of different stakeholders. It also illustrates the need for a balanced scorecard, its evolution, and its limitations at length.

It further elaborates on using a strategy map to overcome the limitations of the balanced scorecard. Furthermore, we have also showcased some real-life examples and how these implementation controls are done in a world-famous company. That there we have seen how the Strategic Initiatives how the, KPIs and KPMs and other measures, and capital projects utilisations are monitored.

So now, we have also talked about robust monitoring and control systems helping in the successful implementation of strategy and, thus, achieving the long-term objectives of an enterprise. These are some of the references you can go through and which will help you to enrich your knowledge further. Thank you very much for attending.