

Effective Strategy Execution for SMEs using the Balanced Scorecard (BSC)

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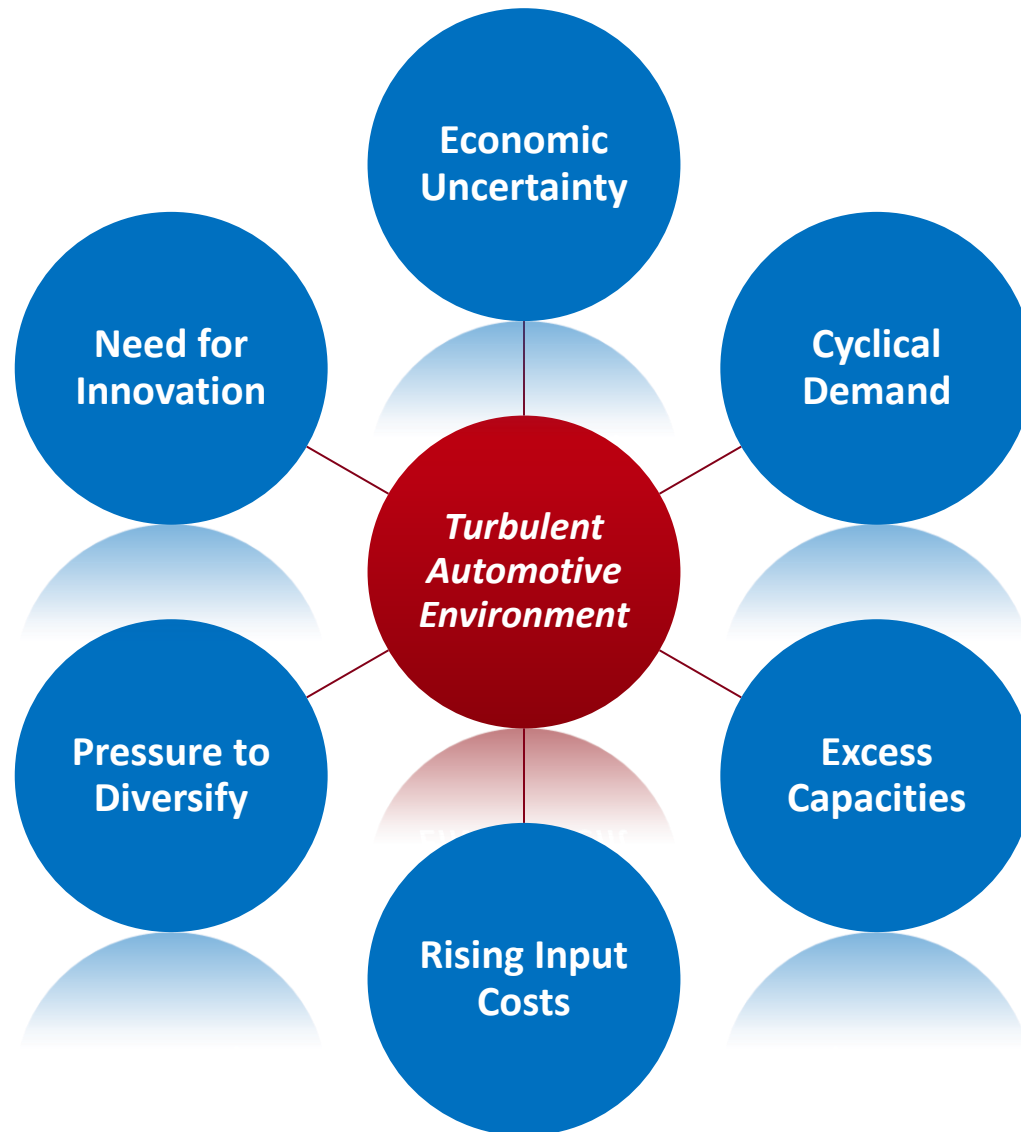


Objective: To reveal the potential of the BSC and advocate further exploration

- Need for BSC in SME Business Context
- What is the BSC & How does it function?
- Application of BSC in SMEs - Need for Customization
- About Avalon Consulting

What this session is NOT : It's not a training on the Balanced Score Card

The automotive industry globally is going through a turbulent phase



This has in turn impacted the auto component industry, especially SMEs, as they lacked “an early warning system” to cope with sudden changes

COST PRESSURES

- Increasing raw material prices due to inflation and currency pressures

SLUGGISH DEMAND

- Drop in OEM sales owing to economic factors
- Pressure on prices due to sluggish demand

Challenges For Auto Component SMEs in India

INTERNAL CHALLENGES

- Under-utilized capacity
- Poor expansion plans
- Stagnation in R & D
- Predominant domestic focus

COMPETITION

- Growing penetration of Chinese and other Asian suppliers, spurious parts etc.
- Diversification from existing competition

Companies with systematic strategic planning processes are better equipped to cope with sudden changes in the environment



What is Strategy?

Strategy is a holistic plan to create a sustainable advantage over competitors

- no competitor, no strategy
- not just a plan to win one battle
- sustainability is the key word
- integrates all relevant elements

Companies with systematic strategic planning processes are better equipped to cope with sudden changes in the environment

Strategic Planning Process

Assessment

- Analysis of the internal & external environments

Strategy Formulation

- Organizational level strategy developed

Execution

- High level plan translated into more operational planning & action items

Management

- On-going refinement & evaluation of performance

Companies with systematic strategic planning processes are better equipped to cope with sudden changes in the environment

Benefits



Defines purpose of the organization & helps establish realistic goals & objectives consistent with the mission



Helps communicate the goals & hence, develop a sense of ownership of the plan



Ensures prioritization of resources on the key priorities



Helps measure progress & establish a mechanism for making informed changes when required

Typical SMEs are constrained in many ways to adopt traditional strategic planning systems

Transformation

As – Is State

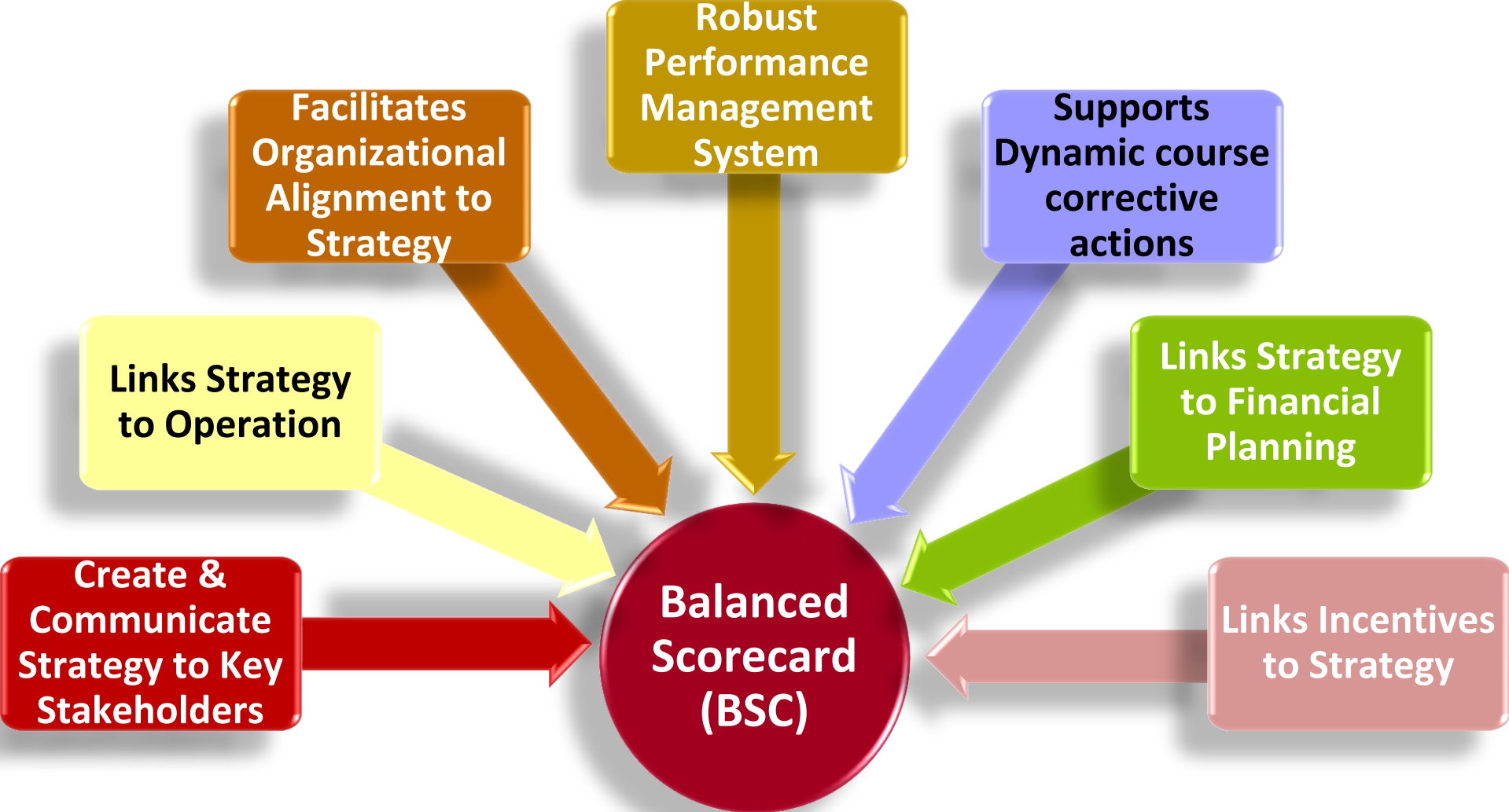
- No clear strategy OR too complicated
- No clarity for the frontline staff who execute strategy
- Organizational structure not aligned to Strategy OR too much operations focus
- No metrics to measure and reward performance
- Too much sales focus OR too cost conscious
- Too much discipline OR no discipline
- Fragmented management systems

Ideal State

- Simple Design
 - Clear strategy – easy to communicate
 - Strategy linked business plan and budgets
 - OD aligned to Strategy
- Simple Execution
 - Clarity on what to do on the field and on the shop floor
 - Timely strategy review
 - Transparent reward system
 - Measurement culture (number driven decision making)
 - Discipline in execution
 - Flexibility to change rapidly

**Sounds too
complicated ?**

Good news is, there is a simple and straightforward strategy management system



What is BSC? Balanced Scorecard is a systematic framework for managing strategy formulation and execution

Vision

Define long term vision of the organization

Strategic Goals

Define strategic goals

Strategy Formulation

Formulate strategy to achieve goals

Strategic Objectives

Define strategic objectives – Strategy Map

Performance Measures

Define performance measures

Targets

Set targets for the measures

**Initiatives, Budgets,
Owners**

Plan initiatives, allocate budgets & decide owners for the measures

**Planned Review
Process**

Conduct regular review process

Balanced Scorecard (BSC) has been successfully adopted across the globe

More than half of major companies in the US, Europe & Asia are currently using Balanced Scorecard approaches . .

. . Several companies in India also have implemented BSC. Companies such as Tata Motors & Infosys are in the BSC Hall of Fame

**Sounds too
complicated ?**

Let's apply the BSC principles to a real life goal of weight reduction

Strategic Objectives

- Eg. To achieve weight loss.

Performance Measures

- Eg. No of Kilograms

Targets

- Eg. To reduce 15 Kg in one year

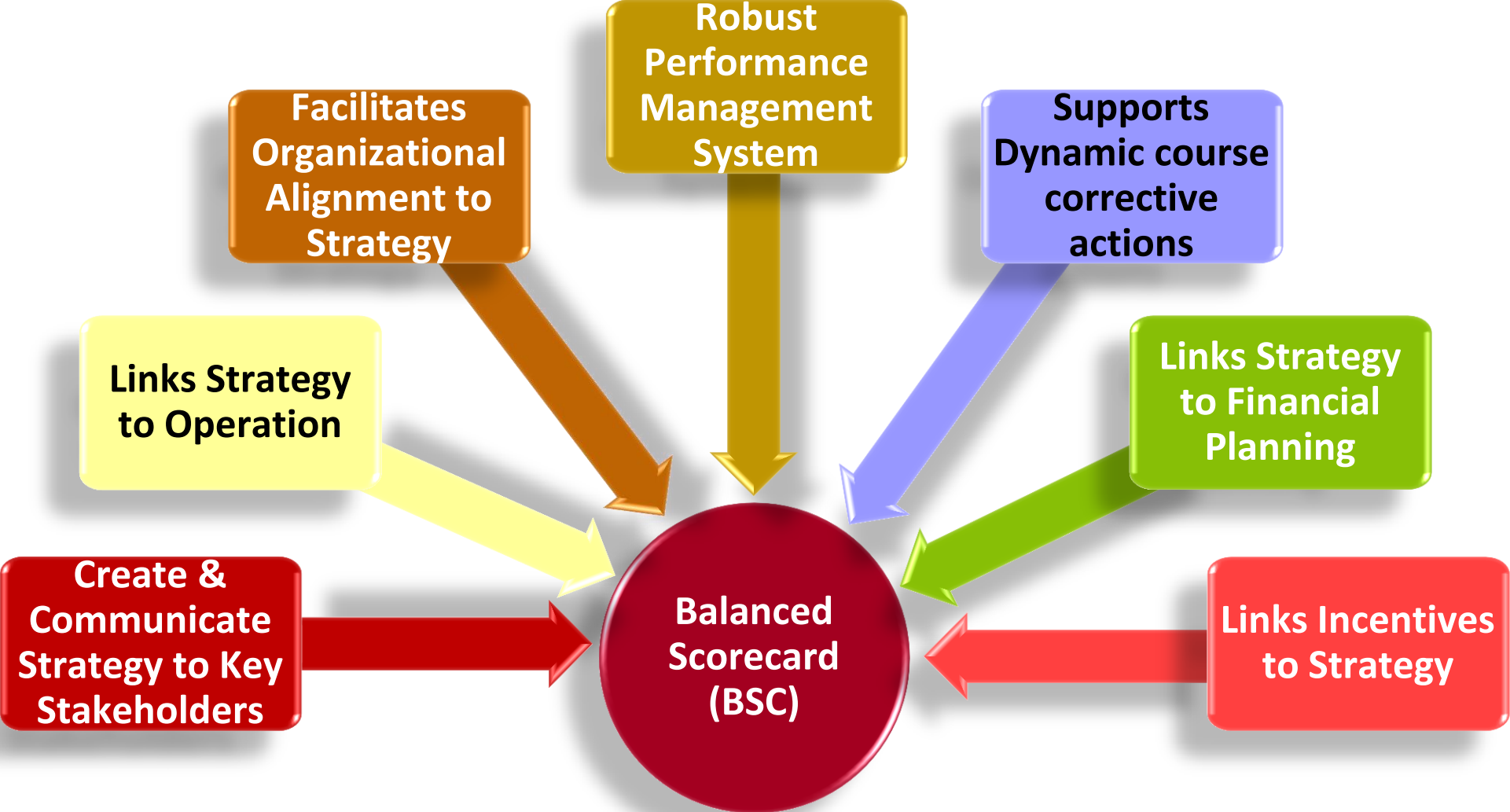
Initiatives, Budgets, Owners

- Purchase a tread mill and weighing scale → Cost Rs 30000 → Individual
- Diet chart
- Daily exercise regimen → One Hour / Day → Individual

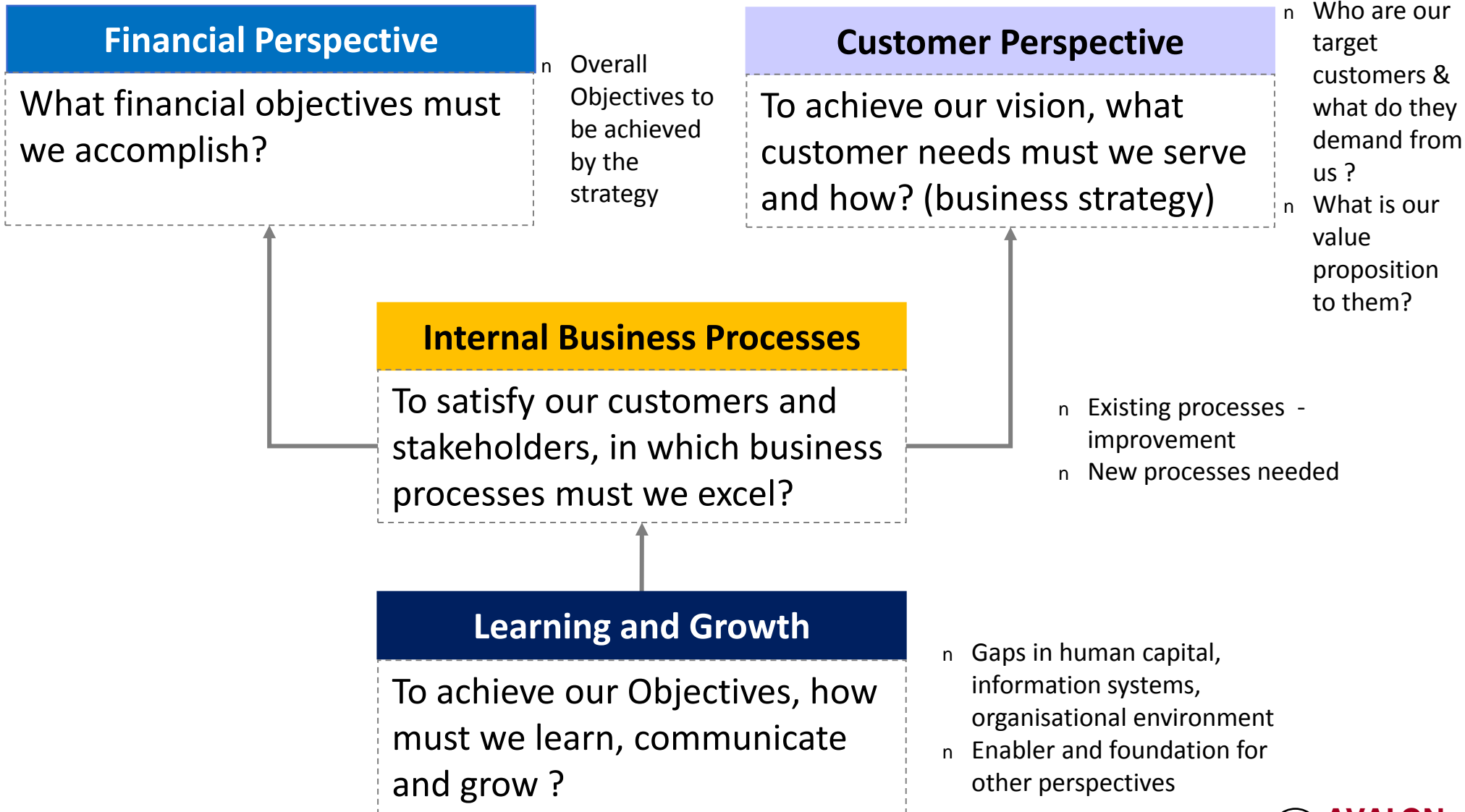
Planned Review Process

- Weight is measured and reviewed every week / month
- Changes to workout schedule, diet, lifestyle, etc if not meeting interim targets

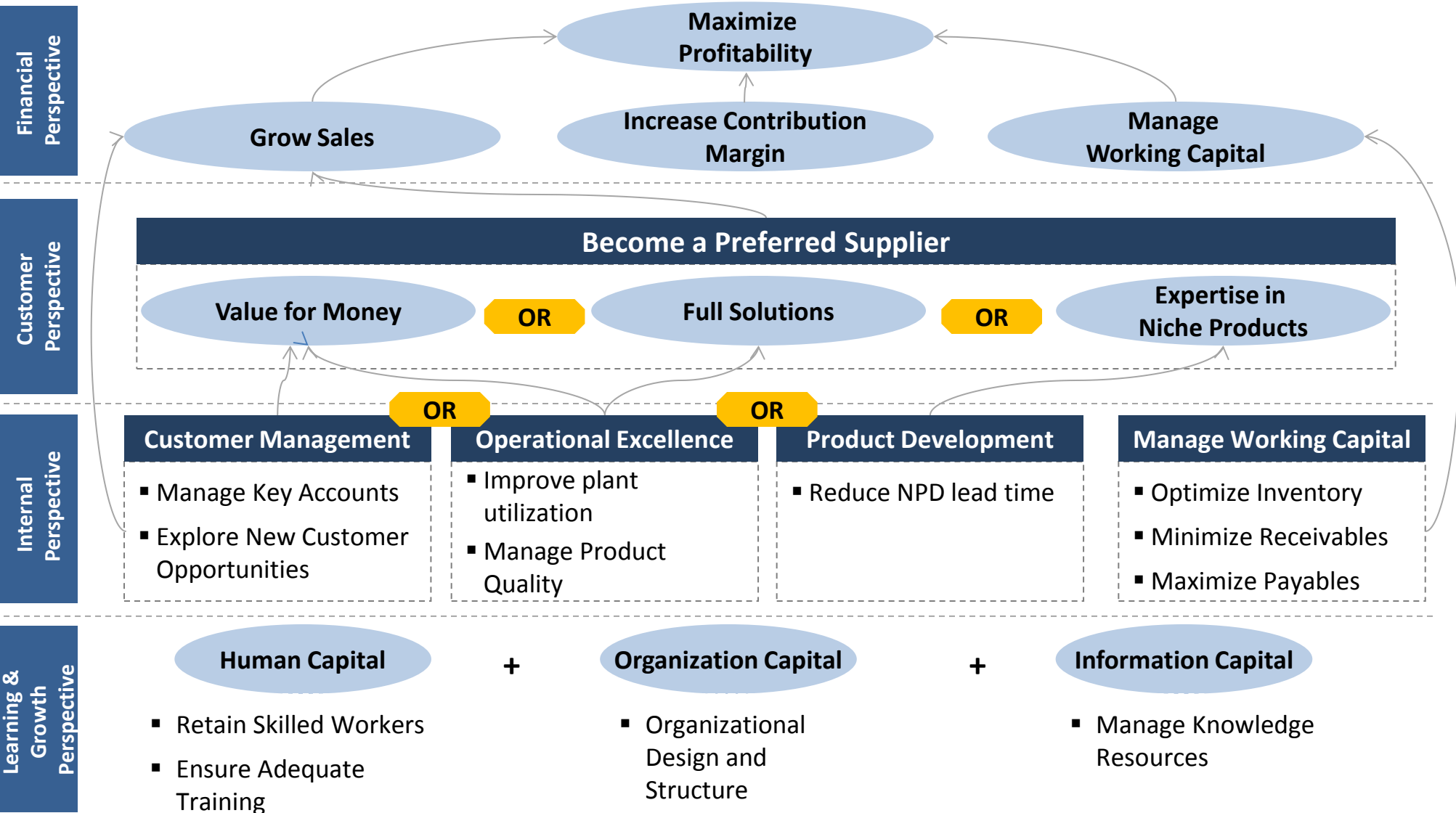
BSC can help communicate strategy



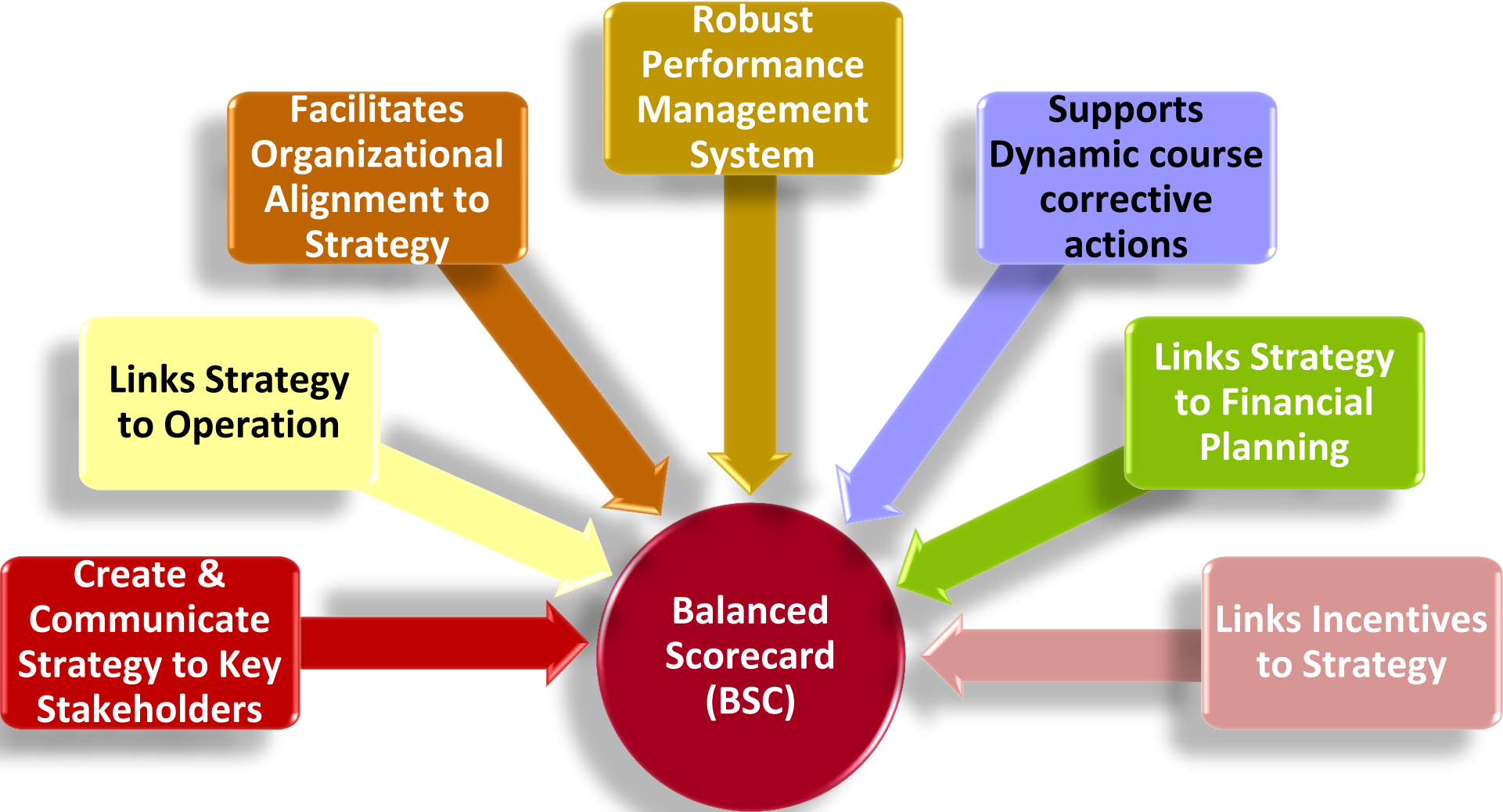
Strategy map is a tool in BSC to help communicate strategy across the organization, using interlinked strategic objectives



Below is an example of a strategy map for an auto SME, to demonstrate how it helps in communicating the strategy



BSC helps link strategy to operation



Through a process of cascading, the strategic objectives are cascaded to lower levels in the organization thereby ensuring alignment

Level 1
Business
Level

VP, S&M
Grow Sales

Level 2
Geography
Level

Manager, S&M - South
Grow Sales in South

Manager, S&M - North
Grow Sales in North

Manager, S&M - West
Grow Sales in West

Level 3
Segment
level (OEM,
After
market)

Exec, S&M - South
Grow Sales in Key OEMs

Exec, S&M - South
Grow Sales in Aftermarket

Exec, S&M - South
Grow Sales in Key OEMs

Exec, S&M - South
Grow Sales in Aftermarket

Exec, S&M - South
Grow Sales in Key OEMs

Exec, S&M - South
Grow Sales in Aftermarket

Through a process of cascading, the strategic objectives are cascaded to lower levels in the organization thereby aligning them to the strategy

Level 1
Business Level

Why should you cascade BSC?

- Creates line of sight to each employee/department about corporate objectives
- Aligns individual employee performance with overall company strategy
- Displays the influence of day-to-day actions on achievement of the company's key strategies

Level 2
Managerial Level

VP / GM, Opns
Improve capacity utilization

Organizational Design

- Using the approach of cascading, we develop the organizational design
- This is an iterative process and can be extended to the lower-most levels of the organization

Mgr, Production
Increase production per hr

Mgr, Production
Planning
Reduce changeover time

Mgr, Maintenance
Minimize downtime

Mgr, Maintenance
Minimize downtime

Level 3
Personnel Level

Shift Engineer
Increase output per shift

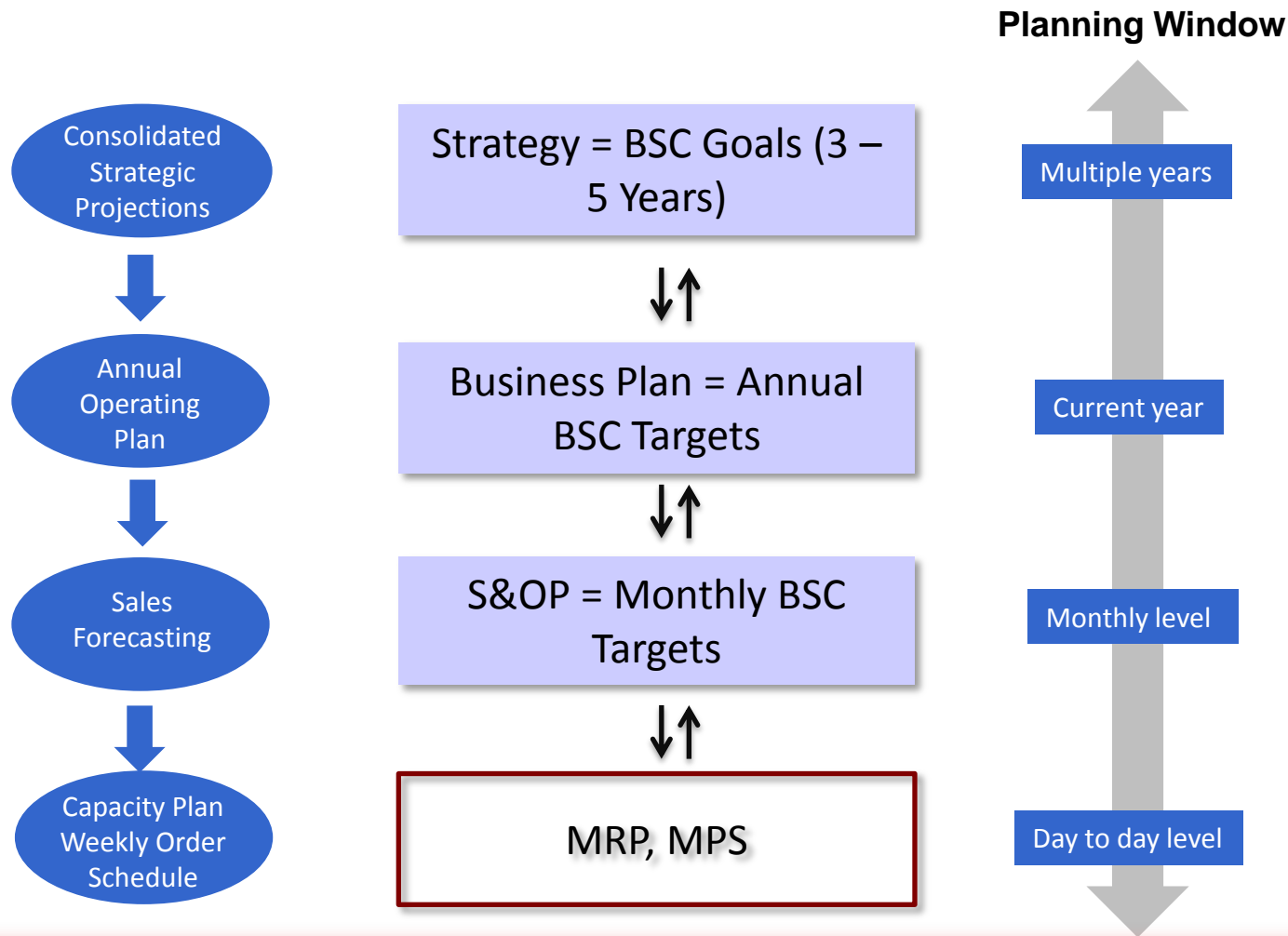
Maintenance Engineer
Reduce electrical downtime

Maintenance Engineer
Reduce mechanical downtime

Maintenance Engineer
Reduce utilities downtime

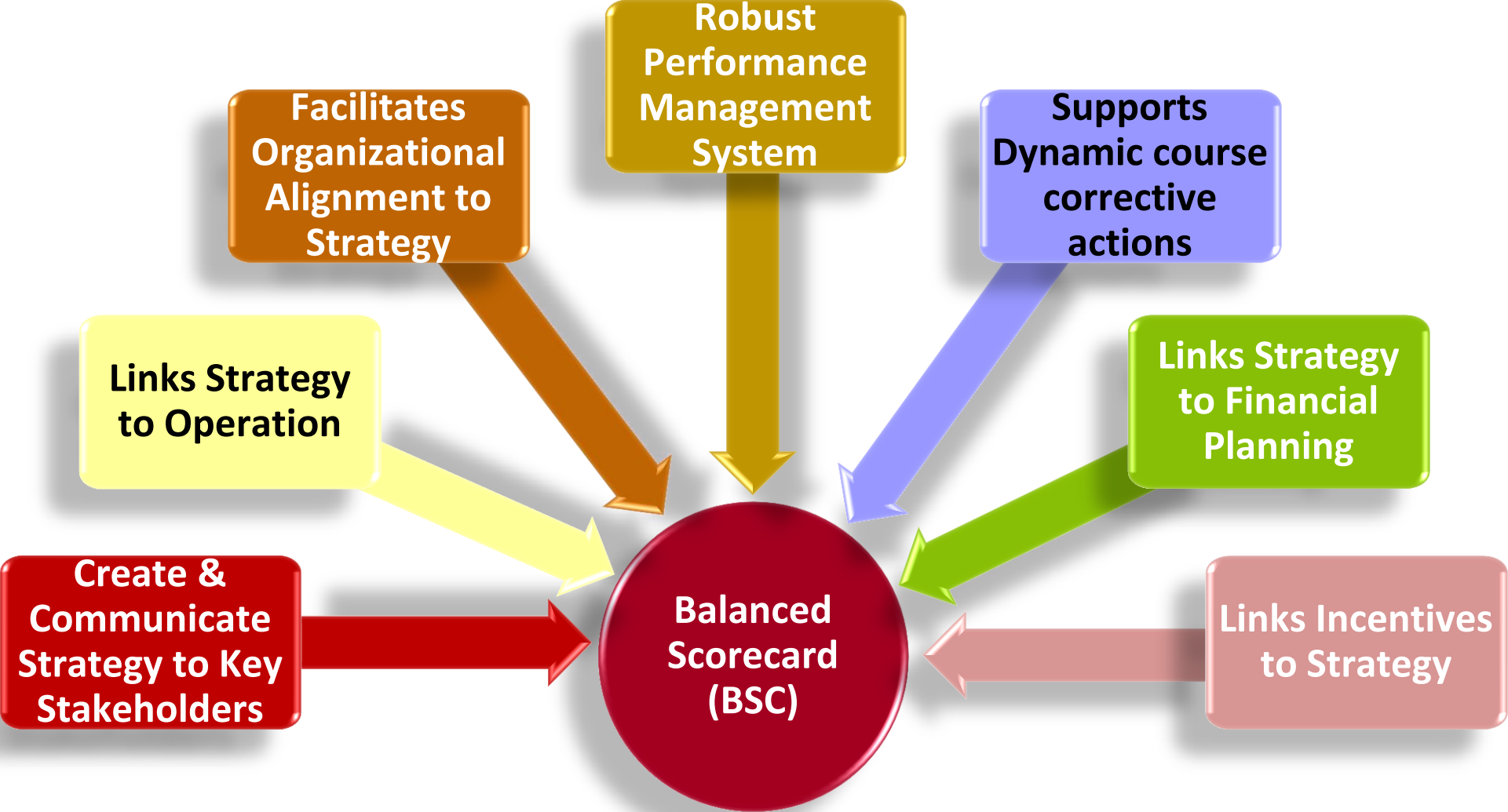
Despite its merits, cascading would need investment of time & effort, especially from management. Hence SMEs can look at phased approach to cascading

BSC also helps aligning strategy to other operational processes such as sales & operations plan, MRP, MPS etc

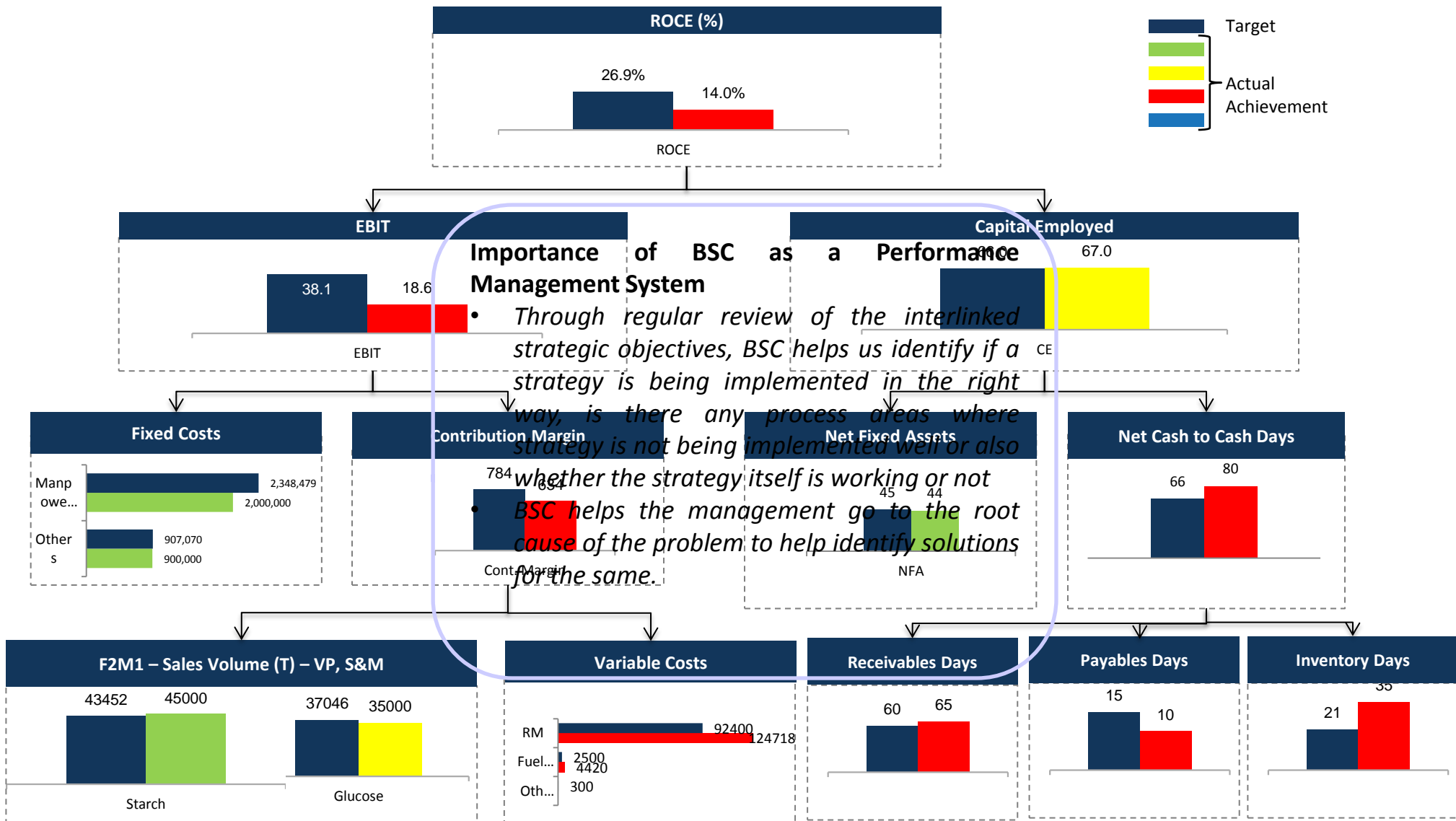


Key Benefit : Aligned to the strategy, the day to day operational plan gives clear visibility to employees on how their work contributes to the overall strategy of their company

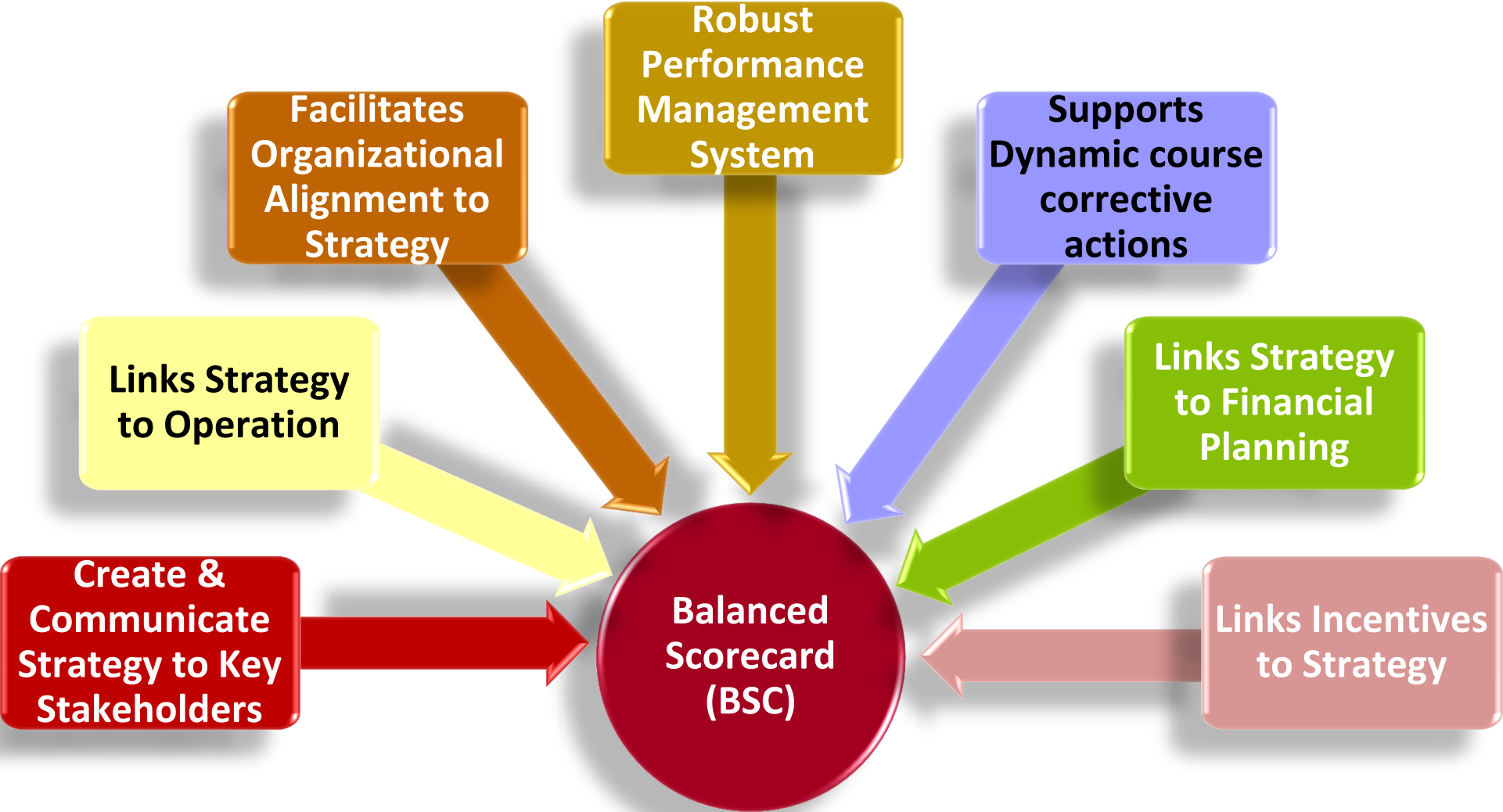
BSC can be used as a performance management system



BSC aids firms in periodically evaluating their performance and identifying the strategic levers where they failed to meet their objectives



BSC can be used as a performance management system



BSC helps in identifying the root cause for failure and taking course corrections through “strategic initiatives”

Sample BSC

ILLUSTRATIVE

Summary of the BSC Review – Financial and customer perspective

	Strategic Objectives	Measures	Target	Actual	Status	Reforecast	Initiative
Financial	F1 – Maximise Profitability	ROI	7%	5%	Adverse variation, >5% of target	6%	
	F2 - Increase Sales	Annual volume target (segment 1)	Rs 20 Cr	Rs 10 Cr	Adverse variation, >5% of target	Rs 18 Cr	Segment level marketing program
	F3 – Maximise Margin	Operating Margin %	10.2%	9.8%	Adverse variation, within 5% of target	10%	

	Strategic Objectives	Measures	Target	Actual	Status	Reforecast	Initiative
Customer	C1 - Offer Value for Money	Customer retention rate	95%	92%	Met / exceeded target	95%	
		Share of key customers wallet	85%		Data not being tracked yet	85%	
	C2 - Provide high quality products	Customer satisfaction on quality of products	90%	60%	Adverse variation, >5% of target	85%	Quality Assurance Program
	C5 - Provide competitive prices	% Differential in XYZ's price vs delivered cost of imports in target markets	8%	12%	Adverse variation, >5% of target	10%	Cost Management Program

Periodic reviews (monthly / quarterly) should be conducted to measure the performance of the firm

Note: The scorecard is only indicative and does not represent the performance of any real firm. Professional assistance is recommended when developing scorecards for an organization

Met / exceeded target
Adverse variation, within 5% of target
Adverse variation, >5% of target
Data not being tracked yet

Strategic initiatives bridge the performance gaps identified during the BSC reviews (and also translates strategy into operations)

Management has a choice. Business will go on as usual even if the initiative is not carried out

Performance gap will be identified from the measurement of the BSC objective

A Strategic Initiative is a discretionary project or program, of finite duration, designed to close a performance gap.

It's a project with a clear start and end points and clearly assigned resources

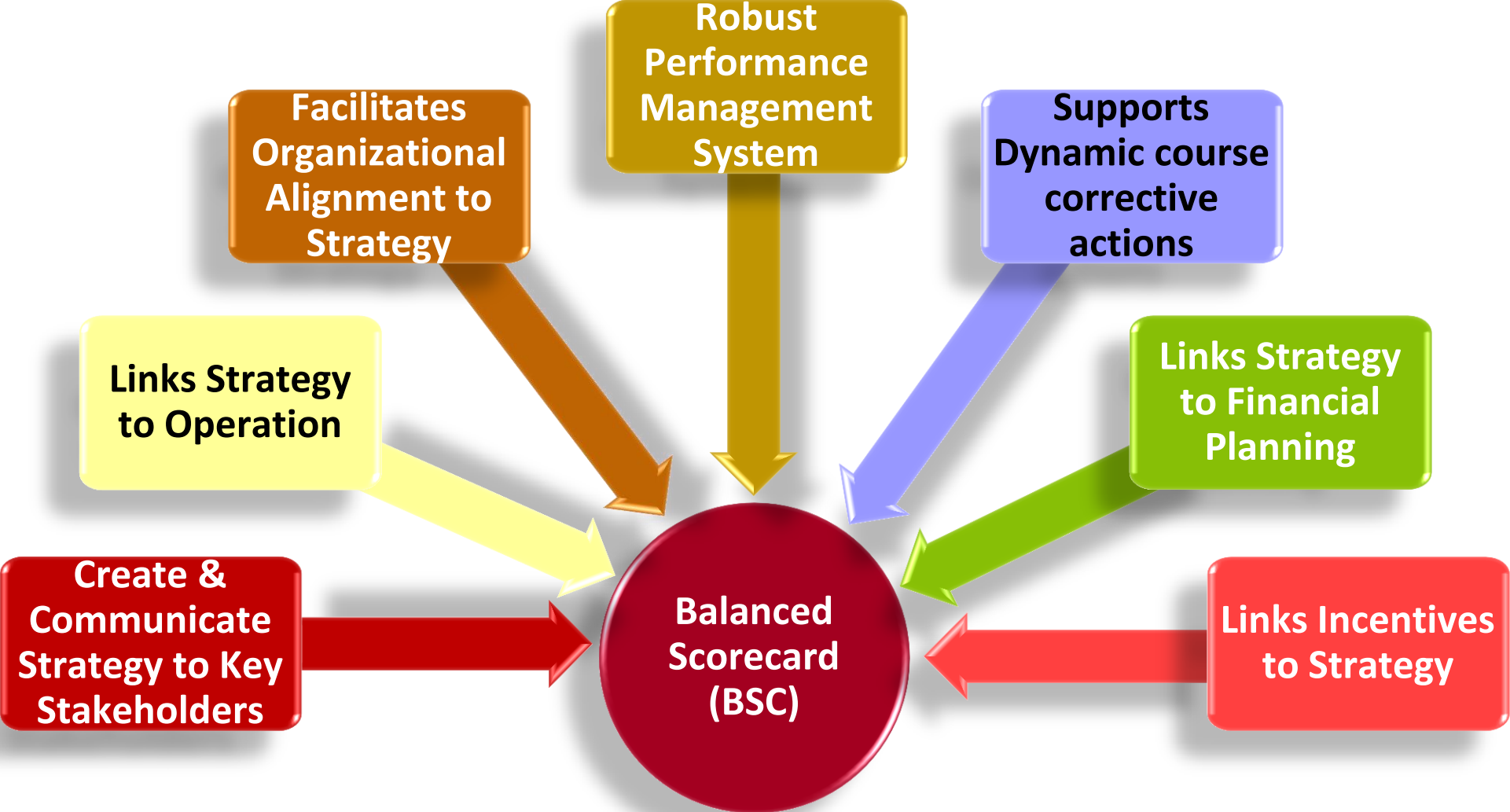
Money spent on initiatives are classified under "Stratex" in an organizational budget

- Kaplan & Norton

Identify and prioritize discretionary projects for performance improvement (Strategic Initiatives). Examples:

- Process Improvements
- Advertising & Promotion
- R&D
- Training

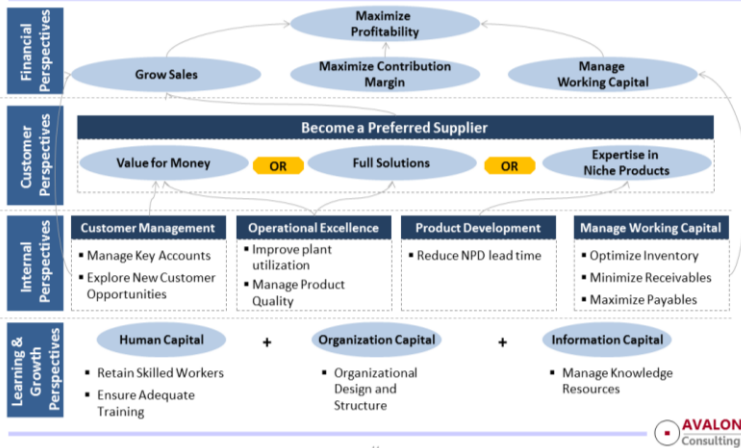
BSC helps to link strategy to financial planning



Adoption of BSC can help link strategy to financial planning by linking strategic levers to business planning and budgets

1 STRATEGY (5 YEAR)

Below is an example of a strategy map for an auto SME, to demonstrate how it helps in communicating the strategy



2 STRATEGIC LEVERS

- Sales
- Contribution Margin
- Raw Material Costs
- Manpower Costs
-
-

4 BUDGETS (1 YEAR)

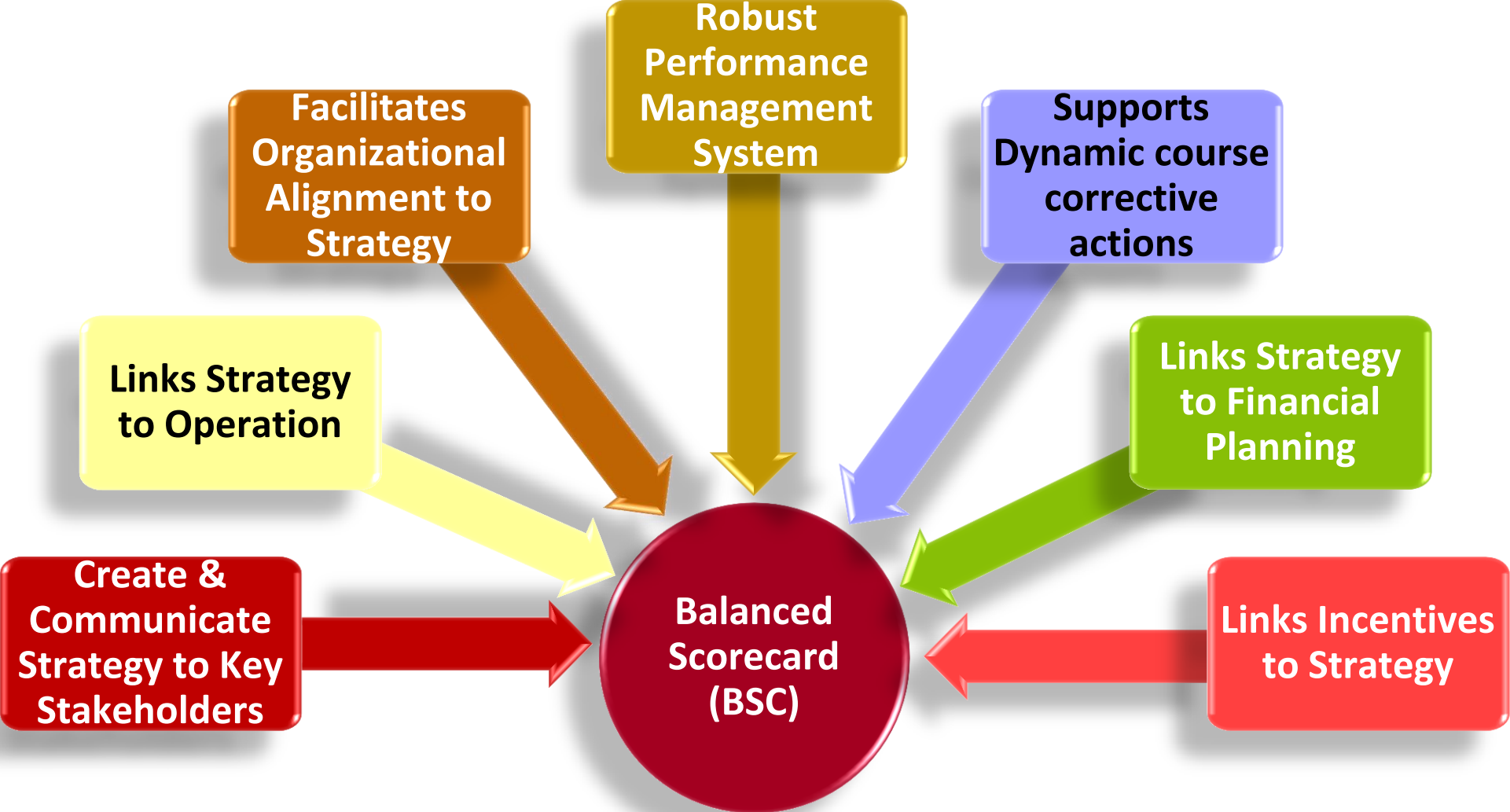
TARGETS	Year 1
Sales (Rs Cr)	50
RM	30
Other Variable Costs	5
Contribution Margin	15
Fixed Costs	5
EBIT	5
Stratex for Chosen Strategic Initiatives	10

3 BUSINESS PLAN (5 YEAR)

TARGETS	Year 1	Year 2	Year 3	Year 4	Year 5
Sales (Rs Cr)	20	22	25	28	33
Contribution Margin (Rs Cr)	10	12	14	15	18

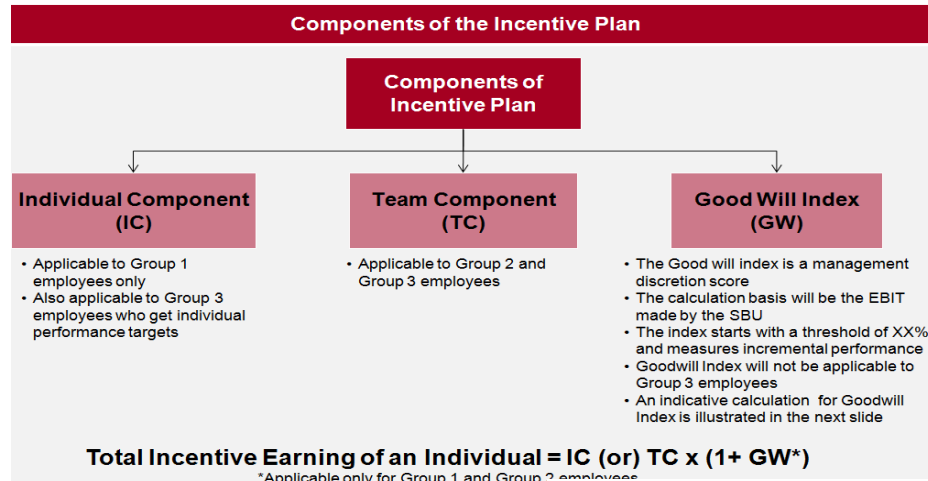
Budget will be done for each department

BSC helps to link strategy to financial planning



Through cascading, we develop personal scorecards for each employee and incentives are linked to the achievement of their targets in the scorecards

Incentive plan has three components...



Goodwill Index will be calculated based on the % achievement of EBIT target, and there will be slabs for calculation of the same



Formula for Goodwill Index*

The following will be the formula for calculating Goodwill Index:

Scenario 1: EBIT Actual is less than 60% of Target EBIT
 Goodwill Index = 0

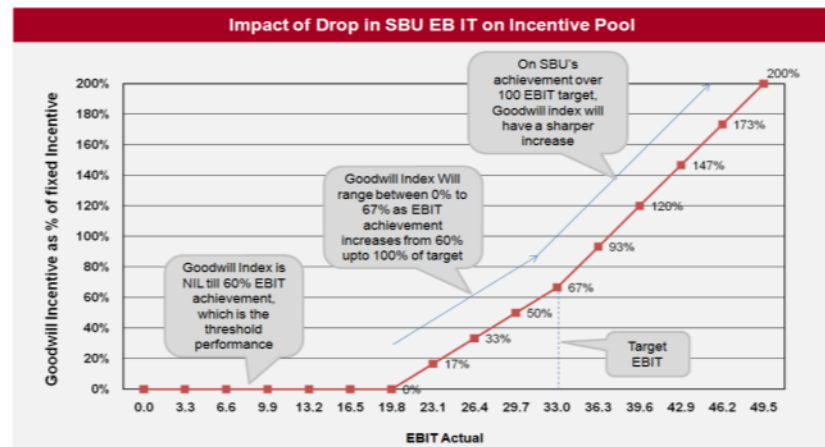
Scenario 2: EBIT Actual is greater than 60% of Target EBIT, but less than or equal to the Target EBIT:
 Goodwill Index = $\frac{(\text{Actual EBIT/Target EBIT (\%)} - 60\%)}{60\%}$

For Eg.: If Actual EBIT = SAR 30 Million, Goodwill Index = $(30/33 - 60\%)/60\% = 51.5\%$

Scenario 3: EBIT Actual is greater than Target EBIT:
 Goodwill Index = $\frac{(\text{Actual EBIT/Target EBIT (\%)} - 60\%)}{60\%} + \frac{(\text{Actual EBIT/Target EBIT (\%)} - 100\%)}{100\%}$

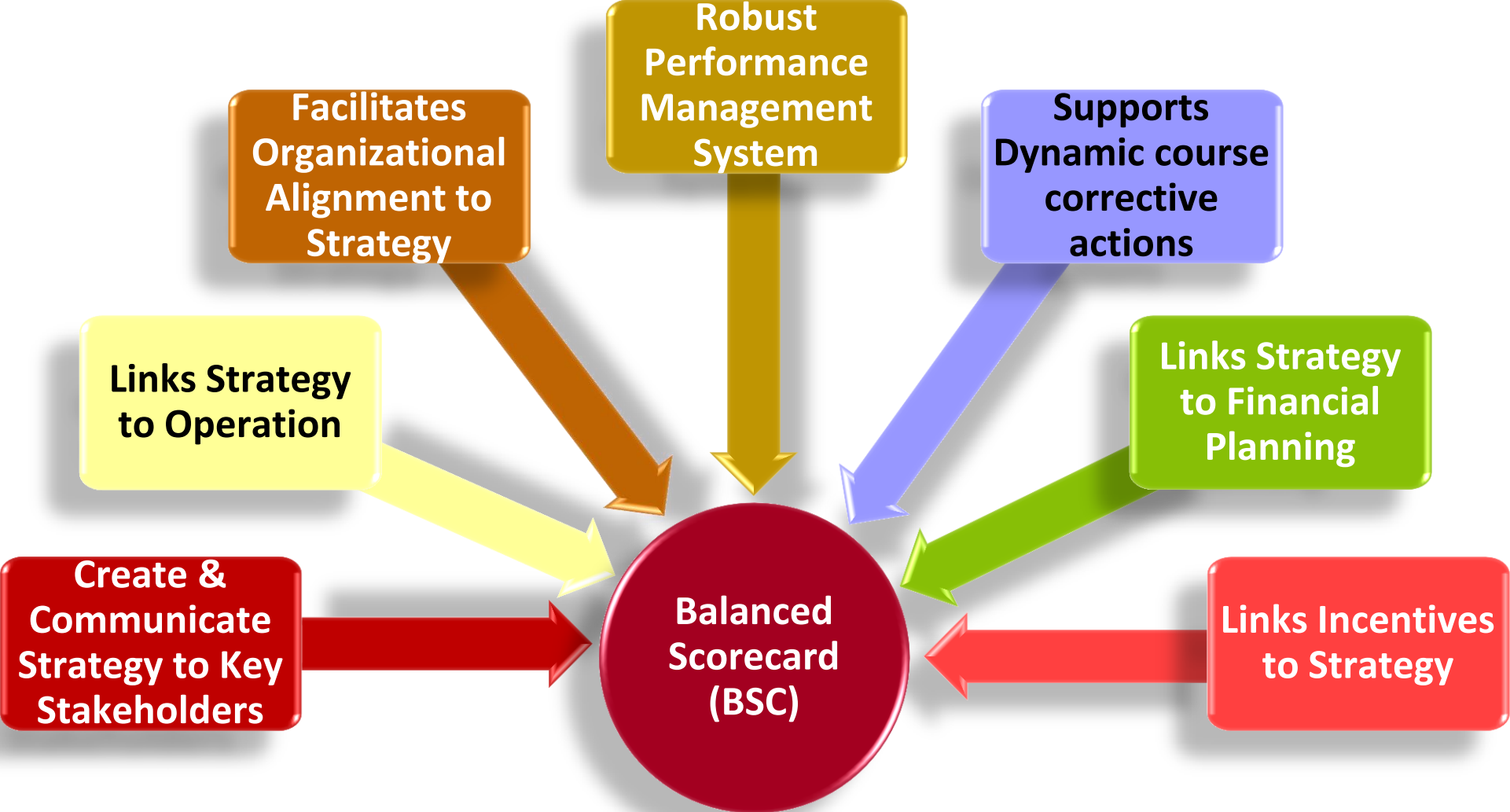
For Eg.: If Actual EBIT = SAR 40 Million, Goodwill Index = $(40/33 - 60\%) / 60\% + (40/33 - 100\%) / 100\% = 100.2\% + 21.2\% = 121.4\%$

The Goodwill Index will start only if SBU achieves 60%, and will increase at a higher rate for EBIT achievement over 100% of target



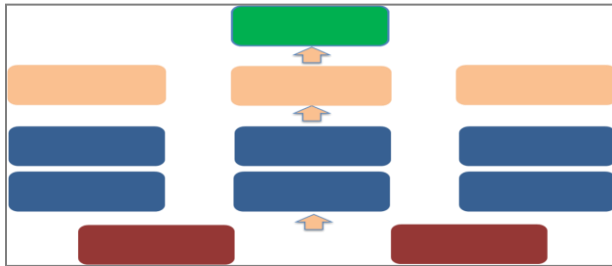
Incentives - Illustrative

BSC helps in total strategic alignment

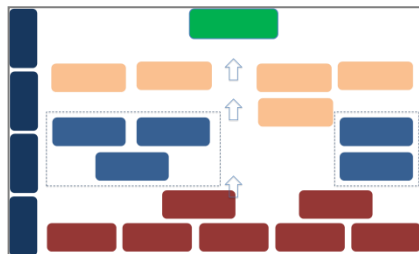


However, SMEs cannot follow the same approach as large corporates in implementing BSC

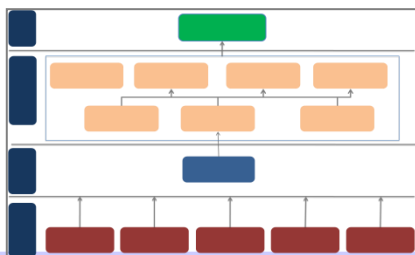
Corporate Strategy Map



SBU Level Strategy Map



Department Level Strategy Map



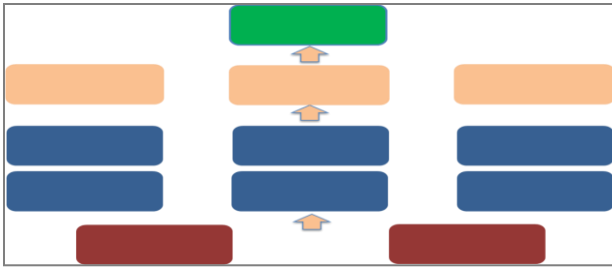
LARGE COMPANIES

- Typically, large companies follow **BIG BANG** Approach
- This requires
 - **Top Management** support and time
 - **Significant Budget**
 - **Managerial time**
 - **Data** collection and reporting
 - **Upgraded IT systems**
 - **Dedicated team to manage BSC (Office of Strategic Management)**
 - **All of the above will be in short supply in SMEs**
- BSC would be reviewed through **BSC software** linked to ERP

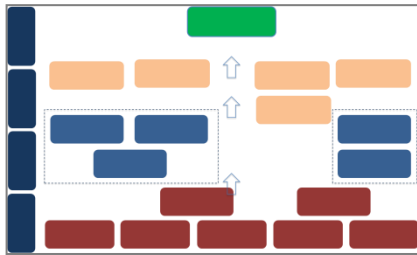
However, SMEs cannot follow the same approach as large corporates in implementing BSC

BSC for SMEs

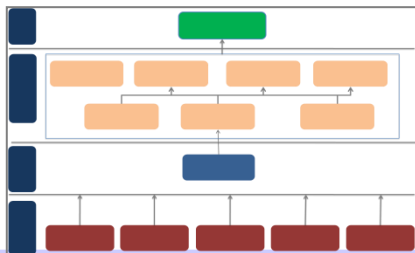
Phase I: Business Strategy Map



Phase II: Departmental Level



Phase III: Personal Scorecard Level



SMEs (Phased Approach depending on maturity level)

PHASE I

- *Start with business objectives*
- *Incentives: Company level bonus*
- *Annual Strategy Refresh*
- *Periodic performance reviews*

PHASE II

- *Develop department level map*
- *Linking budgets & B Plan to strategy*
- *Team based incentives*
- *OD Alignment*

PHASE III

- *Develop personal scorecards*
- *Personal level*

Finance team can spearhead the BSC implementation (instead of OSM)

Excel based reports (instead of BSC software)

Other benefits of BSC for SMEs

BSC can also help in

- **Identifying performance improvement goals**
- **Preparing a business case for strategic investments**
- **Identifying specific process improvement initiatives**
- **Focused capability development (e.g. training for strategic jobs, etc.)**
- **Etc.**

Transformation is one of the key practice areas for Avalon Consulting

Strategy



- Corporate Strategy
- Business Unit Strategy
- Project Feasibility
- Innovation

Transformation



- Vision & Goals
- Organizational Alignment
- Performance Improvement
- Change Management

Transactions



- Strategic Due Diligence
- Partner Search
- Synergy Evaluation
- Post Acquisition Planning
- Divestment Strategy

Transformation success is linked to alignment between Goals, Strategy, People and Processes . . . 1

Approach



Transformation success is linked to alignment between Goals, Strategy, People and Processes . . . 2

Deliverables

END GAME

- Vision & Goals
- Stakeholder Alignment
- Strategy Formulation
- Strategy Articulation
- Target Setting
- Business Plan
- Performance Measures



PEOPLE

- Leadership Development
- Organisation Design
- Job Description & KRA
- Delegation of Authority
- Compensation
- Mentoring & Coaching
- Capability Assessment and Gap Analysis



PROCESSES

- Process Diagnostic and Identification of Gaps
- Process Redesign
- Technology Interventions



PERFORMANCE

- Key Performance Indexes
- Performance Management - Design and Implementation



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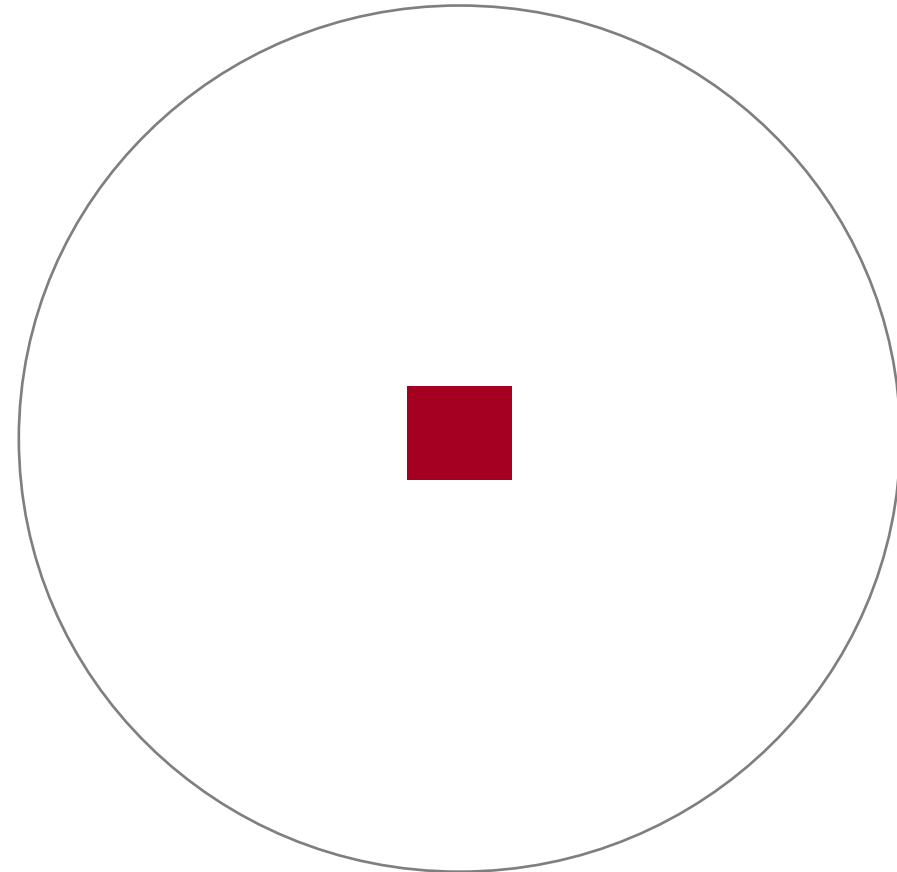
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END OF PRESENTATION

Avalon is a group of over 1,300 people operating from 7 cities globally

Avalon Group – An Introduction



- **FOUNDED IN 1989**
- **INDIA'S LARGEST STRATEGY RESEARCH AND ANALYTICS TEAM**
- **1 300 PROFESSIONALS**
- **11 OFFICES IN 7 CITIES**
- **EXPERIENCE IN 88 COUNTRIES**

Avalon provides solutions across the knowledge value chain

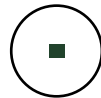
Avalon Group – An Introduction

ANALYTICS



- *Social Media Analytics*
- *Other Text Analytics*
 - *Analytics for MR firms*
 - *Competitive Analytics*

BUSINESS RESEARCH



AVALON GLOBAL RESEARCH

- *Custom Research*
- *Industry Reports*
- *KPO Services*

STRATEGY & EXCELLENCE



- *Strategy*
- *Business Excellence*
- *Transactions*

Avalon Consulting Profile



AVALON
Consulting

- More than 20 years of excellence in Strategy & Management Consulting
- Dynamic group of professionals
- New office in Singapore operational
- End-to-end service offerings – from solution design to implementation
- *Amongst the **Top 10** Strategy Consulting firms in **Asia** (2013 Vault List)*

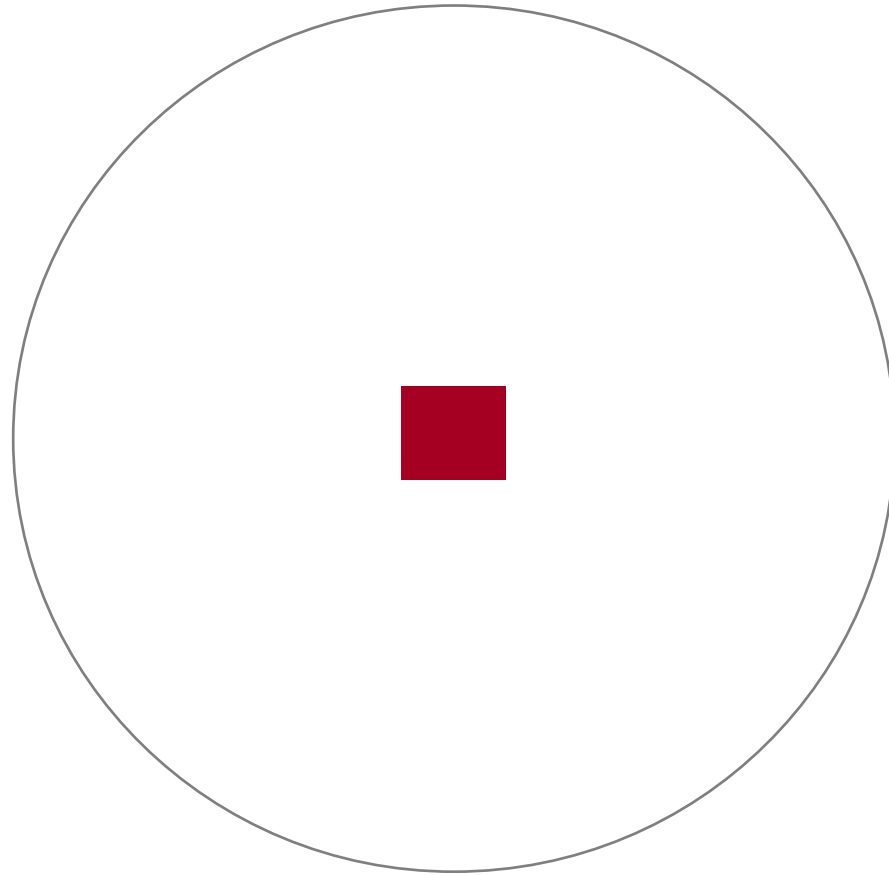
We serve leading clients across sectors in manufacturing...

MANUFACTURING	Auto	Agri	Chemicals	Engineering	Pharma	Metals & Mining	Diversified
							
							
							
							
							
							

.. and services

SERVICES

	BFSI	Retail	Private Equity	Ports & Logistics	Travel & Hospitality	Education	Industry Bodies



END OF PRESENTATION