Palladium
MAKE IT POSSIBLE

White Paper

Successful Strategy Execution: What Does It Look Like?

Dr. David P. Norton

Robert Kaplan and David Norton have written extensively about how organisations can use the Balanced Scorecard (BSC) as the central organising concept for an integrated strategy management system. In this article, Norton shares his thoughts and observations about how the most successful adopters of this management tool — members of the Balanced Scorecard Hall of Fame® — use this approach to achieve improvements in financial performance. Norton explores the role of execution measures — and achievement measures — within each of the four BSC perspectives.

On May 6, 1954, one of the great athletic achievements of all time took place. Roger Bannister, a British medical student, ran a mile in less than four minutes (3:59.4). This event, long considered impossible by informed observers, was the culmination of years of improved performance by athletes around the world. For Bannister, it was a response to a disappointing performance at the 1952 Olympics. Contemplating whether it was time to retire and pursue his medical studies, Bannister set himself a new goal: to run a mile in less than four minutes. The four-minute target emerged because "it was a nice round number" and the previous world record had stood for nine years. Bannister developed an innovative, low-mileage training strategy to pursue the goal and…the rest is history.

Leaders of business organisations, attempting to excel and exceed, face similar challenges. Successful strategy execution has been unachievable for most — nine out of ten organisations fail to execute their strategies. Like Bannister, a leader needs to create a target that will inspire and stretch the organisation. Although inspiration to achieve a highly ambitious stretch target is important, targets must also be used for mundane tasks like allocating investements, setting personal goals and communicating with stakeholders. Thus, the targets should be demanding but achievable.

Limited work has been done on the subject of target setting for strategies, most of it dealing with development of visions.[1] The leader's role is to *(1)* show the need for change, *(2)* develop a vision and strategy and *(3)* establish a sense of urgency.[2]

[1] R.S. Kaplan and D.P. Norton, "Develop the Strategy," chapter 2 in *The Execution Premium* (HBS Press, 2008).
[2] John Kotter, *Leading Change* (HBS Press, 1996).

Without credible targets, executives cannot deal with questions that enable transformational change to take place within their organisations:

- How can I set the expectation that we can be leaders in our markets?
- How can I convince my organisation that a new way of managing will produce a significant payoff?
- How much should I be willing to invest in this new approach?
- How do I set targets for my Balanced Scorecard?

Operational management systems like budgets, cost management and quality management have long used *benchmarking* as a target-setting methodology. We need an analogous framework for the setting of targets in strategy management systems.

Starting in 2011, we embarked on a research project to develop a set of such *strategic benchmarks*. Using our Balanced Scorecard Hall of Fame® database,[3] we selected a sample of 30 private sector organisations that had been evaluated and selected for the Hall of Fame award. Each presented a detailed statistical profile of the results that it had achieved. Each used the Balanced Scorecard/Strategy Map measurement framework, which assured us that a consistent methodology was applied. Our hope was that by analysing the measures and results achieved by these organisations, we could create a generic profile of what successful strategy execution would look like, what it would be worth and how it would be managed.

[3] The Balanced Scorecard Hall of Fame for Executing Strategy comprises more than 200 organisations that have used the Kaplan-Norton BSC approach to successfully execute their strategies, thereby achieving breakthrough results.

The research showed us that the typical Balanced Scorecard Hall of Fame organisation achieved the following results over a three-year period:

- A growth in shareholder value of 150%, driven by a 180% growth in profits and a 120% growth in revenue. Financial performance was frequently complemented with an improvement in the Moody's or Standard and Poor's rating.
- A 50% improvement in customer satisfaction frequently complemented by a #1 ranking by an external agency in brand value and market share.
- A 50% improvement in key process effectiveness, complemented by external performance awards for quality, safety or environmental performance.
- A 20% improvement in employee satisfaction, leading to a 50% reduction in employee turnover, complemented by external awards for workplace effectiveness.

The results are summarised in *Figure 1*. Although financial performance loomed large as an absolute indicator of success and its value, the impact of the performance drivers was critical. The leverage of 50% improvements in employee retention, key process effectiveness and customer satisfaction into 150% improvements in shareholder value provides a guideline to executives as to where strategic investments should be made (the drivers) and the order of magnitude of the payoff. It also provides a framework to set targets, to manage expectations and to monitor returns.

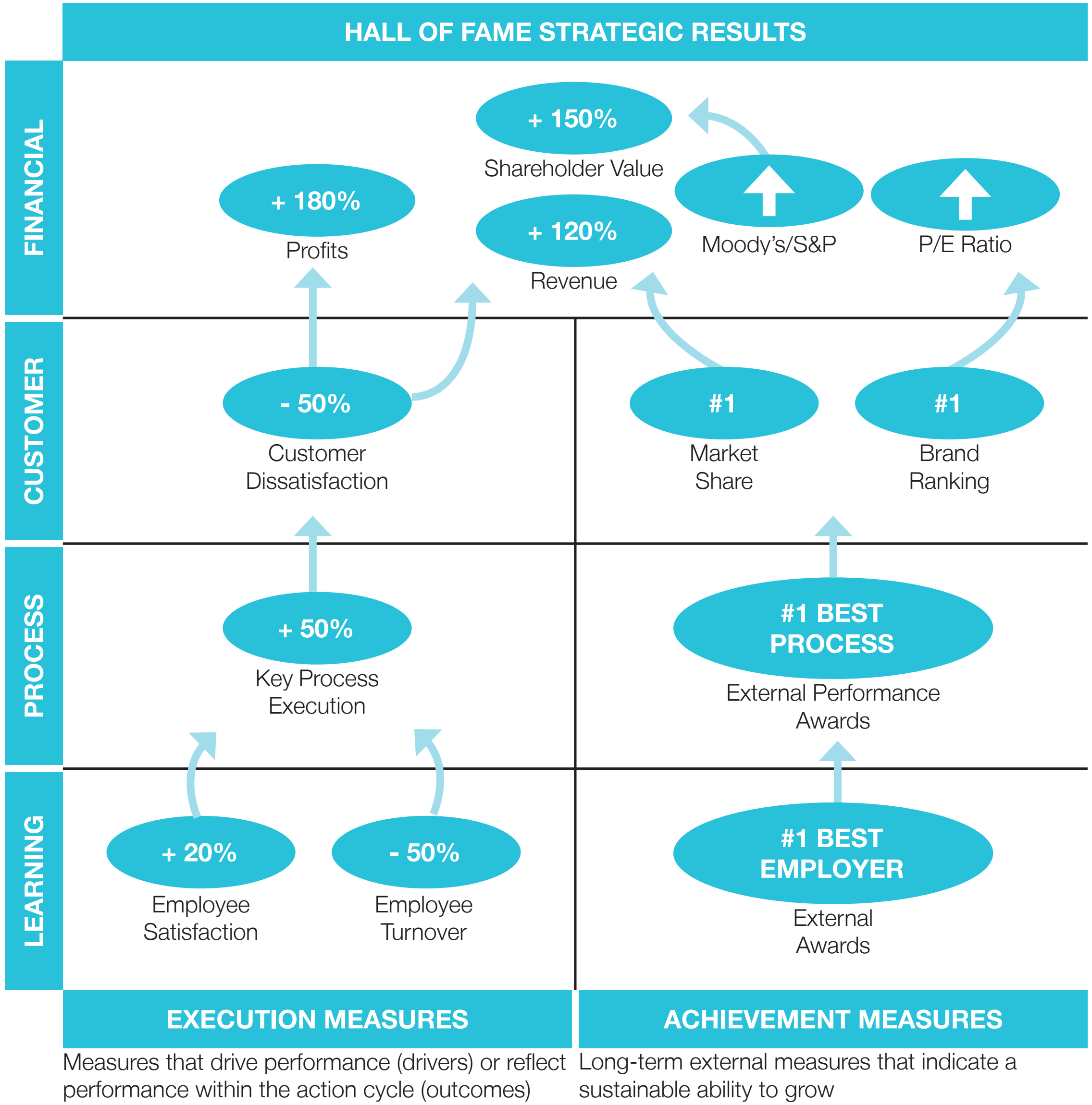

Figure 1: Hall of Fame strategic performance composite, including both execution measures and achievement measures.

Strategic Goals and BHAGs (Big, Hairy, Audacious Goals)

Setting strategic goals is as much about motivation and inspiration as it is about economics. In their book *Built to Last*,[4] James Collins and Jerry Porras describe how "highly visionary companies often use bold missions as a particularly powerful mechanism to stimulate progress." They introduce the term "BHAG" (Big, Hairy, Audacious Goal) as a mechanism to describe such a vision. A BHAG is more than a goal. It is a compelling and inspirational description of the desired future state. Examples of effective BHAGs are General Electric's commitment to "be #1 or #2 in every market we serve" or John F. Kennedy's challenge "to put a man on the moon and return him successfully to earth by the end of the decade." Hall of Fame organisation TNT Express (a European package delivery services company) framed its BHAG as follows:

> "Grow the profits of the business by 50% in the next three years."

Nemours, a US nonprofit healthcare system for children, had a more comprehensive BHAG:

> "By 2015, Nemours will be a leading health system for children, being in the top 5% of institutions for patient satisfaction as well as in health and quality outcomes."

[4] James Collins and Jerry Porras, *Built to Last: Successful Habits of Visionary Companies* (Harper, 1994).

In each of these cases, a BHAG describes the *outcome* that an organisation desires and a date by which to achieve it. A strategy describes *how* the organisation will achieve that outcome. Although a BHAG is a useful (and, we believe, essential) part of the goal-setting process, it must be complemented with the subsidiary goals (the drivers) that will achieve the audacious objective.

Figure 1 illustrates our structure for setting strategic goals. The BSC framework, proven in practise for nearly two decades, asserts a cause-effect logic between desired outcomes and performance drivers. Financial performance, the ultimate measure of success (in the private sector), is derived from the creation of satisfied customers who are, in turn, satisfied through focused and excellent processes delivered by exceptional people. Our Hall of Fame research shows the kind of value that is created by successful companies in each perspective of the framework.

Strategic Financial Goals

The financial framework, as shown in *Figure 1*, is dominated by shareholder value. The creation of value for the owners of the organisation is the ultimate measure of success in the private sector. There was no single common measure used by the Hall of Fame companies. For organisations that were building a management system for their entire enterprise, measures like "market value," "stock price" and "earnings per share" were used. For organisations building a system for a subset of the enterprise (e.g., a divison or a group), measures like "return on invested capital" were used. Shareholder value is generally a derivative of two drivers — growth in profits and growth in revenue. For example, the classical DuPont ROI model divides performance into these two components:

$$\left(\begin{array}{c}\textbf{RETURN}\\ \textbf{ON}\\ \textbf{ASSETS}\end{array}\right) = \frac{\textbf{PROFITS}}{\textbf{SALES}} \times \frac{\textbf{SALES}}{\textbf{ASSETS}}$$

Reviewing the performance of our Hall of Fame companies, we noted that Infosys Technologies, the Indian IT services firm (outsourcing, consulting, systems integration, etc.) embarked upon a growth strategy intended to make it the top player in its niche. During its four-year performance period, revenue jumped 310% while profits grew by 289%. Earnings per share (the surrogate for shareholder value) grew by 305%, approximately the average of the revenue growth and profit growth.

Grupo Modelo, the Mexico-based brewer and distributor of beer and bottled water, saw sales increase by 46% and profits (EBITDA) grow by 38% over the three-year performance period. The stock price (shareholder value) grew by 50% over the period, approximately the average of the sales growth and profit growth.

Company	Three-Year Profit Growth	Three-Year Sales Growth	Three-Year Shareholder Value Growth*	Profit-to-Sales Growth Ratio
Lakshmi	500%	250%	375%	2.0
Mapre Brazil	445%	158%	300%	2.8
Minera	270%	200%	235%	1.35
Infosys	216%	232%	230%	0.93
Rainbow Stores	170%	140%	155%	1.2
Minor Food Group	114%	150%	132% Median	0.76
Millipore	84%	60%	72%	1.4
DataCraft	100%	25%	62%	4.0
Grupo Modelo	38%	46%	50%	0.8
AKSA	34%	29%	31%	0.9
Merck	19%	21%	22%	0.9
AVERAGE	**182%**	**120%**	**150%**	**1.5**

*Growth in shareholder value is estimated to be the average of three-year growth in revenues and growth in profits.

Figure 2: Profit-to-sales growth ratios, over a three-year period, for eleven Hall of Fame organisations.

Figure 2 summarises the financial performance of 11 Hall of Fame organisations.[5] There are three takeaways in this data set:

1. **Level of Improvement.** The absolute level of improvement in both sales and profits was impressive. The average sales growth was 120% (over three years) while the average growth in profits was 180% (four years).

2. **Balance.** The growth rate in profits exceeded the growth rate in sales for two-thirds of the companies. This ratio, shown in the right-hand column of *Figure 2*, seems to reflect the nature of the company's assets and the way they are

[5]Source: *2007-2010 Balanced Scorecard Hall of Fame Reports*, published by Palladium Group, Inc. with Harvard Business School Press

competitively deployed. The average company in our Hall of Fame sample showed a profit-to-sales growth (PSG) ratio of 1.5.

Companies with PSG ratios greater than 1 tend to have either excess capacity or intangible assets that can be converted to profits relatively quickly. Consider Lakshmi (PSG = 2.0), an Indian manufacturer of textile machinery. With 3,500 employees, it serves 60% of India's $35 billion textile market. The primary barrier to success was the cyclicality of the market. Lakshmi developed a strategy to sustain domestic market leadership by providing competitive products with cost-effective solutions. Key to creating this "recession-proof" strategy was getting everyone in the company's divisions, businesses and support units to work toward the same corporate-level objective — a job for the Balanced Scorecard.

DataCraft (PSG = 4.0) is another example. This Singapore-based provider of IT solutions and services employs 2,500 people at 55 locations in 13 Asia-Pacific countries. Its strategy was to reposition itself from a product reseller to a solutions provider. Key to the strategy was to standardise the company's business model and management metrics across multiple countries — a job for strategy maps and Balanced Scorecards. These tools and frameworks allow DataCraft to rapidly reposition intangible assets and create impressive financial results.

On the other hand, companies with PSG ratios less than 1 tend to have strategies that are capital intensive or that have significant dependence on channel partners. These, in turn, tend to see slower growth in profits than the aforementioned companies. For example, Grupo Modelo (PSG = 0.8) has a strategy that involves the construction of a new brewery and restructuring a convenience store chain in addition to the comprehensive development of new management processes. The capital intensity of its breweries and real estate holdings gave it a competitive advantage but at a slower pace than was observed in Lakshmi and DataCraft.

3. **Growth in value.** The Hall of Fame companies were not required to provide balance sheet data relative to shareholder investment. Thus, it was not possible to create an absolute picture of shareholder value. Instead of the absolute level, we focused on the rate of change in value. We further assumed that the change in value of an organisation is, in part, a function of the change in the level of sales and a change in the level of profits. Our approximation of growth in value is the average of three-year growth in sales and in profits. Using this convention, *Figure 2* shows the average three-year growth of shareholder value to be 150%. As a point of reference, one of the definitive research studies on the value of strategy execution showed that typical Balanced Scorecard users achieved three-year growth in shareholder value of 43% (compared with shareholder value growth of 15% in non-BSC users).[6] The 150% achieved by the Hall of Fame companies, a subset of the general population of BSC users, is 3.5 times greater.

The financial performance of the companies in the Hall of Fame sample provides a useful point of reference for organisations to set strategic targets and expectations. We offer the following guidelines for setting financial targets for BSC-related strategies:

- **Set a financial BHAG that will double or triple shareholder value over a three-year period (Norm: 150%)**
- **Develop financial drivers for revenue growth (120%) and profit growth (180%) that support the BHAG**

---

[6] DeBusk and Crabtree, "The Effects of Adopting the Balanced Scorecard on Shareholder Returns," *Advances in Accounting*, 24 (2008) 8-15.

Customer Performance

The logic of the Balanced Scorecard approach is that successful financial performance results from the creation of satisfied customers *(Figure 1)*. All of the Hall of Fame organisations in our study had some way of measuring customer satisfaction. For example, AKSA (the Turkish manufacturer of acrylic fibre) measures customer loyalty and market share. Cisco (the US developer of software platforms) measures "products that do not meet customer expectations." Culligan (the Argentine retailer of bottled water) measures the attrition of small and large customers.

The measures selected tend to reflect the nature of the industry. For example, consumer retail businesses (like Rainbow Stores of China and Minor Food Group of Thailand) find mystery shopping to be a useful measure for evaluating franchises or stores. Merck, the global pharmaceutical company, measures the number and quality of its partnerships that create greater market access.

Although significant diversity exists for monitoring the customer, virtually every organisation used some indicator of customer satisfaction. This measure is defined as "the percentage of customers who voice satisfaction with the product and/or the experience." This measure is generally developed through customer surveys, administered by external agencies (e.g., J.D. Power, mystery shopping). The ultimate objective for customer satisfaction is 100%, a number that can be approached but is seldom achieved.

Figure 3 shows the customer satisfaction scores of nine BSC Hall of Fame companies. The post-BSC scores show a high of 97% for Minor Food Group and a low of 67% for Dongwha (a South Korean manufacturer of particle board). SOHO (Indonesian pharmaceuticals) showed the greatest percentage increase

	CUSTOMER SATISFACTION		CUSTOMER DISSATISFACTION*	
Company	Before > After (3 years)	% Improvement	Before > After (3 years)	% Improvement
SOHO	40% > 80%	100%	60% > 20%	67%
Deposit Trust	73% > 91%	25%	27% > 9%	67%
Minor Food Group	92% > 97%	5%	8% > 3%	60%
Borusan	57% > 81%	42%	43% > 19%	56%
DataCraft	82% > 92%	12%	18% > 8%	55%
AKSA	81% > 91%	12%	19% > 9%	52%
AAFES	62% > 72%	16%	38% > 28%	25%
Dongwha	58% > 67%	16%	42% > 33%	21%
Rainbow Stores	78% > 80%	3%	22% > 20%	10%
AVERAGE		**24%**		**44%**

*Customer Dissatisfaction (CDS): The percentage of customers who do not identify themselves as "satisfied" (CS); (CDS = 1-CS)

Figure 3: Improvements in customer satisfaction and reductions in customer dissatisfaction for nine Hall of Fame organisations.

(from 40% to 80%), while Rainbow Stores (the Chinese retailer) showed only a 3% improvement (from 78% to 80%). The average rate of improvement for the nine companies was 24% (three-year interval).

The ability to interpret these performance data is clearly biased by the base-level performance. SOHO's base of 40% will permit higher rates of improvement than Minor Food (a base of 92%). To provide a framework more conducive to performance comparisons and target setting, we shifted the focus of the measure from "customer satisfaction" (CS) to its converse, "customer dissatisfaction" (CDS). Customer dissatisfaction is the percentage of customers who do not identify themselves as satisfied: (CDS = 1-CS).

Figure 3 shows the performance numbers in this new framework. Performance-level improvements range from 67% for SOHO and Deposit Trust Clearing (the US-based post-trade clearing-house) to 10% for Rainbow Stores. The average rate of improvement (a reduction in the level of dissatisfaction) was 46%.

Our conclusion, based on analysis of the customer satisfaction metrics, is that organisations using the BSC to drive financial performance (increased value of 150%) begin by reducing the level of customer dissatisfaction by approximately 50%. We offer the following guidelines for setting customer targets for BSC-based strategies:

- **Reduce the percentage of dissatisfied customers by 50% every three years**

Enhancing the Performance of Internal Business Processes

Business processes are the vehicles through which organisations create value. As an example of such value, we showed how reducing customer dissatisfaction by 50% over three years can create as much as a 150% increase in shareholder value. An organisation can achieve such improvements in customer satisfaction by enhancing performance in internal processes that greatly affect its strategy. For instance, KeyCorp, a regional US bank, focused on reducing nonperforming loans as a foundation for its customer-intimacy strategy. Infosys achieved 44% of its revenue (up from 30% three years earlier) from new products — the key measure of the company's ability to innovate. Thai Carbon Black achieved an overall plant effectiveness of nearly 99% as the cornerstone of its lowest total cost strategy. In each case, executives and managers identified, managed and improved processes that exerted the greatest impact on their organisation's strategy.

Figure 4 depicts the processes and results achieved by a sample of 20 Hall of Fame organisations. The key processes, objectives and measures these companies used fell into the following categories:

- **Timeliness:** reduction in the time required to perform a key process
- **Quality:** reduction in errors and defects associated with a key process
- **Relationships:** improvement in the teamwork between the company and key partners
- **Innovation:** improvement in the effectiveness of processes that create new products or services
- **Financial process:** improvement in the effectiveness of financial management
- **Other operations:** improvement in operations not covered above

TIMELINESS	65%	
Key product production lead time	92%	↓
Supply time reduction	92%	↓
Reduction in late projects	80%	↓
Supply chain delivery	57%	↓
Product launch delays	62%	↓
Time to answer complaints	50%	↓
On-time delivery	43%	↑
Sale to delivery time	38%	↓

QUALITY	38%	
Immediate returns	70%	↓
Post-three-month repairs	40%	↓
Cost of quality	35%	↓
Imperfect orders	28%	↓
Machine inefficiencies	18%	↓
Quality/Service/Clean	5%	↑

RELATIONSHIPS	41%	
Franchisee dissatisfaction	70%	↓
Partner plan execution	50%	↑
Supplier dissatisfaction	28%	↓
Size of retail network	17%	↑

Average (3-year) Strategic Process Improvement 50%

FINANCIAL PROCESS	39%	
Productivity per employee	100%	↑
Days of inventory	33%	↓
Selling volume	30%	↑
No. of collection days	21%	↓
Loss ratio	13%	↓

INNOVATION	41%	
Revenues from new products	48%	↑
Usability of Internet bank	34%	↑

OTHER OPERATIONS	18%	
Level of dangerous waste	23%	↓
Level of energy consumption	19%	↓
Daily customer impressions	12%	↑

Figure 4: On average, Hall of Fame companies achieved process improvements of 50% over three years.

A typical Hall of Fame company uses between two and three process measures to manage strategic performance. To illustrate, Millipore (a bioscience research and manufacturing firm competing through a product leadership strategy) measured “average product launch delays” (timeliness), “R&D projects on time” (timeliness) and “cost of quality” (quality).

Within the six categories identified In *Figure 4*, the processes the Hall of Fame companies selected are identified, along with the percentage improvement in performance over a three-year interval. Processes associated with timeliness are the most susceptible to improvement, showing a 65% gain over three years. The Indonesian pharmaceutical firm SOHO, for instance, competing with a product leadership strategy, achieved a 92% reduction in its measure "key product production lead time." Meanwhile, Hindustan Petroleum (which has a customer intimacy strategy) reduced "supply time" by 92%. TNT (competing with a lowest total cost strategy) improved "on-time delivery" by 43%. Note that practitioners of each generic strategy type cited above (product leadership, customer intimacy and lowest total cost) all used the timeliness dimension of key processes to improve their performance.

We can make the same generalisation about quality-related processes. The overall quality category shown in *Figure 4* depicts a 38% improvement in key process performance over three years. Cisco (with a customer intimacy strategy) showed a 70% reduction in "immediate returns." Volkswagen of Brazil (having defined a lowest total cost strategy) showed a 40% reduction in "post-three-month repairs." And Millipore (using a product leadership strategy) showed a 35% reduction in "cost of quality."

Relationship-based processes showed an average improvement of 41%, approximately the same level as quality-based processes (38%). Consider Thailand-based Minor Food Group (with a customer-intimacy strategy), which achieved a 70% reduction in "franchisee dissatisfaction." For its part, Chinese retailer Rainbow Stores (competing through a lowest total cost strategy) brought "supplier dissatisfaction" down by 28%.

Innovation-based processes achieved an average 41% improvement in performance. Infosys, for instance (with its product leadership strategy), saw a 48% increase in "revenues from new products." And New Zealand's KiwiBank (having defined a product leadership strategy) showed a 34% increase in "usability of our Internet bank."

Finally, several Hall of Fame companies identified financial management processes as most influential to their success. These organisations were competing primarily on lowest total cost strategy. Rainbow Stores, for example, achieved a 33% reduction in "inventory levels"; Borusan (the Turkish logistics firm), a 21% decrease in "collection days." Financial services company Mapfre of Brazil (competing on a customer intimacy strategy) enjoyed a 100% increase in "employee productivity" and a 13% reduction in "loss ratio," the measure of underwriting effectiveness.

In summary, to successfully execute its strategy, an organisation must identify the key processes that will most affect its customer value proposition. Enterprises in this sample of Hall of Fame inductees typically selected three such processes and associated measures. Over a three-year period, the organisations achieved performance improvements of approximately 50%. Timeliness-based process improvements saw rates of improvement considerably higher (65% over three years) than processes related to quality, relationships, innovation and financial management (40%), even though each company selected processes from each of these categories to execute its strategy. We offer the following guidelines for setting internal process targets for BSC-based strategies:

- **Select two or three key processes that have a dominant impact on the strategy**
- **Set targets that strive for 50% improvement in these processes over a three-year period**

Establishing a Strong Learning and Growth Foundation

Improving critical business processes to create value for customers and shareholders hinges on a workforce's competencies. Simply put, new processes require new skills. And new strategies call for new cultural characteristics, values and attitudes. The learning and growth perspective in an organisation's strategy map and scorecard serves as the foundation for all of this. *Figure 5* summarises the human capital practices deployed by 11 Hall of Fame companies we examined. Specifically, we looked at the following:

- **Human capital development approach:** The approach used to develop the human capital required by the organisation's strategy. An emphasis on human capital development is a *driver* of human capital performance.
- **Employee satisfaction:** Emphasis on human capital development and the strategy creates an improvement in employee satisfaction (an *outcome*).
- **Employee turnover:** Improvement in employee satisfaction creates a corresponding reduction in employee turnover (an *outcome*).

We observed two general approaches to driving human capital development in these BSC Hall of Fame organisations:

1. **Engage employees with the strategy.** The philosophy here is an extension of our principle to "make strategy everyone's job." *Figure 5* shows that six of the 11 Hall of Fame companies we examined used statistical surveys to identify the percentage of the workforce that understood the strategy.

Company	Human Capital Development Approach		Employee Satisfaction	Employee Turnover
	Employee Engagement	Employee Development		
Deposit Trust	Mission understood		59% > 70%	not reported
KiwiBank	Employees engaged (%)		not reported	26% > 14%
DataCraft		No. of days training	66% > 74%	30% > 17%
Volkswagen of Brazil	Employees engaged Ideas per employee		not reported	2.8% > 2.5%
Hindustan Petroleum	Strategic readiness (%)		not reported	11% > 6%
AKSA		No. of days training	76% > 81%	13% > 6.5%
Merck	Customer-focused culture (%)	No. of Black Belts No. of change agents	not reported	6.8% > 2.7%
TNT	Employees engaged (%)		not reported	25% > 8%
Borusan		No. of hours training	55% > 89%	14% > 10%
Minor Food Group		Succession plan (no. of leaders per position)	85% > 90%	26% > 5%
Rainbow Stores		No. of Six Sigma trainees	55% > 61%	not reported
			Increase in Satisfaction +20%	Decrease in Turnover -50%

Figure 5: A strong emphasis on learning and growth objectives provides a solid foundation for strategic success. Human capital — the talent and teamwork within the organisation — is an essential ingredient to achieve breakthrough performance.

2. **Train employees in the new requirements.** Three of the companies in *Figure 5* (DataCraft, AKSA and Borusan) used level of training (measured by number of days or hours) as their surrogate for strategic readiness. Two of the organisations (Merck and Rainbow Stores) introduced Six Sigma programs as part of their process strategy. They monitored the number of Black Belts as well as other levels of certification. Merck specifically addressed the development of "change agents" to facilitate strategy execution. Minor Food focused on developing its next generation of leaders.

Although no standard approach is apparent in these human capital development practises, each company emphasises either employee *engagement* by creating awareness of and participation in the strategy or employee *development* through training and education. Only Merck, an organisation known for its visionary human capital practises, emphasises both.

The right-hand side of *Figure 5* shows the improvements in two important barometers: employee satisfaction and employee turnover. The six companies that measured employee satisfaction showed, on average, a 20% improvement (three-year interval). These organisations were led by Borusan, which moved its satisfaction from 55% to 89% (a 57% improvement).

The nine companies that measured employee turnover showed a 50% average reduction, led by TNT (25% to 8% turnover), Minor Food (26% to 5%), DataCraft (30% to 17%) and KiwiBank (26% to 14%). Four companies measured both satisfaction and turnover. Building on its leadership development program, Minor Food saw a 6% improvement in satisfaction (85% to 90%) complemented by an 81% reduction in staff turnover (26% to 5%). Building on its staff training program, DataCraft achieved a 12% improvement in satisfaction (66% to 74%) and a 43% drop in turnover (30% to 17%). And thanks to its staff training program, AKSA Acrylic Chemical created a 6% improvement in satisfaction (76% to 81%) along with a 50% reduction in turnover (13% to 6.5%).

We offer the following guidelines for setting learning and growth targets for BSC-based strategies:

- **Identify the human capital processes that create staff engagement and/or staff development**
- **Set a target to improve employee satisfaction by 20% over the next three years**
- **Set a target to reduce employee turnover by 50% in the next three years**

Execution Measures versus Achievement Measures

The best-performing organisations actively manage measures that *enhance* performance (drivers) or *reflect* performance (outcomes) that occur within the strategy action cycle (typically quarterly). We refer to these as "execution measures." But we have also seen many Hall of Fame organisations using a second type of measure. These measures are externally derived (for example, by third-party experts) and/or use a longer time horizon. They describe the longer-term evolution and success of the organisation's strategy. Most important, they indicate how the organisation converts its strategy into a sustainable advantage that enables it to grow earnings over time. We refer to these as "achievement measures."

Figure 6 identifies typical achievement measures used by the Hall of Fame companies we reviewed. An oranisation's credit rating is a typical financial achievement measure. Consider the City of Corpus Christi, Texas, which borrows money in the form of bonds to finance a variety of long-term municipal projects (such as schools, water, utilities and roads). The City introduced the Balanced Scorecard to manage its new strategy. After reviewing this strategy and management approach, Moody's increased the City's bond rating from A3 to A2, citing in part the municipality's new management practices. This improvement cut the City's cost of existing debt by $500,000.

Nemours, the Florida-based children's healthcare provider, achieved a AAA bond rating by clarifying and communicating its strategy to bond rating agencies, gaining 50 basis points of incremental savings ($35 million). Like other achievement measures, credit-rating changes are externally driven, they seldom change and they are an outcome of execution of the organisation's strategy.

Perspective	Execution Measures	Achievement Measures
Financial	• Operating Profit • Net Income • Profit Margin • Revenue Growth • ROC/ROE	• Credit Rating • Debt Equity Ratio • Price/Earnings Ratio • Market Cap
Customer	• Customer Satisfaction • Customer Retention • Customer Growth	• Market Share • Brand Value

Process	• Timeliness
	• Quality
	• Relationships
	• Innovation
	• Financial Process
		• External Awards
		• Certifications & Competencies
		    • Six Sigma
		    • ISO
		    • Risk

Learning & Growth	• Employee Engagement
	• Employee Development
	• Employee Satisfaction
	• Employee Turnover
		• External Awards
		    • "Best Employer"
		    • "Best Managed"

Figure 6: Execution measures identify the drivers that enhance performance and the outcomes that are achieved as a result. Achievement measures constitute external recognition of the organisation's achievements and are conferred by others.

SOHO provides an example of achievement measures in the customer perspective. As cited earlier, this company increased customer satisfaction from 40% to 80% over a three-year interval. Complementing this performance, SOHO's market share nearly doubled (4.78% to 7.9%), and the enterprise received a "Top Brand" award from Frontier, an independent market research bureau.

Minera Los Pelambres, the Chilean copper and molybdenum mining company, illustrates achievement measures for internal processes. This organisation experienced explosive growth (sales up 400%, EBITDA up 540% over six years), thanks in part to surging demand for minerals from Asia. The company's execution measures were complemented by two significant achievements: It won the Chilean Association Chile Qualidad

Award for safety and won the Energy Efficiency Award from the Chilean Ministry of Economy and Energy.

Infosys illuminates achievement measures in the learning and growth perspective. The company's revenues and profits grew by 300%, while its number of active customers expanded from 300 to 500. Revenues from new products soared by 48%. Successfully managing this type of hypergrowth testifies to the Infosys management system and its people. Perhaps not surprisingly, Infosys was ranked "#1 Employer in the IT Sector" by Dataquest, "Best Employer in India" by Hewitt and "Best Company to Work for in India" by Mercer.

Because achievement measures are external, have a relatively long time horizon and are random in their timing, some observers might question their relevance in setting targets with which to manage an organisation's strategy. We maintain that organisations and their management systems exist not only to improve performance — but also to sustain these improvements. The Balanced Scorecard framework helps organisations carry out their strategy by focusing the attention of executives, managers and employees on execution measures. But it's the achievement measures that enable them to sustain enhanced performance.

Why? Several reasons. First, achievement measures show that the organisation has converted some dimension of performance into a competency. For example, ISO certification or "Best Place to Work" awards indicate that the company is capable of continuing this performance into the future. Second, receiving recognition from expert third-party sources gives an objective opinion to reinforce the organisation's execution results. Recognition awards put a spotlight on some dimension of performance and thereby tend to make continued performance self-fulfilling.

Although achievement measures appear intangible on the surface, they exert a major impact on shareholder value — which is very tangible, indeed. Good management, supported by a good management system, lowers the risks facing investors. Earlier, we cited the tangible value created for the City of Corpus Christi and for Nemours through improvements in their credit ratings from external agencies. More broadly, organisations that sustain superior performance can be expected to receive higher price-to-earnings ratios from investors — the ultimate measure of shareholder value.

We offer the following guidelines for using achievement measures to create sustainable performance and another layer of shareholder value:

- **Select a set of achievement measures that complement the execution measures in each of the Balanced Scorecard perspectives**
- **Tell the story of "sustainable" performance improvement to investors and other stakeholders**

Quantitative target setting, which has been a routine part of operational and financial management processes, has proved more problematic for the strategy management process. Since most organisations have not historically executed strategy successfully, there are no benchmarks or norms to work from. Managers tend to set targets for parameters in isolation from other parameters, ignoring the cause-effect linkages on which strategy is built.

Having meaningful targets is an important part of the management process because targets help to set expectations in the workforce, build credibility and enable organisations to manage results. Yet a primary barrier to setting strategic targets is the lack of benchmarks to serve as points of reference. The Balanced Scorecard Hall of Fame has addressed this lack by giving us organisations that have successfully executed their strategies and that have the quantifiable results to prove it. By analysing how these organisations manage strategy, we have been able to build a composite pictures of what a successfully executed strategy looks like. Examples include the following:

- 150% growth in shareholder value built on 180% growth in profits and 120% growth in revenue (three-year period)
- 50% improvement in customer satisfaction
- 50% improvement in key process effectiveness
- 20% improvement in employee satisfaction leading to a 50% reduction in employee turnover

Analysis of the Balanced Scorecard and strategy map frameworks along with the strategy benchmarks achieved by BSC Hall of Fame organisations fills a void in the strategy management process by enabling managers to define credible expectations. We believe that credibly formed expectations will, in turn provide a new level of motivation to organisations seeking to lead their industries. As with Roger Bannister, the target becomes the obsession. Pursuing the target through the organisation's strategy, abetted by the strategy management system, is the pathway to the record book and to the Balanced Scorecard Hall of Fame.

Palladium

MAKE IT POSSIBLE

Palladium believes in the impact economy, an ecosystem of commercial, government and social interests that fundamentally re-define sustainable value. With our world-class intellectual property, purposeful innovation and proven, time-tested know-how, clients in more than 90 countries have dramatically improved stakeholder engagement to create enduring positive outcomes, both financial and social.

Our clients' success in the impact economy is supported by one or more of the following four pillars:

- *International Development* with an emphasis on increasing the performance and outcomes in health, economic development, education, governance and the environment;
- *Strategy Execution Consulting* to enable order-of-magnitude improvements in both private and public sectors through a framework that translates strategy into action;
- *Research, Professional Development and Training* to encourage boundary-breaking thought leadership buttressed by a powerful knowledge transfer engine that equips clients and partners with necessary skills; and
- *Impact Investing* to re-imagine innovative ways to finance impact economy initiatives for optimum financial and social results.

With our collective expertise and abiding commitment to exceeding clients' objectives, Palladium transforms lives, businesses, governments and societies around the world.

www.thepalladiumgroup.com