The BSC Focusplus

A New Methodology of Strategic Management

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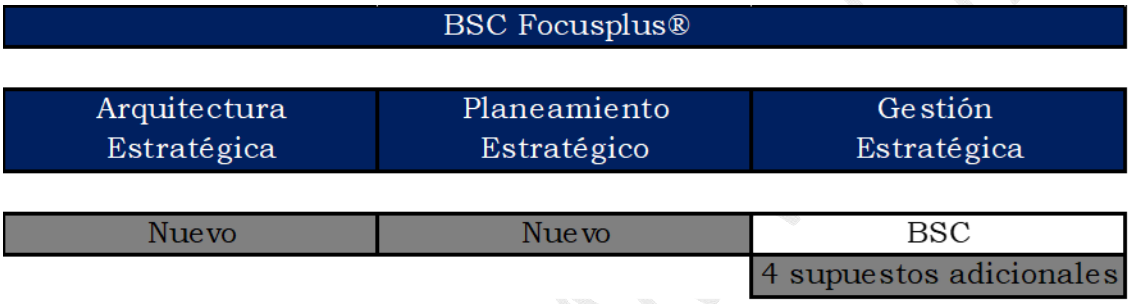
INTRODUCTION

This article provides company leaders with a new strategic management methodology that maximizes value generation.

There are two main contributions:

1. Addressing the three links of strategic management (architecture, planning, and strategic management), thus obtaining a balanced scorecard (BSC) with a more robust foundation.
2. Incorporating within the third link a modern version of the BSC by including four additional assumptions to the original model.

Figure 1 - Main Contributions of the BSC Focusplus®



Source: Arrieta, I.

As mentioned above, the BSC Focusplus® does not replace the BSC:

It optimizes the scorecard, thereby providing greater robustness and modernity.

First, the analysis of the BSC methodology will be addressed, followed by the BSC Focusplus® methodology.

2. BALANCED SCORECARD METHODOLOGY

2.1 Initial Reflection

According to Arrieta, I (2005) (See 1), if reaching the mission statement is the goal of the management, then the strategy is the means that ought to be followed to reach the goal.
Unfortunately, it is common to consider that a leader's strategic responsibility ends with strategic planning. However, a strategy that is well formulated but not implemented will solely serve to ease the conscience and will end up being filed on some manager's desk. In turn, a poorly formulated but well-implemented strategy will quickly lead to the company's failure. In other words, they are mutually required.

The issue is that, in practice, companies invest time and money formulating strategic planning using some methodology; however, as far as strategic implementation is concerned, either is not done, or it is done empirically with no management tool. The BSC was developed to overcome this disparity.

2.2 Logical Framework

The BSC is a strategic management methodology that enables the top management of for-profit and nonprofit companies to implement the previously formulated strategy.
The first BSC article was written by Robert S. Kaplan and David Norton and was published in the January–February 1992 issue of Harvard Business Review.
Kaplan, R. and Norton, D. (1992) (See 2)
The following is a summary of the methodology's logical framework:

a. BSC and Strategy

Strategy must become management's main axis; therefore, it must be implemented on a series of strategic objectives and indicators.

b. BSC and Strategic Units (SU)

In terms of strategy, the unit of analysis is not the company in entirety, but the strategic unit. In other words, each one must have its own strategic planning and thus its own BSC. It should be noted that different BSCs by SU should have a synergistic approach that consolidate into a corporate BSC.

c. BSC and Perspectives

The objectives and indicators of the BSC are grouped into four basic perspectives of causality:

Profit Companies: Finance - Customers - Processes - People and Systems.
The logic is as follows: It is necessary to have the right people and correct level of automation to serve as the basis for well-designed internal processes to be conducted, and to provide an exceptional service to customers that can be reflected on finances; i.e., the objective is not only to reach a financial goal but also to achieve long-term financial stability, with greater relevance placed on the nonfinancial component.

Nonprofit Companies: Customers - Finance - Processes - People and Systems.
The logic is similar to that of for-profit companies, except that in this case, the final objective is user satisfaction; however, to achieve this, the other three perspectives must be given relevance for this satisfaction to be optimized in a sustained manner over time.

It is worth noting that Kaplan and Norton highlight the possibility of adding more perspectives of analysis to the four basic ones already mentioned.

Two perspectives are mentioned as follows: the environmental perspective and social responsibility perspective.
If both were combined, the following two alternatives could be presented:

- A mining company could, for example, combine both perspectives to keep its social and environmental licenses and continue operating while ensuring a future flow of value generation for the shareholder. In this case, the final objective is the financial indicator, measured with the discounted projected free cash flow (DPFCF). Social and environmental impact indicators are important but at the end are financial drivers.

- Another mining company could, for example, integrate both these additional perspectives as final perspectives, coupled with the financial one; thus, instead of having one final indicator it would have three: the financial indicator (measured with the DPFCF), social impact indicator, and environmental impact indicator simultaneously.

It should be clear that either of the two options is valid, therefore it cannot be stated that one is better than the other. It will depend on what the shareholders have defined as the company's mission statement.

It is also pertinent to highlight that both options will have different strategic maps, i.e., different cause–effect relationships, since in pursuing a different purpose, they will have to consider different means.

d. Formats

The methodology uses two formats:

Balanced Scorecard

A matrix is used as a strategic management tool. It shows strategic objectives and their corresponding initiatives grouped into four perspectives in order of causality. These strategic objectives are being monitored with financial and nonfinancial indicators.
The name BSC was derived from the characteristic of monitoring the financial and nonfinancial indicators.

Figure 2 - Balanced Scorecard Format

Electric Utility, Inc.—Measures, Targets, & Initiatives

	Objectives	Measures (D=Drivers)	Targets Yr 1	Targets Yr 2	Targets Yr 3	Initiatives
Financial	• Maximize returns	• ROCE	14%	14.5%	15%	
	• Profitable growth	• Revenue growth	6%	8%	12%	
	• Leverage asset base	• Asset utilization rate	80%	85%	90%	
Customer	• Industry leading customer loyalty	• Customer satisfaction rating	80%	85%	90%	• Customer loyalty program
Process	Optimize Core Business	• % revenue from deregulated products/services	5%	7%	10%	
	• Optimize core utilization	• % trading revenue	10%	12%	15%	• Telecom infrastructure development
	• Max. return on resource allocation	• Revenue from new services	$500M	$550M	$600M	• Trading risk assessment (work support)
	• Continued cost management	• % customers served through alliances and joint ventures	10%	20%	25%	
	• Enterprise-wide risk management	• NPV product/service pipeline	$500M	$550M	$600M	
	Continued Public Support	• % R&D projects meeting protocol gates (D)	90%	95%	100%	
	• Proactively manage relationships	• Customer/partner satisfaction (5 point scale)	4.0	4.5	4.5	• Research alliance program
	• Ensure reliable service	• Reliability index	90/100	92/100	95/100	• Preventive maintenance
	• Communicate/educate customers	• Communication/education coverage (%)	100%	100%	100%	
	Customer Service Excellence	• % communication/education plans executed (D)	80%	85%	90%	• Community outreach program
	• Seamless cross-group delivery	• Promised delivery %	90%	95%	97%	
	• Understand customer drivers	• New product uptake rate	20%	25%	30%	
	• Effective customer services	• On-time market research projects (D)	90%	95%	100%	• Cross-selling marketing program
	Business Growth					
	• Capitalize on deregulation opportunities	• Customer satisfaction rating – C.S. Center (see above)	85%	89%	95%	• Service dispatch automation
		• Problem resolution cycle time – Customer Service Center (D)	6hr	4hr	3hr	• CIS upgrade
	• Optimize trading opportunities					• Call center software integration
	• Develop innovative services	• % rated capacity attained	80%	85%	90%	• Fossil maintenance benchmark
	• Use alliances and joint ventures					
	• Leverage cross-group R&D	• Employee productivity improvement	2%	3%	4%	
		• % cost reduction				
Learning & Growth	• Ensure market-driven skill	• Strategic skill coverage ratio	65%	75%	85%	• Competency profiling
		• Hours in strategic skills training (D)	10	12	15	
	• Industry leading employee satisfaction	• Employee satisfaction rating (5 point scale)	3.0	4.0	4.5	• Performance compensation link
	• World-class leadership effectiveness	• Leadership effectiveness rating (upward appraisal—5 point scale)	4.0	4.5	4.5	• Leadership training program

▶ 25

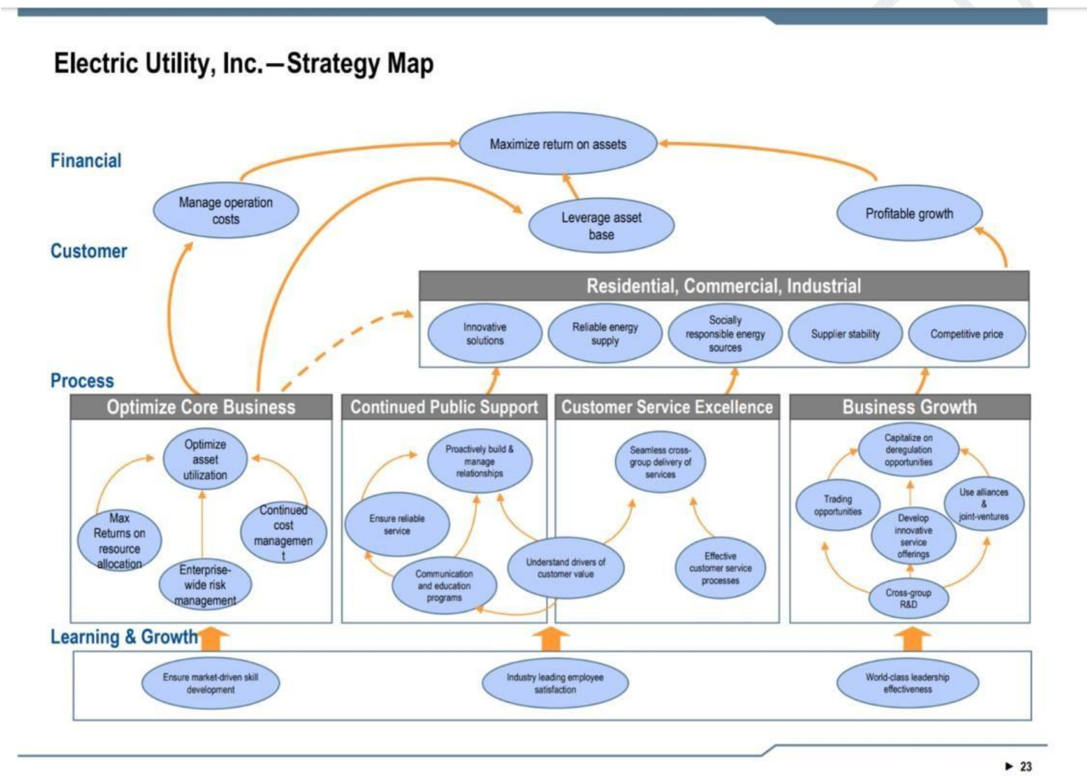
Source: Kaplan, R. Executing Strategy with New Cost and Performance Management Systems

(2008) (See 3).

Strategic Map

The strategic map is a complementary tool to the BSC also serving as a communication tool; it allows senior management and employees to understand the strategy in the same manner. It should be executed using a synergic and causal approach throughout the company's different functional areas.

Figure 3 - Strategy Map Format



Source: Kaplan, R. Executing Strategy with New Cost and Performance Management Systems (2008) (See 4).

e. Tangible and Intangible Aspect of the BSC Tangible Aspect

The first precedent of the BSC is found in the book "Des ratios au tableau de bord" (Lauzel, P. and Cibert, E.) (1959) (See 5).

This publication was the first to mention that those indicators that are beyond financial or accounting ratios should be considered.

Although this concept resembles the BSC, there is a major difference between the two of them: The concept’s viability. In 1960, data automation was still a utopia.

It took the development of the IT world in the 1990s for this management idea to become reality. Consequently, the BSC format requires the company to have a level of automation that is appropriate to its size.

For a large company, implementing a module that is annexed to the company's ERP may be necessary, whereas for a small or medium-sized company, having some other specialized software available on the market or even developing them in-house will suffice.

Intangible Aspect

The BSC is more than software. It is a new way of management. It is not a management information system as information is not owned by the management in a manner that employees feel that they are being spied on by the management using video cameras. Such a situation could spoil the work environment, thereby causing a talent drain.

The idea is that each employee understands the strategy and assimilates it to help define their performance indicators and ensure that they are aligned with the company's BSC. According to the aforementioned, it can be deducted that employees are perfectly aware of what the top management expects from them.

It is advisable to have a bonus policy linked to the BSC objectives, as this will encourage employees to strive to achieve their performance indicators.

It is also advisable that an individual driving the progress of different BSCs is someone with political power in the organizational chart to conduct an optimal job, both in formulation and implementation. Kaplan & Norton recommended creating a strategic management office, which is responsible not only for planning but also for implementing the company's strategy.

Kaplan, R. and Norton, D. (2005) (See 6)

3. BSC FOCUSPLUS ® METHODOLOGY

3.1 Initial Reflection

The BSC has been evolving conceptually, propelled by its authors Kaplan and Norton.

Thus, after the publication of the first article in Harvard Business Review (1992), the authors published five books between 1996 and 2008 and, in parallel, a series of articles.

However, as years passed, relevant updates were no longer published and a certain perception of obsolescence started to appear in relation to the methodology.

This was diagnosed by Bain & Company a few years ago:

Bain Management Tools and Trends 2015 Report: Based on surveys conducted among managers (Bain & Company 2015) (See 7), the BSC ranked 6th out of the 25 most used methodologies in the business world.

Bain Management Tools and Trends 2017 Report: Based on surveys conducted among managers (Bain & Company 2017) (See 8), the BSC ranked 14th out of the 25 most used methodologies in the business world.

In other words, in a short time period, the BSC had dropped eight positions in the ranking of the most used methodologies.

It is in this context that, in 2017, the first article on BSC Focusplus® was published under the title "BSC Focusplus: A Balanced Scorecard with a Tool Box Management approach." Arrieta, I (2017) (See 9)

It incorporated advancements made over time in consulting firms, conceptualizing them as additional assumptions to the original model. This defined a new methodology that boosted the achievement of even more impressive strategic results, applicable to both for-profit and nonprofit companies.

3.2. Main new features of the Focusplus® BSC methodology

3.2.1. Including Strategic Architecture, Strategic Planning, and Strategic Management

Strategic Architecture

The ultimate objective that every management should seek is to maximize value generation. If it is a for-profit company, it is common to maximize value generation for the shareholder. If it is a nonprofit company, value generation, is for the neighborhood, the community and the country, as the case may be.

Managers must use strategies to achieve the abovementioned objective. Using strategies will allow us to benefit from the good and confront the bad, as opposed to managing without them, where in this case, we will be exposed to the ups and downs of day-to-day life with no protection.

Whether such strategies are effective depends on the chess game being played. That is to say, and this is the issue, a strategy may be optimal for one chess game and counterproductive for another. The issue becomes more complicated when it becomes apparent that a company may be playing several or even many chess games simultaneously.

A chess game in management terms is known as a strategic unit and organizing all of them in a strategic organizational chart is what we refer as strategic architecture. A strategic organizational chart will help senior management to become aware of the coexistence of different strategic units (SU) working in parallel.

This organizational chart must not only be conceived and understood by general management but also discussed and approved by this and its senior management to have an appropriate unified multiplier effect from top to bottom.

Additionally, the visual ratings of each strategic unit (in red, green, and amber) should be included and standardized among different managers. Otherwise, we would accept that the business is conceived differently by senior management among its members, and there would be no strategy to ensure its viability over time.

Strategic Planning

Once the strategic organizational chart has been approved, a mission statement must be defined for each of its SU, which ought to be properly aligned with the corporate mission statement.

The strategic issue can only be addressed after this point. Each strategic unit should have its own strategic formulation and strategic implementation. The recommended tool for strategic formulation is the cross SWOT matrix, as it allows the internal good and bad variables (strengths and weaknesses) to be identified along with the external good and bad variables (opportunities and threats).

As it has been mentioned that the analysis is by SU, then the external variables refer not to those necessarily outside the company but those outside the SU, and may be within the company. In other words, an opportunity for a SU can be the strength of the original SU. It is also possible for a strategic unit to have strengths that act as weaknesses in another strategic unit within the same firm. Alternatively, a strategic unit could be jeopardized by an external incident that benefits another strategic unit within the corporation.

It is worth mentioning that an unbalanced SWOT matrix should not be used as a basis as it will have a negative multiplier effect. If the SWOT matrix is prepared without the presence of a functional manager, for example, the strategies contained in this format will be unbalanced and hence unable to be rebalanced afterwards, even if they are organized in the BSC format.

Strategic Management

A leader’s strategic responsibility does not end with strategic planning. They ought to ensure the fulfillment of the previously formulated strategy. For this purpose, there is a strategic management link and the methodology we recommend is the BSC.
To optimize strategic management, we recommend the following:

a. Using a Modern Version of the Balanced Scorecard

The BSC Focusplus® is the methodology that propels the modernization of the methodology by including four additional assumptions to the original BSC model:

Assumption 1: Focus on Value Generation.

According to Arrieta, I. (2004) (See 10), no short-term indicator, whether accounting or financial, should be the ultimate indicator to achieve.

If this were the case, adding an incentive structure matched with the BSC objectives would encourage the entire organization to be short-term focused, achieving the year's goal but sacrificing future goals. To prevent this situation from occurring, the methodology encourages the ultimate indicator to be one that attempts to measure value generation over time. A good alternative to measure this is by maximizing the projected and discounted free cash flow.

It is pertinent to highlight that, since it has been mentioned that each strategic unit will have its own strategy and its own BSC, it should also have its own DPFCF.

Assumption 2: Tool Box Management Approach.

Approach compatible with other modern management tools.

BSC, ISO 9001, Six Sigma, Theory of Constraints, Customer Relationship Management, Supply Chain Management, Scrum, OKR, Design Thinking, etc. are some of the prestigious tools that already hold enough accolades in the business world.

So, what to do? According to Arrieta, I. (2005) (See 11), it is not a matter of choosing one of them and forcing its use beyond what it was created for, but rather adopting a new management form that seeks to use a coherent kit of successful modern management tools, recognizing the true potential and limitations of the chosen ones.

We have termed this form of management based on management tools as tool box management. In a similar manner wherein the hammer is used for hammering but not for sawing in a tool box, in tool box management, a tool is used for one purpose but not for another:

1. Balanced Scorecard (BSC)

Strength: BSC is a modern management tool that allows managing a company with a strategic focus. As part of its methodology, it includes objectives and indicators ranging from financial to nonfinancial in a for-profit company.
Because of its powerful logic, it is considered the backbone of tool box management. Weakness:

BSC does not tell us how to monitor value generation, how to manage customer relationships, how to manage the supply chain, etc.

2. Customer Relationship Management (CRM)

Strength: CRM seeks to segment our customers to identify which ones provide more value to the shareholder and, in turn, provide more value to that group. Equality in service is unfair from the customer's viewpoint and simultaneously is inconvenient from the shareholder's viewpoint.
Weakness: CRM does not tell us how to measure the work environment, how to measure the company's financial health, etc.

3. Supply Chain Management (SCM)

Strength: Supply chain management (SCM) seeks to optimally manage all links in the supply chain, including raw materials purchasing, manufacturing, warehousing, transportation, and product delivery.
Weakness: It does not tell us how to measure the company's financial health, how to measure the work environment, etc.

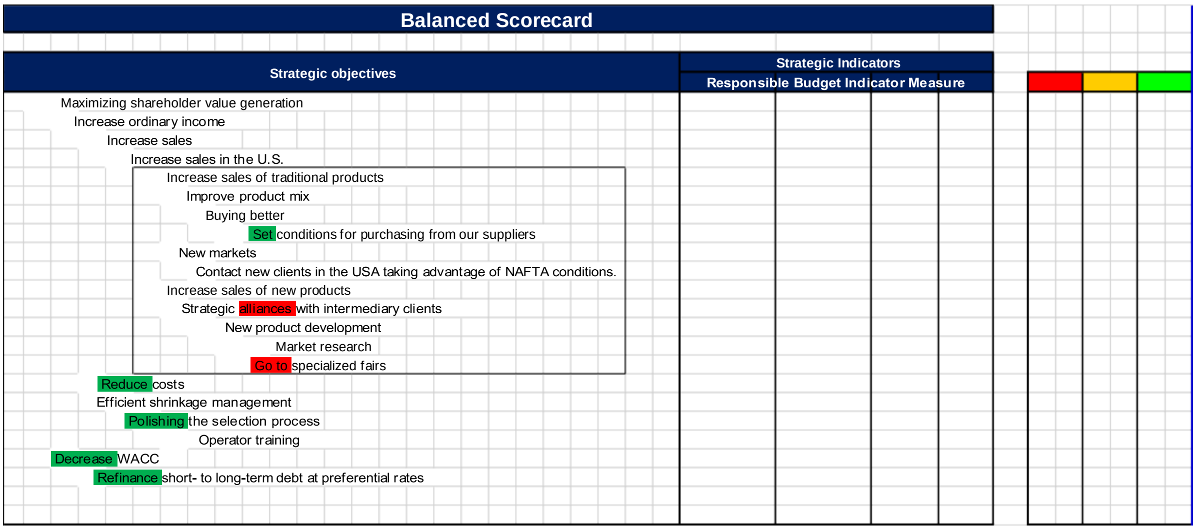
In other words, there is no omnipotent tool.

It is worth mentioning that the functional tools mentioned are only examples. It is not intended to promote the idea that these are the ones that should be used. Rather, it is intended to promote the idea that there are specialized functional tools with which the BSC should not attempt to compete with, but rather should complement one another. In practical terms, the BSC should be accompanied by those functional tools that best fit the company's profile. For example, a department store, not a financial institution, is likely to complement its BSC with SCM.

Assumption 3: New Format.

It was observed above that with the original BSC methodology, two formats were necessary: BSC matrix and strategy map.
BSC Focusplus® has managed to unify them in such a manner that its strategic roadmap integrates the two aforementioned formats. Arrieta, I. (2017) (See 9).

Figure 5 - Focusplus® BSC format



Source: Arrieta, I.

The logic of designing a roadmap involves defining rungs (strategic objectives) that will transform from red to green color with time, thereby identifying the bottlenecks which arise.

For the strategic roadmap design stage, this should be performed from the end to the beginning; that is to say, from the bottom upwards.

A for-profit company will have a financial ultimate objective, although it will contain nonfinancial objectives that make it viable. Therefore, it will focus on nonfinancial areas without losing sight of the fact that finances are still the most important.

In a nonprofit company, the ultimate objective is the service to the community, citizens, and neighborhood. The company's roadmap will include financial objectives (such as optimally managing the budget) not as an ultimate objective but as an inductor to optimize the mentioned service.

It is worth mentioning that the aforementioned strategic roadmap will directly monitor the strategic objectives and indirectly monitor a series of initiatives and projects that support each of these strategic-level objectives.

Alternatively, the implementation stage of the strategic roadmap must be read and managed from the bottom upward. In other words, senior management must be attentive to unblocking the bottleneck (red) of the rung at the lowest level so that the roadmap continues moving upwards in cause–effect relationships.

Assumption 4: Strategic Agility.

Strategic agility is becoming a necessity with changing times. Giving an analogy, if you have a methodology such as scrum to manage projects in an agile manner, the strategy must also be managed in an agile manner.

However, for strategic agility to occur, two conditions must be met:

- The company must be prepared to swiftly redesign the strategy.

For this purpose, there must be institutionalized incentives for those employees who contribute with some variable that reacts or, better yet, strategically anticipates the company's competitors. Simultaneously, the mechanism must be institutionalized so that, if such a contribution is made, an extraordinary meeting must be called to validate it, thus swiftly redesigning the roadmap.

- The company must be prepared to swiftly monitor it.

For this purpose, monitoring meetings should be institutionalized on a regular basis so that any bottlenecks in the roadmap can be removed as they arise.

b. Avoid Making Errors in the Design and Implementation of BSC

According to Arrieta, I. (2018) (See 12), the following errors should be avoided in the design and implementation of a BSC:

Balanced Scorecard Design Errors

1. When the BSC of a successful strategic unit is replicated throughout the company. The BSC contains a strategic recipe; therefore, the same recipe cannot be applied to different SU. Each of them must have its own BSC.
2. When different BSCs of different SU do not complement each other with a corporate and synergistic approach.

3. When BSCs are designed based on functional management and not on SU.
4. When a BSC is designed without any effort into strategic planning. It will result in a roadmap that will summarize the function manual, strengthening the status quo.
5. When the strategic planning effort is done, but it is incoherent. As the BSC implements strategies, a poorly formulated, but “well-implemented” strategy with this powerful tool, will lead to failure more quickly.
6. When the BSC is developed by strategic planning management without the participation of company’s employees. The employees will attempt to boycott it since they do not feel it is their own.
7. When a BSC is solely made of indicators and does not include any objectives.
8. When the indicators are not the right ones. You can have a totally wrong diagnosis when you are monitoring a distracting indicator.
9. When indicators are poorly calibrated for visual management (red, yellow, and green ranges) as a result of poor internal and external benchmarking.
10. When a BSC is made without considering the company’s budget. Perhaps the strategy involved in a given BSC is unattainable in budgetary terms.

Errors in the Implementation of a Balanced Scorecard

In the Monitoring Policy

1. It is not strongly recommended that monitoring should begin immediately as the BSC design stage is completed. It is fatal for the project when a team collectively feels that the time has elapsed and the effort made to design various BSCs has become obsolete.

2. When the person in charge of monitoring the BSC has no political power in the organizational chart. It is interesting to hear of cases where the BSC project is progressing so smoothly that the person in charge of it has the position of “BSC Manager.”
3. When the incentive policy is not linked to BSC objectives.
4. When monthly BSC situation meetings are not institutionalized, which demonstrate the corresponding progress made and the support provided for any challenges that may develop along the way.
5. When sanctions are not institutionalized for nondelivery or information manipulation.
6. When an award is not institutionalized for employees who provide strategic market data or an innovative solution to a problem that is considered strategic.
7. Failure to institutionalize a committee that can respond quickly to changes in the strategic roadmap.

In Technological Support

1. When a company does not have adequate technological support for the size of the company. A corporate company should not consider Excel as an option, except temporarily, while the first BSCs are being designed.
2. When it is not aligned with the approach followed in the design of different BSCs. For example, when it only allows monitoring indicators and not objectives, when it only allows monitoring a single BSC and not BSCs differentiated by SU, etc.
3. When it only allows monitoring the strategic and not the initiatives or projects.
4. When it only involves managers and not the other company employees.
5. When it does not allow dynamic changes in different BSCs.
6. When it does not allow historical BSCs to be consulted, i.e., management traceability.
7. When technological support does not allow the capture of flat file indicators or, at the other extreme, does not allow the capture of ERP indicators.

Conclusions

This article describes a new strategic management methodology termed as BSC Focusplus® that maximizes a company's value generation by optimizing the leader's strategic management level with the implementation of two important contributions:

. Driving a better connection between different links of strategic management, allowing a more solid BSC to be obtained

. Obtaining a more modern BSC by implementing four new assumptions

In such a changing environment, companies must modernize to remain valid. The Methodologies, too.

Important Note:

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2. BSC Focusplus® is a trademark owned by Consultoría y Asesoría Stratego, duly registered with Indecopi.

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