Book Review

Title of the Book	: Step by Step in Cascading Balanced Scorecard to Functional Scorecards.
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Reviewer	: Dwi Indah Kartika

This book tells us about laying out the core concept of Balanced Scorecard development at the corporate level and the process of cascading that scorecard to the division level in a form that is easy to be grasped by readers from various industrial backgrounds. This book is designed in popular nuance in order that it can bring the concepts of Balanced Scorecard to earth.

Suwardi Luis, a Managing director of GML Performance Consulting begins his writing by explaining strategies to face change. He said that changes caused by external factors can occur within the body of organization involved (internal change). Examples include leadership change, changes to organizational structure, systems and procedures changes, and the like. Whether because of external or internal factors, these changes will influence the performance of organization.

Other changes involve environmental factors, such as demographics. If we observe the patterns of the communities in large Asian cities, there has been a real shift in lifestyle. Nowadays, the urban community is enamored with the trendy middle-class lifestyle from other countries. Take as an example the practice of hanging out at the coffee shop. This has been deeply impacted by the foreign franchise offering coffee on the corners of large Asian cities.

Our middle-class clothing trends are also increasingly influenced by foreign cultures. This can be seen by an increasingly incessant promotion of products at clothing boutiques from mainland Europe, which is very much in demand in Asia. Another example: the habit of bread in diet is rapidly increasing with the establishment of new bread shops across major Asian cities, such as Singapore, Taiwan and Jakarta. This bread shop trend is particularly ironic considering that many Asians when traveling overseas search for rice and avoid bread because their stomach don't feel full with just bread.

Luis wrote that the business that succeeds in a competitive and constantly changing world is the business which can rapidly adapt with changes in their management and implementation strategies. He then illustrates how to build a Balanced Score Card with the case study of House of Candles where Carrie Thomson as the owner took advantage of a change by opening a business which makes and sell candles. When she lived outside the country she learned that candles are a very special product. Foreigners (particularly Europeans, Americans and Australians) are fond of candles. To them, candles don't only function as an object that gives romantic light at dinner time at candle light dinner, but, among other things, help to relax and dispel the smell of cigarette smoke. Therefore they use candles a lot as basic supplies and creating an ambiance, such as scenting in aroma therapy. In developing House of Candles business, Carrie engaged her younger brother, John Wood, as the Director of House of Candles. He is experienced in business management and considers this position to be a good challenge for him. In order to ensure success, John is determined to create a strategy framework for the House of Candles. He knows the importance of strategy in organization and so he invests much effort to create a prudent strategy. But he is a little concerned and worried that the strategy he has created may not be productive when implemented. He is concerned that the people he leads may not carry out the work according to the outlined strategy.

Luis said that to maintain organizational performance at a consistently productive level, in the midst of changes occurring here and there, a planned and accurate strategy does not guarantee good performance because “having a strategy” by itself does not solve the problems. He quoted a research done by Kaplan and Norton which indicated that only 10% of US companies execute their strategies well. This study also reveals 4 barriers to effective strategy execution. The first is the vision barrier. This barrier occurs because the company vision is ineffectively communicated. As Kaplan and Norton found that generally only 5% of the total workforce knows and understands the vision of the organization. It often occurs because the mission and vision of the organization are often felt to be too gimmicky by the workforce. Meanwhile, the strategy that is developed very often is too long and extensive, or extremely detailed and utilizes complex sentences without common terms that can be easily digested. The second is the people barrier. All the employees of a company, at all levels of the organizational structure, make up the workforces who execute the vision, mission and strategy of that organization. Their motivation to effectively and efficiently apply that strategy is critically linked to the incentive they can receive. Balance Score Card application sees that the employees will be more motivated to implement a strategy if they see that there is an incentive system linked to the strategy. Unfortunately, this is rarely done. Research shows that only 25% of managers have incentives that are linked to strategy. The third is the management barrier. Typically managers use large amounts of time on operational activities, but sadly have no time to study the company strategy. The study performed by Norton and Kaplan showed that 85% of managers devote less than one hour per month to discussing strategy. Furthermore, that hour of discussion typically only focuses on issues such as finance, sales and inventory. Often the intangible issues escape their attention and discussions. In the end their discussion just concerns products and achievements without giving attention to the processes. As opposed to a financial report, Balance Score Card not only gives a portrait of past performance, but also of the present and future while balancing one with the other. Balance Score Card with its indicators make possible for us to see performance in the past and the present, and urges us to improve performance in the future. Fourthly, the resource barrier is the final obstacle, which refers to capital. The study shows that 60% of the organizations studied did not link the budget with the strategy. But strategy implementation comes with a cost, so the budget and strategy should be linked. Even better if the budget is built in harmony with the strategy. Luis stated that those four barriers can have fatal consequences for an organization because they cause failure or hamper the execution of the strategy. However, they are not impossible to overcome except through Balance Score Card concept.

In the next discussion, Luis continued illustrating the story of House of Candle when John knew that many strategies often fail, and then he determined to formulate a good strategy for the House of Candles. John applies Balanced Score Card that he got from management training. Balanced Score Card has a fundamental principle: that public as well as private organizations, for-profit as well as non-profit organizations, need to have a strategy that is simple, appropriate, and complete in understandable language. This simplicity is needed to enable and speed the process of communicating the strategy to the entire workforce. The Balanced Score Card was used in the creation of the House of Candles vision: “To become the most innovative candle maker in Asia, while providing international quality service and products”. It means that Balanced Score Card is one of the important key to succeed an organization. In this part, Luis tried to explain the definition of Balanced Score Card, which is mean as a performance management tool that helps an organization translate its vision and strategy into actions, utilizing a collection of financial and non-financial indicators involved in a cause and effect relationships. Balanced Score Card (here in after is BSC) has a strong role as a translator, or converter, of organizational vision and strategy into actions. Because the actions are produced. The BSC doesn't stop when the strategy is developed, but continues to monitor the execution of the strategy. The BSC was originally introduced in 1992 in an article written by Kaplan and Norton in *Harvard Business Review*, January-February 1992 edition. BSC theory rapidly developed and in 1996 Kaplan and Norton presented a revision to their tool which was called as "strategy map". Moreover, Luis added that there are three innovations in their revision or strategy map, they are: (1) Focus. The BSC 1^{st} generation (before revision) focused on measuring performance, whereas the 2^{nd} generation BSC focuses on management which refers to strategy management, operational management, and management in other areas, not simply performance management, (2) Objective. 1t generation BSC had the objective of steering strategy implementation, while BSC generation 2 emphasizes strategy communication. Communication strategy became an objective because study results indicated that many strategy failures were the result of poor communication, and (3) Field of Application. BSC initially was purposed for the private sector, but the 2^{nd} generation was broader to also include the public sector. Moreover, Luis attempted to explain the meaning of Balanced Score Card etymologically, which balanced means in equilibrium. So, the BSC is a tool that brings equilibrium between: (1) financial and non-financial indicators, (2) Indicators of the past, present and the future, (3) Internal and external indicators, (4) Leading indicators (Cause/Drivers) and lagging indicators (Effect/Outcome). Balance means that internal and external indicators are linked by cause and effect relationships. Internal factors form causes (drivers/input) and output impacts external factors. Because they are linked, the balance between them both must be guarded. The BSC makes that possible. The BSC tool can map causes that create both good and bad performance, along with the effects that are produced from those causes. There are four (4) perspectives in BSC, they are: (1) The Financial Perspective. Organizational finances can be viewed from two angles, short term and long term. When approaches for financial goals are long term, special strategies called Growth Strategies are used. These strategies primarily involve two things, they are: increasing earnings and customer value. (2) The Customer Perspective. In order to give good value to customers, there are generally three approaches, or value propositions, that our business model can embrace. These approaches are: Product leadership; Operational Excellence; and Customer Intimacy. (3) The Internal Business Process Perspective, and the Learning and Growth Perspective. There are three primary categories that are analyzed and measured in this perspective: employee competency, technology for support capacity and culture, motivation and appreciation. These three categories form the incentive factor for employee satisfaction in their work. Its importance is clear because satisfied employees increase performance and retention rates.

In another chapter, Luis explained why BSC is important? The BSC is a strategy planning method that compared to other methods, has the following advantages: First, the BSC can function as a tool to communicate strategy to stakeholders of the organization including management, employees, shareholders, customers, and the community. With the use of the BSC, stakeholders can review the strategy and its achievements using the same language (which serves to overcome the vision barriers). Second, the BSC enables an organization to map all primary factors in the organization, whether physical (tangible) assets or non physical (intangible) assets. Other strategy planning concepts are generally limited to issues that are characterized as tangible (thus overcoming the management barrier). Third, the BSC can link the organizations strategy with its performance. Other strategy planning concepts only focus on developing the strategy and stop after the strategy is developed, while the BSC enables the organization to link the strategy development process with the strategy implementation process. And the implementation process can monitor level of achievement through the use of key performance indicator. The BSC not only helps the organization compose strategy, but also helps to monitor the achievement of the strategy (thereby addressing the people and management barriers). Fourth, the BSC recognizes the concept of cause and effect. With it the workforce can gain strategy and clarity, realizing that if the strategy they are responsible for achieves success, then that success will ensure benefits (productivity) to other strategies. In an indirect manner, the cause and effect relationship a strengthen cooperation in the organization and encourage the workforce that by working under a mutual umbrella they can achieve the organization's goal (which addresses the people and management barriers). Fifth, The BSC can help in compiling the budget. During the budgeting process, the organization can use the BSC as a checkpoint. With the BSC we can know what activities need to be executed by the organization in order to achieve its targets, from daily activities to special projects. Then the costs of those activities can be tabulated or included in the budget (which addresses the resource and management barriers). In this chapter, Luis tries to explain that BSC concept and process develop at the organizational level. But the process of applying the BSC doesn't stop here. It must flow down to the division level because in principle, it is at the division level that the strategy will be implemented.

According to Luis who continues and said that the strategy map at the organizational level has been launched by management, that strategy map needs to flow to and synchronize with the division level so that it can be implemented by all parties connected with the organization. The process of flowing to and synchronizing with is termed "cascading". With cascading we mean the process of breaking out strategy objectives at the company level and clarifying with more detail at the division level, even more so at the individual level, with a clear connection between these levels. With cascading we seek to synchronize the strategies at the company level with the strategies at the division level, and extending to the individual level. This synchronization is very important because it is the divisions, and eventually the individuals in those divisions, that will implement the various strategies of the organization. The meaning of division is an organizational unit at a different level or below that of company. Different terms that connote the same distinction are department or office. In implementation, generally speaking, strategies made at the company level are cascade to the relevant division. Cascading means to distribute responsibility for executing a portion of the company strategy. The distribution is in accordance with the specific roles and tasks of the relevant division.

The role of the business division and the support division need to be studied because they link to the structure of the Balanced Score Card. Revenue becomes the end objective at the business division level so that the positions of the four perspectives have the same form as the strategy map at the company level. Luis then explained that there are 10 steps in cascading process, they are: (1) Division purpose to analyze division vision and mission, (2) Division relevance to identify the contribution and influence of the division in the context of the company strategy map, (3) Division customers to identify the division's customers, (4) Division activities to identify principal division tasks and core processes, (5) Customer expectation to tabulate outputs, customers and customer expectation, (6) Cascading company strategy objectives to the division to review step1, and identify SOs that must be assumed by the division, then determine other SOs that are needed by the division, (7) local issues to look again steps 2,3,4 and 5 and develop SOs for the customer and financial perspective for the division, followed by SOs for the internal business process and learning and growth perspective, (8) Consolidation and logical testing to compose a division strategy map, (9) Key performance indicators to identify appropriate KPIs for each SO and (10) Target and strategy initiatives to determine targets for each KPI and action plans for each SO.

When beginning the process of cascading the company BSC to the HR division, consider the division vision and mission of the HR division itself. The vision and mission of the HR must be consistent with the vision and mission of the company, and are usually more specific than the company vision and mission. Luis then closed his book with preceding the balanced score card with commitment. Commitment sends the clear message to all employees regarding a continuous change process that is supported by the supervisors, and that leadership expects each employee to support the change process as well. That is, that all employees are invited into active participation in giving shape to the shared goals of the organizations.

The commitment asserts that initiatives that are launched are serious activities, will be executed in a serious manner, and not with fleeting enthusiasm that quickly cools off. Leadership commitment does away with the impression that employees need to busy themselves with gathering data only, without knowing how to follow up or give attention to trouble, or even worse, that there is no follow up whatsoever from management.

At the end of the day it is important to realize that the Balanced Scorecard is not a silver bullet for management problems. Management tools like the Balanced Scorecard are not a panacea that will heal an organization of all woes without hard work. The Balanced Scorecard is only able to offer a benefit to the extent that is consistently adopted and becomes a part of the organization life.