Managing Business Performance:
The Challenge of Intangible Assets

*Prepared by*
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Author, The Balanced Scorecard

*Prepared for*
WPI Events
September — October, 2012
Most organizations have difficulty executing strategy.

“Less than 10% of Strategies effectively formulated are effectively executed”
- Fortune

“Only 15% of the 794 (Federal Government) programs reviewed in Fiscal 2005 were rated effective.”
- Barron’s

Between 1988 and 1998, only one of eight companies was able to deliver 5.5% annual real growth in revenues and earnings while covering their cost of capital

—Chris Zook,
Profit From the Core
Why do organizations fail to execute strategy?

The World Has Changed

- Percentage of Organization’s Market Value

<table>
<thead>
<tr>
<th>Year</th>
<th>Intangible Assets</th>
<th>Tangible Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>2000</td>
<td>10%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Management Systems Have Not!

- 95% of the typical work force doesn’t understand the strategy
- 60% of organizations do not link strategies with budgets
- 70% do not link management incentives to strategy
- 85% of executive teams spend less than one hour per month discussing strategy
Two Improvements Are Needed

1. How do we describe business strategies that are based on intangible assets?

   “If you can’t describe it, you can’t measure it”

2. How do we link these new frameworks into our management systems?

   “If you can’t measure it, you can’t manage it”
What Are “Intangible Assets”?

“Knowledge that exists in an organization to create differential advantage”

(1) Tom Stewart, “Brainpower”, Fortune, June 1991
Managing Intangible Assets Is Different

Value Creation Is Indirect

1. New Training
2. Improve Competence
3. Improve Work Processes
4. Satisfies Customers
5. INCREASE REVENUES

Intangible Value

Tangible Value
Managing Intangible Assets Is Different

Value Is Contextual

Alignment: The value of intangible assets is contextual. It depends upon alignment with the strategy.

?@ Goldman-Sachs

?@ etrade.com

??? Relationship Management Skills ???
Managing Intangible Assets Is Different

3 Intangible Assets Are Bundled

Interdependence: The value of intangible assets is influenced by its interaction with other intangible assets. It is difficult to isolate the value of one asset.
Tools for Managing in the “Knowledge Economy”

1 Value Creation Is Indirect

A Strategy Map describes how the enterprise creates value for shareholders and customers… and help us to reach our destination

… supports the goals of our stakeholder

… so that the customer experience …

… to enable us to achieve excellence in our work …

We will develop our people and expertise …

Financial Perspective

- Sustained Shareholder Value
  - Productivity
  - Revenue Growth

Customer Perspective

- Product/Service Attributes
  - Price
  - Quality
  - Time
  - Function
  - Relationship
  - Image
  - Brand

Process Perspective

- Operations Management Processes
- Customer Management Processes
- Innovation Processes
- Regulatory and Social Processes

Learning & Growth Perspective

- Human Capital
- Information Capital
- Organization Capital

Price
Quality
Time
Function
Relation
Brand

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Case Study: Private Sector (Datacraft) — 3-Year Performance Improvements

Datacraft (Singapore)  

<table>
<thead>
<tr>
<th>Category</th>
<th>Improvement</th>
<th>Shareholder Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (+25%)</td>
<td></td>
<td>+62%</td>
</tr>
<tr>
<td>Profits (+100%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Client Satisfaction</td>
<td>-55%</td>
<td></td>
</tr>
<tr>
<td>8.2/10 → 9.2/10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multi-Year Contracts</td>
<td>+33%</td>
<td></td>
</tr>
<tr>
<td>30% → 40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Projects Late</td>
<td>-80%</td>
<td></td>
</tr>
<tr>
<td>15% → 3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partner Plan Execution</td>
<td>+72%</td>
<td></td>
</tr>
<tr>
<td>50% → 76%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training Delivered</td>
<td>+33%</td>
<td></td>
</tr>
<tr>
<td>(80% → 107% of plan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Satisfaction</td>
<td>-25%</td>
<td></td>
</tr>
<tr>
<td>66% → 74%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Attrition</td>
<td>-43%</td>
<td></td>
</tr>
<tr>
<td>30% → 17%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Execution Premium

Financial Perspective
- Valuation
- Profitable Growth

Customer Perspective
- Brand Value
- Customer Satisfaction

Internal Perspective
- Key Process Effectiveness
- Technology Support
- “Best Employer”

Learning & Growth Perspective

“I am convinced that implementing the Balanced Scorecard has helped us deliver record-breaking performance over the past 5 years.”

Bill Padfield, CEO

*Customer Dissatisfaction
** Employee Dissatisfaction
1Datacraft name changed to DataDimensions
### Case Study: Private Sector (Korea Customs Service): 3-Year Performance Improvements

<table>
<thead>
<tr>
<th>Korea Customs Service</th>
<th>Execution Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Crackdown on illegal drugs from 34B to 73B (3 yrs)</td>
<td>Constituents</td>
</tr>
<tr>
<td>- Tax collection revenue from 32B to 51B (3 yrs)</td>
<td>Stakeholders</td>
</tr>
<tr>
<td>- Import cargo release time ↓</td>
<td>Brand Value</td>
</tr>
<tr>
<td>- Customer satisfaction increased (12% → 87%)</td>
<td>Customer Satisfaction</td>
</tr>
<tr>
<td>- Detection rate of illegal cargo increased by 92% (Six Sigma process)</td>
<td>Key Process Effectiveness</td>
</tr>
<tr>
<td>- Employee recognition of KCS strategy increased by 31% (2 yrs)</td>
<td>Technology Support</td>
</tr>
<tr>
<td>- Employee satisfaction increased from (73% → 91%)</td>
<td>“Best Employer”</td>
</tr>
</tbody>
</table>

**Mission Perspective**

**Customer Perspective**

**Internal Perspective**

**Learning & Growth Perspective**

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**“I, myself, will give full support to the successful operation of Korea Customs Service performance management”**

KCS Commissioner Sung Yun-gap

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*Customer Dissatisfaction

**Employee Dissatisfaction
2 Value Is Contextual

Alignment: The value of intangible assets is contextual. It depends on alignment with the strategy.

Strategic Initiatives are the drivers that create change and value

- **Strategic Theme**: A set of objectives, linked in cause-effect logic, necessary to achieve overall mission

- **Strategic Initiative**: The set of projects / programs necessary to close a strategic performance gap
Case Study: Low Cost Airline

### Strategy Map

**Theme: Operating Efficiency**

<table>
<thead>
<tr>
<th>Financial</th>
<th>Objectives</th>
<th>Balanced Scorecard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits &amp; RONA</td>
<td>Profitability</td>
<td>Market Value</td>
</tr>
<tr>
<td>Grow Revenues</td>
<td>Grow revenues</td>
<td>30% CAGR</td>
</tr>
<tr>
<td>Fewer Planes</td>
<td>Fewer planes</td>
<td>20% CAGR</td>
</tr>
<tr>
<td>Customer</td>
<td>Flight is on-time</td>
<td>FAA On-Time Rating</td>
</tr>
<tr>
<td>Attract &amp; Retain More Customers</td>
<td>Lowest prices</td>
<td>#1</td>
</tr>
<tr>
<td>On-time Service</td>
<td>Attract and retain more customers</td>
<td>#1</td>
</tr>
<tr>
<td>Lowest Prices</td>
<td>Fast ground turnaround</td>
<td>70%</td>
</tr>
<tr>
<td>Internal</td>
<td>Fast ground turnaround</td>
<td>On Ground Time</td>
</tr>
<tr>
<td>Fast Ground Turnaround</td>
<td></td>
<td>30 Minutes</td>
</tr>
<tr>
<td>Learning</td>
<td>Ground crew aligned with strategy</td>
<td>On-Time Departure</td>
</tr>
<tr>
<td>Ground Crew Alignment</td>
<td>Develop the necessary skills</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td>Ground crew aligned with strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop the necessary skills</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop the support system</td>
<td></td>
</tr>
</tbody>
</table>

### Balanced Scorecard

<table>
<thead>
<tr>
<th>Measurement</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value</td>
<td>30% CAGR</td>
</tr>
<tr>
<td>Seat Revenue</td>
<td>20% CAGR</td>
</tr>
<tr>
<td>Plane Lease Cost</td>
<td>5% CAGR</td>
</tr>
<tr>
<td>FAA On-Time Rating</td>
<td>#1</td>
</tr>
<tr>
<td>Customer Ranking</td>
<td>#1</td>
</tr>
<tr>
<td># Repeat Customers</td>
<td>70%</td>
</tr>
<tr>
<td># Customers</td>
<td>Grow 12% CAGR</td>
</tr>
<tr>
<td>On Ground Time</td>
<td>30 Minutes</td>
</tr>
<tr>
<td>On-Time Departure</td>
<td>90%</td>
</tr>
<tr>
<td>% Ground Crew Stockholders</td>
<td>100%</td>
</tr>
<tr>
<td>Strategic Awareness</td>
<td>100%</td>
</tr>
<tr>
<td>Strategic Job Readiness</td>
<td>Yr 1 - 0%</td>
</tr>
<tr>
<td>Info System Availability</td>
<td>Yr 3 - 90%</td>
</tr>
<tr>
<td></td>
<td>Yr 5 - 100%</td>
</tr>
<tr>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
Tools for Managing in the “Knowledge Economy”

3 Intangible Assets are Bundled

One initiative is not enough to execute a strategy. It requires a portfolio of several initiatives. The initiatives are interdependent and can’t be treated on a standalone basis.

### Strategy Map

#### Theme: Operating Efficiency

- **Financial**
  - Profits & RONA
  - Grow Revenues
  - Fewer Planes
- **Customer**
  - Attract & Retain More Customers
  - On-time Service
  - Lowest Prices
- **Internal**
  - Fast Ground Turnaround
- **Learning**
  - Ground Crew Alignment

#### Objectives

- **Profitability**
- Grow revenues
- Fewer planes
- Flight is on-time
- Lowest prices
- Attract and retain more customers
- Fast ground turnaround
- Ground crew aligned with strategy
- Develop the necessary skills
- Develop the support system

### Balanced Scorecard

#### Measurement

- Market Value
- Seat Revenue
- Plane Lease Cost
- FAA On-Time Rating
- Customer Ranking
- # Repeat Customers
- # Customers
- On Ground Time
- On-Time Departure
- % Ground Crew Stockholders
- Strategic Awareness
- Strategic Job Readiness
- Info System Availability

#### Target

- 30% CAGR
- 20% CAGR
- 5% CAGR
- #1
- #1
- 70%
- Grow 12% CAGR
- 30 Minutes
- 90%
- 100%
- 100%
- 100%
- Yr 1 - 0%
- Yr 3 - 90%
- Yr 5 - 100%
- 100%

### Portfolio

- Frequent Flyer Program
- On Ground Cycle Time Optimization
- ESOP
- Ground Crew Training
- Crew Scheduling System Roll out
- Communications Program
Multiple initiatives (a “portfolio”) are required to execute the strategy. STRATEX (“strategic expenditures”) is required to fund this portfolio.

### Strategy Map
- Theme: Operating Efficiency
- Objectives: Profitability, Grow revenues, Fewer planes, Flight is on-time, Lowest prices, Attract and retain more customers, Fast ground turnaround, Ground crew aligned with strategy, Develop the necessary skills, Develop the support system.

### Balanced Scorecard
- Target: 30% CAGR, 20% CAGR, 5% CAGR, #1, 70%, Grow 12% CAGR, 30 Minutes, 90%, 100%, 100%, 100% Yr 1, 0%, 100% Yr 3, 90%, 100%.

### Investment Portfolio
- Initiative:
  - Frequent Flyer Program
  - On Ground Cycle Time Optimization
  - ESOP
  - Ground Crew Training
  - Crew Scheduling System Roll out
  - Communications Program
- Budget:
  - $XXX
  - $XXX
  - $XXX
  - $XXX
  - $XXX
- Total STRATEX: $XXXX

**STRATEX:** Investments designated solely for executing strategic initiatives.
Case Study: University of Leeds Strategic Themes

**Vision**
By 2015 our distinctive ability to integrate world-class research, scholarship and education will have secured us a place among the top 50 universities in the world

**Purpose & Values**
We are a research-intensive University which strives to:
- create, advance and disseminate knowledge
- develop outstanding graduates and scholars to make a major impact upon global society

**Stakeholders & partners**
- Our research sponsors expect …
  - P1: high quality research of importance to society
  - P2: the best externally recognized experts in their field
  - P3: to deal with a University with a reputation for delivery and professionalism

- Students – as lifelong members of our University community expect …
  - P4: to study at a first-class University recognised for its strong, enduring reputation
  - P5: to learn from academics at the cutting-edge of knowledge
  - P6: an education that creates excellent career opportunities
  - P7: a stimulating environment that supports personal development

**Key themes**
- Enhance our international performance and standing
- Achieve an influential world-leading research profile
- Inspire our students to develop their full potential
- Enhance enterprise and knowledge transfer

**Strategic enablers**
- Financial Sustainability
- Valuing and developing all our staff

**Improving our effectiveness**

UNIVERSITY OF LEEDS

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Case Study: University of Leeds Strategy Map (Theme 3)

By 2015 our distinctive ability to integrate world-class research, scholarship and education will have secured us a place among the top 50 universities in the world

**Vision**

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Our values

**Stakeholders & partners**

Our research sponsors expect...
- P1: high quality research of importance to society
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Students – as lifelong members of our University community expect...
- P4: to study at a first-class University recognised for its strong, enduring reputation
- P5: to learn from academics at the cutting-edge of knowledge
- P6: an education that creates excellent career opportunities
- P7: a stimulating environment that supports personal development

**Strategic Objectives**

1. Deliver excellent and inspirational learning and teaching
2. Translate excellence in research and scholarship into learning opportunities for students
3. Provide an exceptional student experience
4. Increase participation of those who can benefit

**Measures**

- Student satisfaction
- Student / Staff ratio
- Level of demand for courses
- Average A-level score of recruited students
- Proportion of full-time undergraduate cohort from lower socioeconomic groups

**Targets**

- Top quartile of the higher education sector
- Reduce to 15:1
- Increase to 8 applications per place
- Increase to 420
- Increase to 24%

**Initiatives**

“STUDENTS REALLY MATTER”
- Student satisfaction survey
- Learning & teaching process improvement program
- Student partnership agreements
- Peer mentoring scheme
- Student portal
How do we make strategy happen?

The Balanced Scorecard / Strategy Map provides a strategic framework that integrates all parts of the management process.
Does it work? Research studies show that Balanced Scorecard users create dramatically higher levels of shareholder value for their organizations.

<table>
<thead>
<tr>
<th>Matching Criteria</th>
<th>BSC Firms (mean)</th>
<th>Control Firms (mean)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value of equity</td>
<td>50.72%</td>
<td>23.60%</td>
<td>27.12%</td>
</tr>
<tr>
<td>Market to Book</td>
<td>39.14%</td>
<td>8.97%</td>
<td>30.17%</td>
</tr>
<tr>
<td>Net Assets</td>
<td>41.05%</td>
<td>13.47%</td>
<td>27.58%</td>
</tr>
</tbody>
</table>

**Three-year Post-adoption Performance (“Buy and Hold Returns”) of Matched BSC Firms vs. Control Firms**

Palladium Balanced Scorecard Hall of Fame for Executing Strategy®
By Industry 2000-2010
Comparison of Benefits Achieved by Hall of Fame Organizations in the Public and Private Sector

For Profits
- Financial
  - Shareholder Value: +150%
  - Profits: +180%
  - Revenue: +120%
- Customer
  - Customer Dissatisfaction: -50%
- Process
  - Key Process Execution: +50%
- Learning
  - Employee Satisfaction: +20%
  - Employee Turnover: -50%

Government & Non-Profits
- Mission
  - Mission Measure: +100%
- Customer
  - Customer Dissatisfaction: -50%
- Process
  - Key Process Execution: 40%
- Learning
  - Employee Satisfaction: +15%
  - Employee Turnover: -40%
### Some Generalizations: A Strategy Is A Strategy Is A Strategy

- **The architecture of a strategy is approximately the same, regardless of the industry or sector**
  - A process is a process
  - People are people

- **A good strategy focuses on the processes and people that have greatest impact on customer satisfaction and, hence, the mission**
SUMMARY: The Balanced Scorecard provides a framework that reflects the drivers of the new “knowledge economy.”

“Shared disciplines facilitate teamwork and allow organizations flexibility. People can get to work faster — and more easily work together in new groupings — when they share a methodology, or planning and problem solving framework… The important thing in a disciplined organization is that everyone uses the same approach.”

Rosabeth Moss Kanter
HBR, Jan-Feb, 1992