Using the Balanced Scorecard to Regain Profitability

Reflections and lessons learned after two years of scorecard success at Chrysler Group

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1. Driving force for scorecard implementation at Chrysler Group

In the early 1990s, Chrysler established a strong reputation as an automotive styling leader and segment innovator. Chrysler's leadership in the minivan, SUV and light truck segments of the market resulted in record high levels of profitability. Chrysler's success was so impressive that in 1996, Forbes magazine named Chrysler its Company of the Year. The euphoria of this success was short-lived.

In the late 1990s, Chrysler saw its fortunes sputter due to a slowing economy, aggressive competition, and rising internal costs. Within three years, financial results were dismal. Chrysler Group (CG), now one of Daimler-Chrysler's five business units, knew it needed a fast turnaround to reverse this development. In February of 2001, the Chrysler Group announced a Turnaround Plan supported by a Balanced Scorecard, which over the course of the past 2 years has returned the business to profitability. Since implementing the balanced scorecard, the Chrysler Group managed to reduce its forecasted loss of $5.1 billion USD for 2001 CY to $2.0 billion USD, and has significantly exceeded its breakeven target for 2002 CY by earning $1.4 billion USD.

The Chrysler Group Balanced Scorecard describes the strategic goals and the key performance measures for the overall company. The five Chrysler Group goals are shown in the illustration as a pyramid (see figure 1).

Those goals connect to a set of 15 strategic and operational measures. The status of these metrics is updated and reviewed monthly by Chrysler Group's Executive Committee, comprised of the top 8 senior executives within the company. (Note: A Further discussion on the development and handling of the scorecard are given in the accompanying interview with Dr. Dieter Zetsche, CEO of Chrysler Group).

The focus and discipline provided by utilizing the Balanced Scorecard has become a cultural foundation of the turnaround plan and has helped in the
articulation of the longer-term strategic objectives of the company. To reinforce this discipline throughout the organization, Chrysler Group has integrated the target setting elements of the Balanced Scorecard into its business planning, performance management, and compensation systems (see Kaplan/Norton, 1996b, p. 81). In this manner, strategic alignment of individual, organizational and corporate performance is assured.

In the following section we will summarize the lessons learned from Chrysler Group’s Balanced Scorecard implementation.

2. Reflections and lessons learned

Chrysler Group is now in its third year of the turnaround and has been using the Balanced Scorecard during this time period. Several lessons can be drawn from the past two years:

„A strategic performance measurement system such as the Balanced Scorecard must address all critical success factors“

To truly implement the scorecard a few critical success factors must be addressed (see Johnson, 2002, p. 7). They are as follows:

**Transparency** – The measurement of scorecard progress must be visible to top management on a regular basis (e.g. minimum monthly reporting frequency).

**Accountability** – There must be clear owners of each scorecard measure. Owners must have clear impact or influence over the scorecard results, and must be responsible for speaking to scorecard progress and to key actions for improvement.

**Comprehensiveness** – There must be specific actions tied to each target and targets must represent the result of all key processes within the business model (e.g. Sales, Manufacturing, etc.).

**Clear Leadership** – The scorecard must garner attention from the highest level of management, and the leadership must embrace the scorecard throughout their organizations.

**Alignment** – Individual and functional-area performance targets must be clearly linked to the strategic goals represented in the Balanced Scorecard.

The right-sized fulfillment of the above critical success factors creates the necessary foundation to have an environment in which the scorecard gets accepted and utilized to its fullest extent by all stakeholders which is the management as well as the overall employee base.

„It is important to have constructive ‘tension’ between measures“

With the fifteen measures on the Balanced Scorecard, there is constructive „tension“ between many of the measures. This is a necessary aspect in scorecarding a business with the complexity of the automotive industry. Many decisions within the organization have a direct or indirect impact on several measures at once, and often these are not all positive. By having these key factors laid out on one page, and discussed all at once, you can better weigh the trade-offs between measures. Discussion on scorecard target shortfalls, for example, can result in action plans that take other measures into account.

Despite this tension, at the top of the scorecard goals hierarchy is Increasing Shareholder Value. This goal has three associated measures, all of which are directly or indirectly impacted by the movement of the remaining twelve measures on the scorecard. Understanding how the scorecard measures interact helps top managers better understand and manage the dynamics and complexity of the industry.

„To be effective, the Chrysler Group Balanced Scorecard must focus on the „vital few“ measures.“

The Chrysler Group Balanced Scorecard measures five goals and fifteen measures. This is an important point, in that too many measures makes it difficult to focus management attention on important issues (see Kaplan/Norton, 1992, p. 72 f.). Also, it is important to focus on measures that represent the fundamental drivers of your business.

In selecting these vital few, we look at several filtering criteria (see figure 2):

**Emerging Strategic Themes** – Do these measures reflect the underlying...
themes of our strategic plan? Strategic plans include assumptions of the future competitive landscape, and it is important that what we measure today correlates to where we need to be in order to compete successfully.

**Data Availability** – Not only must data be available in order to measure progress, but it also must be available at frequent enough intervals to track progress. This criterion tends to favor internal metrics compared to external metrics such as *J.D. Power APEAL*, which tend to update less frequently (annually or semi-annually). However, this drawback is offset by the fact that third-party benchmarks are more readily available for external metrics.

In cases where external data availability may delay action to improve performance, internal „surrrogate“ metrics are developed to provide a means of forecasting externally measured performance. For example, we will match the *J.D. Power Quality Survey* which appears once a year to the *Chrysler Group* specific Quality Tracking survey which is conducted throughout the year, and thus predictive of the *J.D. Power* findings.

**Available Benchmarks** – To truly assess the success of our strategy execution, we must be able to compare our performance to the competition. Comparison to benchmarks provides a basis for determining real success towards goals (see *Kaplan/Norton*, 1992, p. 74). Achieving or even over-achieving a target may still leave the organization well behind the competition, so it is important to gauge success both internally and externally. Furthermore, benchmarks provide a strong basis for validating our target setting (e.g., “is the target aggressive enough?”).

**Familiarity** - For a measure to be useful in driving organizational results, it must be used, understood, and accepted by the organization. This does not preclude the inclusion of new metrics, but it does acknowledge the fact that unknown measures require more time to become accepted, and thus relevant to the organization. Any attempt at scorecarding must focus on not only the inherent familiarity of given measure, but also the importance of educating the organization through a variety of communication channels on all measures to ensure familiarity and thus the relevance of the scorecard to the organization as a whole.

**Redundancy** – No two measures on the corporate scorecard should measure the same key organizational driver. Similar types of measures can be used, like „cost“ for example, provided that these measures accomplish the goal of...
assigning accountability for cost in different areas of the organization. While the Chrysler Group scorecard measures cost in several areas: Program Spending, Material, Fixed, and Plant Cost, these areas represent separate and distinct areas of accountability.

**Cause and Effect Interrelationships**
- This is related to the earlier lesson of having constructive „tension“ between the measures. We look for measures that are connected to (but not redundant with) other measures on the scorecard. The complexity of our business requires decision-making that takes into account many factors. By selecting interrelated measures, we ensure that trade-offs are understood in the decision making process. When managers understand the „levers“ (e.g. causes) of measure performance and their effects on other measures, they will be able to take actions to drive behavior that results in maximum performance on those measures.

**Balance of Lead/Lag Indicators**
- It is important to measure „where you are going“ as well as „where you have been“. Traditional finance and accounting systems typically measure past results exceptionally well, but leave much to be desired in forward-looking analysis. We look to non-financial measures to provide an indication of the future effectiveness of our strategy. Market Research, as well as external market analysis (J.D. Power Quality and Reliability Studies, etc.), can provide a predictive measurement of future business performance.

** „What gets measured, gets done“**
- At the Chrysler Group, the balanced scorecard is the key element in ensuring proper execution of the overall business plan. By measuring, we drive senior management attention to the items being measured (see Kaplan/ Norton, 1996b, p. 21).

We have a target agreement process built into the performance management system that reinforces the discipline. Our senior management signs written agreements to each of the scorecard goals and targets. These signed agreement pages are displayed in our Board Room, to serve as a constant reminder of management’s commitment to success.

¸¸It is important to tie compensation and bonus directly to scorecard performance.¨¸

In addition to serving as a reminder of management’s commitment to success, agreed upon targets are an essential part of the personnel evaluation and compensation process (see figure 3).
Individual and organization performance towards targets has a direct influence upon incentive-based compensation and has indirect influence on fixed compensation. By tying performance with compensation directly to the scorecard, we ensure individual goal alignment with the overall organizational goals (see Kaplan/Norton, 1996a, p. 81).

“Scorekeeping is one of the three essential roles of a Corporate Governance system.”

Chrysler has integrated its Balanced Scorecard efforts within its overall Corporate Governance framework, which consists of the following three roles:

**Strategic Planning:** Articulation of where we need to be to compete successfully

**Scorekeeping:** Monitoring of vital few indicators of business performance

**Gatekeeping:** Ensuring management attention and focus is placed on the critical issues

Chrysler has integrated these three roles in its approach to Corporate Governance. While this may sound intuitive, these roles are often either not formally recognized and managed as a process, or are managed in a fragmented way in a company.

Scorecard performance is reviewed regularly through three channels: the executive committee (the top eight senior executives), the officers’ council (the top 25), and the senior management team (the top 300 senior managers). Scorecard performance is reviewed monthly at the executive committee, and the results are reviewed quarterly at the officers’ council and with the entire senior management team. More frequent, in-depth reviews will occur in cases where measures are recast to be „at risk” or „below target”. This ensures quick and efficient action and communication of scorecard results through the management ranks.

We believe that the unique combination of those functions within the Chrysler Group has been crucial to the success of not only the Balanced Scorecard within the Chrysler Group, but also the overall success of the Chrysler Group (see figure 4). This has ensured a focus of top management attention on operational and strategic challenges to make the right decisions on corrective actions that will yield positive progress towards achieving our goals.

**Stichwörter**
- Balanced Scorecard
- Corporate Governance
- DaimlerChrysler
- Strategische Planung
- Turnaround
- Vergütung

**Summary**

After having a record profit year in 1996, Chrysler Group (former Chrysler Corporation) found itself confronted in late 2000 with heavy negative financial results necessitating a speedy turnaround. By implementing the Balanced Scorecard in early 2001 a powerful instrument and process was put in place to drive the progress of the turnaround and to support the transformation of the company. Two years later the scorecard has been proven to be a success with Chrysler Group being back in profitability and on the path to a unique proposition in the market place. The consistent implementation with respect of all the crucial success factors enabled Chrysler Group to get so quickly back on the road of recovery. The ultimate lesson learned is that the difference between success and failure is in the disciplined execution of the strategy.

**Keywords**
- Balanced Scorecard
- Compensation
- Corporate Governance
- DaimlerChrysler
- Strategic Planning
- Turnaround

„It is important to ensure that the Scorecard is more than just a measuring tool. It must drive immediate action within the organization.“

This is the most important lesson of all. A Scorecard, like any other measurement system, is simply a tool. The scorecard itself did not create the financial turnaround of the Chrysler
Instead, the scorecard created attention at the highest levels of management on our turnaround progress and drove strategic discussions on how to improve. Thus the Scorecard provides the tool for issue awareness. How effectively awareness is converted into action depends on how well the scorecard is integrated into your overall Corporate Governance process. Corporate Governance provides the framework prioritizing these issues and assigning actions to responsible parties. In a fast moving environment it is of utmost importance to take quickly corrective actions. The regular review of scorecard progress allows top managers to take immediate actions that can impact the performance in the current year rather than waiting for the next planning period.

3. Conclusion

Over the past two years, the Scorecard has become an essential part of the overall strategic planning process within Chrysler Group. While it is essential to develop a clear and effective strategy for an organization, the difference between success and failure is ultimately in the execution of that strategy. The scorecard takes a central part in the measurement of execution.

Literature


