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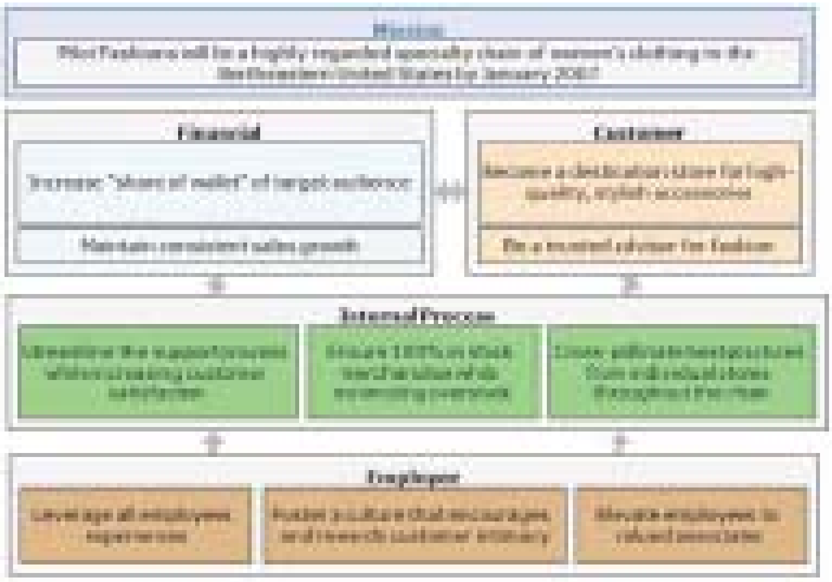
DIGEST

Using Balanced Scorecards to improve Corporate Governance



SAP's Enterprise Performance Management suite underpins a thorough and systematic approach to Corporate Governance

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Summary

SAP released "Enterprise Performance Management" in response to customer demand for strategic management integrated within their solution. Now, in the wake of the Global credit crisis, the unprecedented emphasis on Corporate Governance can be systematically addressed and underpinned by SAP SM.

Balanced Scorecards are used worldwide as a tool for implementing enterprise strategy. A growing trend is to use the tool for interactive discussions with board members about strategic direction - and to keep the board apprised of the information essential to enable them to fulfil their performance and governance oversight responsibilities.

Boards of Management fulfil five major responsibilities: approve and monitor strategy; approve major financial decisions; select and evaluate the CEO and executive team and ensure succession continuity; provide counsel and support to the CEO; and ensure compliance to regulatory and financial requirements.

Enterprise Strategy Maps and their associated Balanced Scorecards – along with supporting scorecards where appropriate – are becoming prime documents for distribution to the board. Once in place, with proven trustworthy and robust content, they are setting the agenda for board meetings, CEO and governance reviews.

The three-part balanced scorecard-based system outlined offers a proven methodology to give directors streamlined and focussed strategic information about the company.

Corporate Governance and Balanced Scorecards

Governance has always been important to stakeholders. Focus was on issues such director independence; the responsibility, composition, and relationships of the audit committee; internal control and financial disclosure requirements - after governance failures at companies such as Enron and WorldCom. The global credit crunch added to this imperative with additional demands from institutional investors. The result is a difficult balancing act for a Board of Management who must:

1. Approve and monitor enterprise strategy. Whilst the CEO and the executive leadership team create and deploy strategy, Board members must understand and approve strategy in the long-term interest of value creation for all stakeholders. Directors should be equipped to continually monitor the execution and results of the strategy, along with and the key value and risk drivers of the business. McKinsey report that most directors have limited exposure to customers, operations, technology and employees - and many don't fully understand the key drivers of value for the organizations they govern.
2. Approve major financial decisions. The board must ensure that financial resources are being used effectively and efficiently to achieve strategic objectives – approving operating and capital budgets, capital expenditures, financing, acquisitions, mergers, and divestments. In the absence of a well-defined strategy, investment choices are difficult to determine – and impossible to judge against the anticipated benefits.
3. Select and evaluate executive team. Directors too rarely have information that enables them to quantify the contributions of specific executives.
4. Counsel and support the CEO. The board plays an essential role in counselling and advising the CEO. Individual members contribute specific knowledge of the industry or function based on the company's history and competitive positioning. Board meetings should allow directors to share their knowledge and experience. Too many are simply approval forums, lacking insightful information for meaningful discussion on strategy and its execution.
5. Ensure compliance. Directors monitor risk, risk management process, and corporate reporting and disclosure – including legal, accounting, and regulatory compliance, and adherence to ethical and community standards. McKinsey suggests a significant minority of directors cannot identify the key risks facing the company.

Limited Time, Limited Knowledge

Non Executive Directors offer protection to investors, but have limited time and less specific knowledge of the company and its industry. Improving Corporate Governance requires judicious time management and streamlining the information that boards are asked to process in advance and during board meetings so that they can focus on their primary responsibilities. Three key Balanced Scorecards can address this issue: an enterprise scorecard; a board scorecard, and executive scorecards – providing succinct and relevant strategic information in an easy to digest format.

Enterprise Balanced Scorecard – describes graphically and succinctly the organization goals, strategic objectives, performance measures, targets, and initiatives. This has proven to be a powerful internal communication and alignment tool for corporate strategy throughout the organization. Classically, the map and measures it will present content such as:

- financial objectives - revenue growth and productivity enhancements;
- customer objectives - lifetime relationships and excellent service delivery;
- critical internal processes – using client insights to develop tailored products and services;
- learning and growth objectives - motivate employees in new ways of selling.

Enterprise Balanced Scorecards represent the organisation's strategy in a way that allows the board insight and understanding of what the strategy will deliver and how it will be delivered. They can better judge potential to deliver shareholder value against business, financial, and technological risk.

Board Balanced Scorecard - adds breadth to the strategic oversight with a strategy map and balanced scorecard tailored to board requirements:

- defining the strategic contributions of the board;
- providing a tool to oversee performance board members and committees;
- augmenting with strategic information specifically required by the board.

The board strategy map typically uses the financial objectives in the enterprise strategy map as success for shareholders is measured by superior financial performance. The customer perspective, however, becomes the stakeholder perspective, reflecting the board's responsibilities to investors, regulators, and communities. Learning and growth addresses the skills, knowledge and competencies of the board themselves. Additionally, major strategic themes - performance outcomes, compliance, communication and corporate citizenship—define the internal process objectives of the board.

The strategic themes also provide accountability to the board's committees: governance committee with primary responsibility for performance oversight; compensation committee with primary oversight in evaluating and rewarding the executive team; audit committee with primary responsibility for corporate compliance and communication to external stakeholders.

Executive Balanced Scorecard: used by the board and compensation committee to evaluate and reward senior executives by defining the strategic contributions of key executives. CEOs use executive scorecards to align the executive team and hold them accountable for delivering strategic performance. Governance is underpinned as strategic job descriptions provide the basis for succession planning.

Conclusion

Board members more than ever need relevant information for their decisions about the company's future directions and its reporting and disclosure policies.

Scorecards allow a focus on the company's strategy in a time effective and accessible way – along with the context of financing and key value and risk drivers.

Through a process of continual rolling forecast, board members have management's expectations about future operational and financial performance at their fingertips. Members get insights into the risk factors underlying the company's operations and strategy, helping to guide their decisions on risk management, financial reporting, and disclosure choices.

Europartnership delivers high quality support designed to improve organisational performance through consulting, facilitation and training in strategy development, performance management and Balanced Scorecards. Our approach is to work in partnership with clients to establish continuous improvement programmes – adding value by knowledge and skills transfer.

Our mission is "to equip organisations to improve performance"

For more information contact john.shuttleworth@europartnership.com