The Role of the Balanced Scorecard for Improvement of Management Systems in Japanese Companies

by

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Submitted to the MIT Sloan School of Management
in Partial Fulfillment of the Requirements for the Degree of

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ABSTRACT

The concept of the Balanced Scorecard (BSC) was first developed by R. S. Kaplan and D. P. Norton in 1992 and since that time has been implemented in thousands of organizations worldwide. While many tools that were proposed in the past tend to emphasize only one of values an organization has to realize, the Balanced Scorecard proposes that what is the most important for an organization be to balance these values for discrete stakeholders, ultimately for improvement of corporate value.

This thesis considers the role of the Balanced Scorecard (BSC) in solving issues faced by management in Japanese companies. During the period when BSC was introduced to Japanese organizations, most recognized the need to change their strategies in order to overcome the recession and to challenge emerging new competitors, When an organization decides to change its strategies dramatically, it needs to renew or improve how it develops those strategies. Even if the company formulates an excellent strategy, it will not produce the desired results without implementation. In reality, then, most companies seek not only new ways of developing strategy but also new ways of implementing the strategy.

As the number of organizations considering BSC increased, most found not only a strong affinity for the concepts of BSC, but also considerable likelihood that BSC would bring improvements with relatively less conflict within the organization.

As a result of my thesis research, including an examination of cases where BSC was introduced into Japanese companies, I found that while the reasons for introducing it varied, the BSC typically played these roles: (1) it made a strategy tangible, (2) it improved and created the capability within an organization, and (3) it enhanced the strategic mindset in employees, thereby resolving management issues. These roles highlighted the shortcomings in the management system of Japanese companies and enabled them to resolve these issues.

Note: the views expressed in this thesis are those of the authors and do not necessarily reflect the views of Kirin Brewery Company, my employer.

Thesis Advisor: Arnoldo C. Hax
Title: Alfred P. Sloan Professor of Management

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Taiji Abe
Brookline, Massachusetts
May 12, 2006

CHAPTER 1

INTRODUCTION

1.1. Purpose of Thesis

This thesis considers the role that the Balanced Scorecard (BSC) plays in solving issues faced by management in Japanese companies. I will analyze this topic by considering three cases, including Kirin Brewery, my employer. Kirin adopted the concept of the Balanced Scorecard in 2002 when it faced the need to address issues regarding its management system.

The concept of the Balanced Scorecard was first developed by Robert S. Kaplan and David P. Norton in 1992, and since that time has been implemented in thousands of businesses, organizations, and government agencies worldwide. It is said that the Balanced Scorecard allows organizations to implement strategy rapidly and effectively by integrating a measurement system with the management system. Starting with the premise that "measurement motivates," the concept of the Balanced Scorecard has become integral to the success of organizations throughout the world. (Balanced Scorecard Collaborative, 2006)

Thus far, many methodologies offer ideas about how to create a good strategy, and the premise of these methodologies seems to be that a good strategy will be necessarily implemented. However, whatever strategies are devised, they are useless if they are not implemented. Top management and/or those who work for a planning department tend to think that developing a good strategy will make an organization successful. While that may be somewhat true, realistically it is also true that organizations may have concerns about implementing the strategy, above and beyond the formulation of it. A famous study by Charan and Colvin (1999) concluded: "In the majority of cases—we estimate 70 percent—the real problem is not [bad strategy] … it is bad execution." Just developing a strategy will not make the organization successful.

The Balanced Scorecard focuses on implementing strategy in an organization. Most managers will not deny the importance of implementation, but at the same time they also struggle with implementation, mainly because it is so difficult for people to associate ordinary tasks with the strategy. A strategy is hard to see. The Balanced Scorecard enables people to build a bridge between a strategy and its implementation. The core concept of the Balanced Scorecard—"make the strategy and its progress visible"—can provide people with meaningful suggestions in the process of not only implementation but also developing the strategies.

I would never contend that all problems can be solved by using the Balanced Scorecard. However, as a result of examining cases where the concept was introduced in organizations, I observed that the concerns expressed by the Balanced Scorecard to the existing concept and implementation of many organizations' management system undoubtedly cause the organization to reflect on its past behaviors. If such reflections convince people, and corporations move in a direction that results in improvements, then the organization should find itself moving toward its intended goals. In this regard, no matter what tools or methodologies are utilized, ultimately their effectiveness depends on people's conviction that they are capable of producing the desired outcomes.

When the Balanced Scorecard concept was introduced to Japanese companies, most people initially understood it as a method that would help their organization measure its performance. As more organizations adopted the concept in order to reform their management system, and as the notion of the Balanced Scorecard took root in those organizations, other organizations became aware of its effectiveness. As a result, use of the Balanced Scorecard gradually expanded.

Again, the most important concept of the Balanced Scorecard is to "make things visible." This is what many Japanese organizations find most attractive, as my case studies indicate. It is often said that Japanese organizations achieve good performance without well-articulated strategies. Moreover, making the strategies clear and precise has never been a necessity in a society whose people are so culturally homogeneous. On the other hand, with the advent of global and domestic competition, these old practices might be losing their effectiveness as competition becomes more severe and the Japanese lifestyle changes from the traditional culture. (Kaplan and Norton, 2004) Today's competition requires a clear articulation of strategy in order to achieve organizational success because of the diversified workforce and the speed of business.

1.2. Thesis Structure

Figure 1-1 shows the structure of the thesis. There are seven chapters, as outlined in the figure.

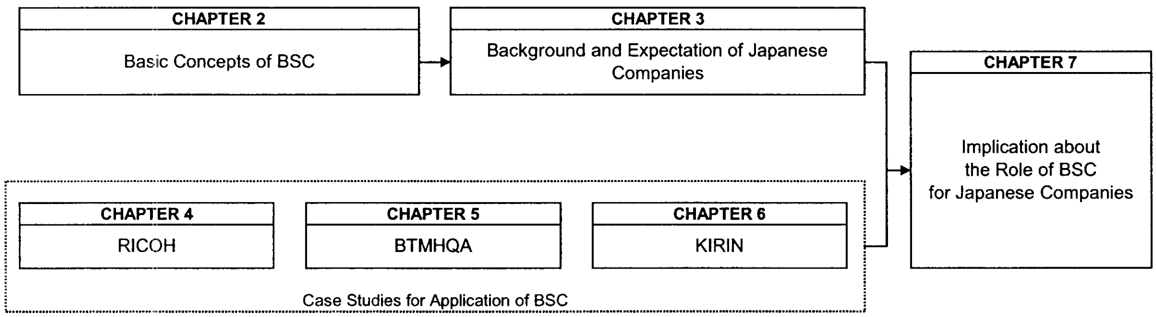

Figure 1-1 Thesis Structure

Source: developed by author.

In Chapter 2, I provide an overview of the basic concepts of the Balanced Scorecard, and its evolution. This chapter may be useful for readers who have less knowledge of the Balanced Scorecard. The basic ideas do not change, but the role of the Balanced Scorecard has expanded with the increased number of applications in organizations.

Chapter 3 discusses how Japanese organizations perceive the Balanced Scorecard. When it was introduced in Japan, it was the beginning of the 1990s, a time in the Japanese economy which is now called "the lost decade." Most Japanese organizations struggled with the recession following the bursting of the bubble economy, and they felt some limitations in the existing management methods which had, until recent times, been successful. I provide an overview of general expectations by Japanese organization based on how the Balanced Scorecard resolved problems of other existing systems.

In Chapters 4 and 5, I describe and analyze two cases involving two companies that applied the concept of Balanced Scorecard: Ricoh and Bank of Tokyo-Mitsubishi (American headquarters). Both companies applied the Balanced Scorecard concepts to solve discrete management issues. Early on, both organizations built the Balanced Scorecard into the backbone of their organizational strategy management system, a well-known precedent in Japanese companies.

Ricoh is a Japanese precision equipment manufacturer, similar to Canon or Epson. It was established in 1936, and in FY 2004 achieved net sales of ¥1,814 billion. Despite this excellent financial performance, Ricoh's top management must continually deal with a crisis of discontinuity between strategy and implementation. The case study indicates the improvements that have occurred as a result of implementing strategies utilizing the concepts of Balanced Scorecard.

Bank of Tokyo-Mitsubishi's American headquarters are located in New York City, which handles BTM's operations in both North America and South America. By adopting the Balanced Scorecard, BTM tried to overcome the cultural gap that existed in the organization. This case illustrates the role of common language, which the Balanced Scorecard undertook.

In Chapter 6, I discuss the case of Kirin Brewery. Kirin Brewery's home base is Japan, where it earned sales of approximately ¥1,654.9 billion in FY 2004. Kirin will celebrate its 100th anniversary in 2007. The company's core business is the manufacture of low-alcohol beverages, including beer. Kirin also does businesses in soft drinks, pharmaceuticals, supplemental foods, and nursery products as a result of past diversifications.

To Kirin, the reason for introducing the Balanced Scorecard was to remind employees of one of the major corporate codes of conduct, "Customer Standards and Quality Standards." Kirin Brewery enjoyed the dominant share of the Japanese beer market until 1987, but with the introduction that year of a competitor's new product, Kirin's share has declined continually. In 2001, Kirin lost the leading position it had held since 1954. At the time, the Kirin's president ordered the development of a system that would urge employees to return to the basics. The president was concerned that Kirin lost its number one ranking because it had lost consumer confidence. I will show how Kirin solved this issue by adapting the concepts of the Balanced Scorecard. Moreover, I will identify new approaches that Kirin Brewery should consider.

In Chapter 7, I discuss implication of the role of the Balanced Scorecard for Japanese organizations. I would like to think that "improvement of management" would be measured by how well the organization is aligned with its strategy and how much the probability of success for execution of strategy is increased. Such problems that many Japanese companies face to a more or less degree—absence of strategy and absence of execution—will be solved only by their continual efforts to improve their management system.

It is my hope that this thesis and the examples, including Kirin, will be useful to those who are considering the introduction of Balanced Scorecard, and for those who have less knowledge of the issues facing Japanese organizations.

1.3. Research and Analysis Method

I begin the thesis with an analysis of the literature on Balanced Scorecard. Factual data about the organizations were derived from interviews I conducted with people who are or were in charge of projects related to the Balanced Scorecard, as well as information that has been released publicly. Information about Kirin Brewery is drawn from my own experience and from internal documentation. I have been a member of the Kirin project team that was established to resolve management system issues through the use of the Balanced Scorecard.

CHAPTER 2

OVERVIEW OF THE BALANCED SCORECARD

2.1. Basic Concepts of the Balanced Scorecard

In this chapter, I provide an overview of the concepts of Balanced Scorecard. Since the Balanced Scorecard was first conceived by Kaplan and Norton in 1992, it has been implemented in thousands of corporations, organizations, and government agencies worldwide—including Japanese organizations—and its functions have evolved as the number of organizations applying this methodology has increased.

The Balanced Scorecard was developed out of a belief that traditional ways of thinking that relied primarily on financial accounting measures were becoming obsolete. As the developers explained, in order to realize sustainable growth and organizational success in the future, an organization should:

- Pursue its strategy in a balanced and coherent manner, with the vision placed above, and strategic objectives broken down into four perspectives;
- Promote communication within an organization vertically and horizontally while balancing various management and operational elements;
- Think logically about strategic hypotheses for success in terms of cause-effect relationships; and
- Build business processes by forecasting, then verifying them by quantification;

2.1.1. The Four-Perspective Model

The notion of the Balanced Scorecard was described as "a framework for multi-dimensional performance evaluation and performance management." This framework urges an organization to break down its strategy and vision into quantitative objectives in terms of cause-effect relationships that can be represented by the four-perspective model: financial, customer, internal business process, and learning and growth.

Figure 2-1 depicts the connection among vision, strategy, and the four perspectives, which characterize the Balanced Scorecard. Kaplan and Norton (2001) initially defined these as:

- ***Financial***: a strategy for growth, profitability, and risk viewed from the perspective of the shareholder
- ***Customer***: a strategy for creating value and differentiation from the perspective of the customer
- ***Internal business processes***: the strategic priorities for various business processes that create customer and shareholder satisfaction
- ***Learning and growth***: the priorities that create a climate that supports organizational change, innovation, and growth.

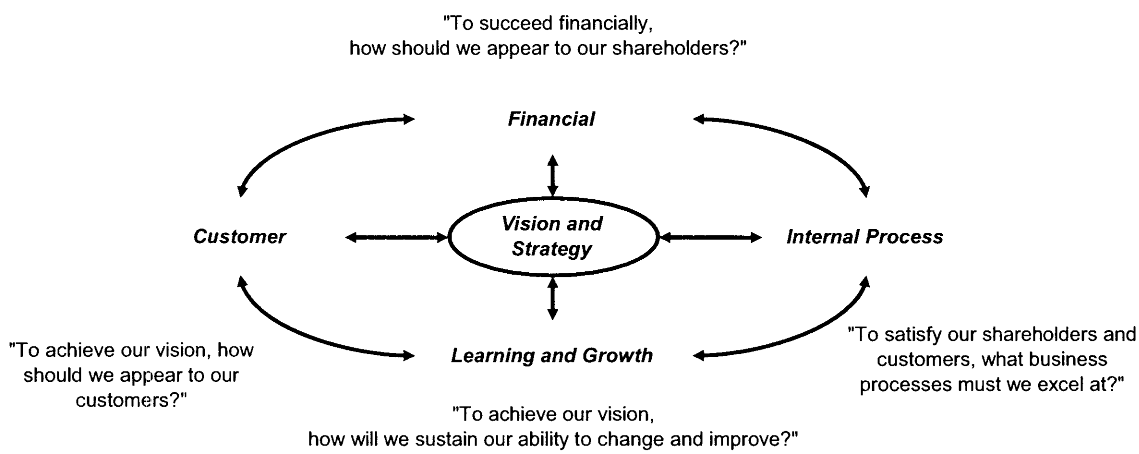

Figure 2-1 Basic Notion of the Balanced Scorecard

Source: Kaplan and Norton, 1996: 11

The four perspectives imply two meanings. To understand these is important for utilizing the Balanced Scorecard more effectively. First, they include timeframes, such as short-term, mid-term, and long-term, so the framework may extend from short-term initiatives to long-term initiatives. It is a fundamental notion of the four perspectives that not only pursuing financial performance in the short term but also undertaking and investing such initiatives will generate future growth. Appropriate investment in internal processes and support infrastructure will have varying effects on financial performance depending on the timeframe.

Second, the four perspectives represent discrete stakeholders, such as shareholders, customers, suppliers, partners, complementors, employees, and so on, depending on the organization's business(es). An organization can clarify its strategic objectives and initiatives for each stakeholder using the four perspectives.

By using these cross sections that have important multiple meanings, strategies can be put forward in a visualized form that make them easier for people to understand, which encourages communication with others. Involving people in the strategy also urges an organization to reflect the progress of the strategy itself from different perspectives. In this way, an organization becomes able to implement its strategy surely and steadily and to improve or modify its strategy to keep coherency with the prior vision and the subsequent initiatives.

2.1.2. Coherency & Balance, Cause-Effect Relationships & Quantification

There are two sets of elements that function in the Balanced Scorecard, (1) coherency and balance, and (2) cause-effect relationships and quantification.

"***Coherency***" in the Balanced Scorecard means no discontinuities in the management process. An organization is required to maintain its activities in a continuum that translates into actions by individuals, thereby realizing the strategy. "It is one step in a logical continuum that moves an organization from a high-level mission statement to the work performed by frontline and back-office employees." (Kaplan & Norton, 2001:72) In this regard, management should ensure that this translation is done effectively.

The term "***balance***" means the appropriate allocation of things that an organization has or will have. To realize its vision and strategy, an organization has to undertake many actions. In the Balanced Scorecard, "balance" and "coherency" are like two sides of the same coin. Without coherency, an organization could not balance. Figure 2-2 presents an example of a strategy that implements the coherency and balance of the Balanced Scorecard.

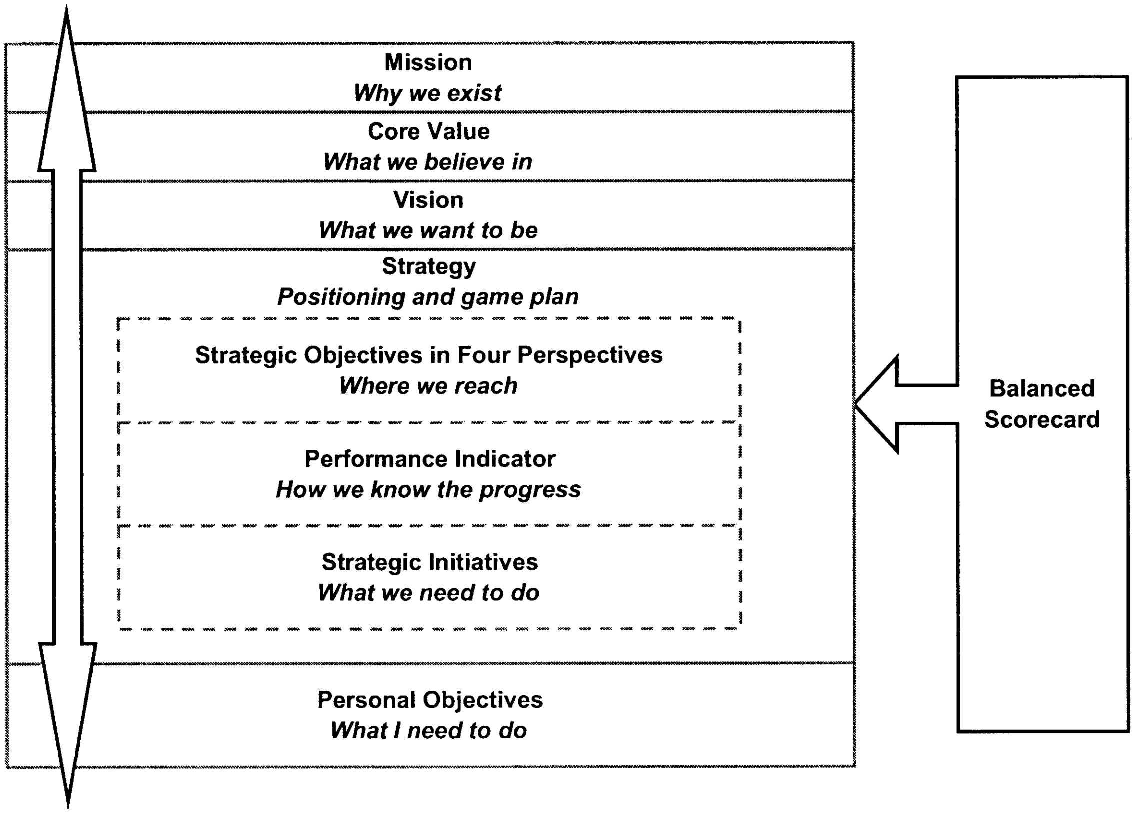

Figure 2-2 Translating a mission into personal objectives

Source: Kaplan and Norton, 2001: 73. Modified by author.

Balance also means appropriate allocation of strategic objectives throughout an organization. In the process of deploying a strategy, an organization should adjust strategic objectives horizontally and vertically. The Balanced Scorecard implies the need for larger organizations to balance among lower organizations (see Figure 2-3). For example, a large corporation generally deploys a strategy by business unit or an indirect division, and then the strategy cascades down to other organizational units. Vertically, the business unit has to adjust strategic objectives among lower units so it can attain the goal as one organization. Horizontally, organizations share common strategic objectives with each other.

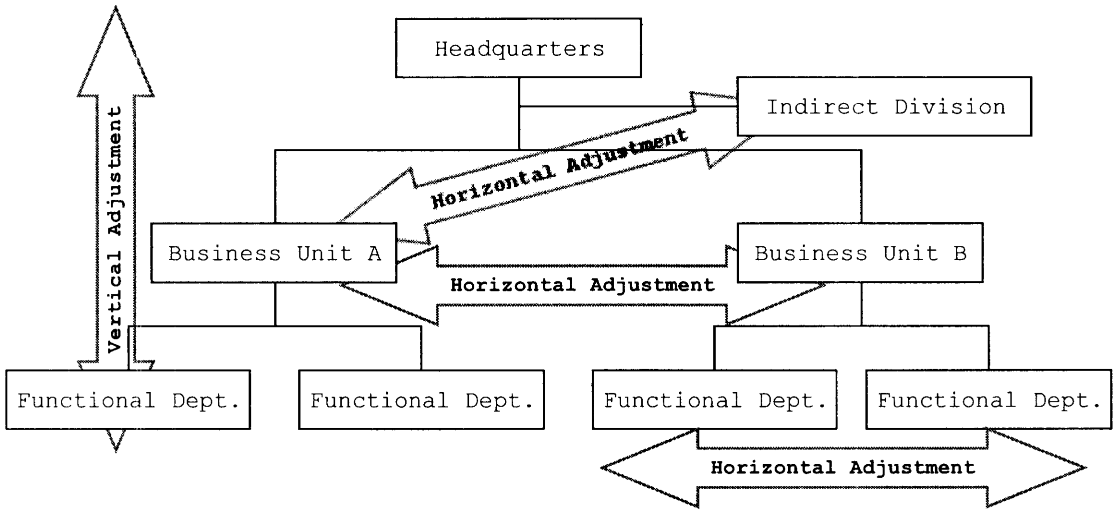

Figure 2-3 Balance across organizations

Source: Shibayama, et al., 2001: 48. Modified by author.

2.1.3. Cause-Effect Relationships and Quantification

An organization pursues each strategic objective in each perspective when implementing a strategy. In general, most Japanese companies understand that an organization is an entity whose purpose is to achieve high performance through disciplined control in changing conditions. Therefore, Japanese companies often interpret the cause-effect relationship of the Balanced Scorecard as a relationship between the means and the ends.

The four perspectives are understood as typical relationships between means and ends in organizational activities (see Figure 2-4), and is called a "vertical" cause-effect relationship. Many Japanese researchers believe a "horizontal" cause-effect relationship is found in relationships among strategic objectives, indicators, and initiatives. (Sakurai, 2003: 36) In reality, these are less likely to be proved by cause-effect relationships than those in the natural science field; nevertheless, organizations try to clarify cause-effect relationships by quantification so that coherency and balance, supported by a logical progression, will be the essence of management that motivates people to implementation.

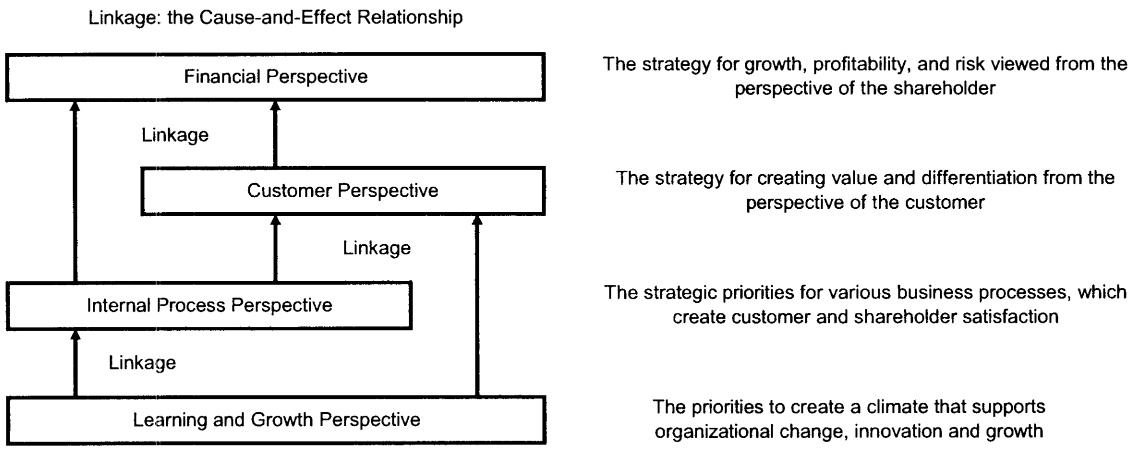

Figure 2-4 Cause-effect relationship in four perspectives

Source: Ito, 2002. Kaplan and Norton, 2001. Adapted by author.

Considering ***quantification***, a key component of the Balanced Scorecard philosophy is the maxim, "Measurement produces an action and a result." In order to measure, it is necessary to quantify. When things are measured and observed objectively, people correctly identify the situation and can then decide whether to modify activities.

The variety of indicators here includes both financial and non-financial indicators. The Balanced Scorecard urges an organization not only to quantify objectives but also to classify the weight of indicators systematically with common metrics. This process enables an organization to focus and prioritize among strategic objectives and initiatives. In the process of setting indicators, strategies come to be understood easily, correctly, and objectively when they are translated into specific quantitative indicators. Quantification enables the visualization of an organization's activities as well as the cause-effect relationships among them. In other words, the strategic intent of an organization is made visible in order to verify coherency and balance within an organization.

2.1.4. Strategy Map and Scorecard

The concept of the Balanced Scorecard is visualized in two templates—a "strategy map" and a "scorecard."

The strategy map depicts the organization's story for value creating: the kinds of values we should provide our customers in order to realize our financial goals; what and how we should change or improve our internal business processes and enhance our capability to support the business processes. To tell the organization's value-creating story, the four-perspective model provides a language that people can use to discuss the direction and priorities of the organization (Kaplan & Norton, 2004:9). This story is described on a strategy map in the form of "strategic objectives" and "linkages," as Figure 2-5 illustrates. As the name indicates, an organization maps its strategy on the template literally. Linkages explain cause-effect relationships among strategic objectives. A set of strategic objectives connected by lines or arrows are depicted as streams. The strategy map facilitates discussions among people in organizational management process, in the process of not only creating a general representation of these interrelationships but also reflecting the adequacy of this organizational story.

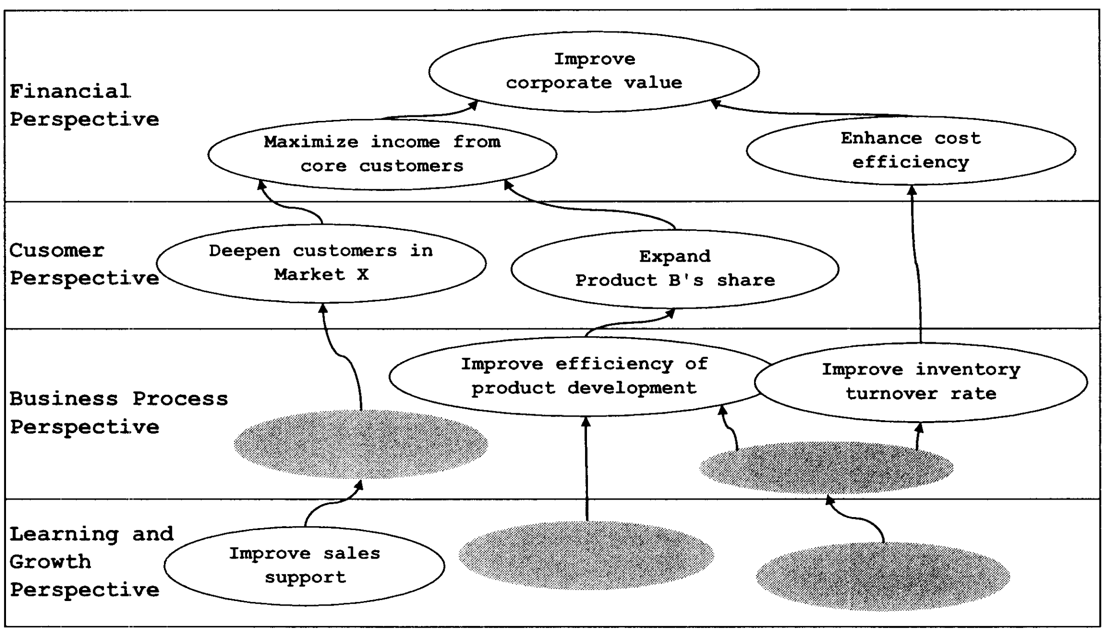

Figure 2-5 Image of Strategy Map

Source: Kaplan and Norton, 2004: 21. Modified by author.

According to Kaplan & Norton, the strategy map should be developed based on the following five principles. In addition, the strategy map can be used as a normative checklist for the strategy's components and interrelationships. If a strategy is missing an element on the strategy map template (see Figure 2-6), the strategy is likely flawed. For example, an organization frequently has no connection between internal process measures and a customer value proposition, no objectives for innovation, and vague objectives for employee skills and motivation and for the role of information technology. (Kaplan and Norton, 2004)

- *Strategy balances contradictory forces.* Investing in intangible assets for long-term revenue growth usually conflicts with cutting costs for short-term financial performance. Therefore, the starting point in describing the strategy is to balance and articulate the short-term financial objective for cost reduction and productivity improvements with the long-term objective for profitable revenue growth.

- *Strategy is based on a differentiated customer value propositions.* Strategy requires a clear articulation of targeted customer segments and the strategic positioning required to please them. According to the Delta Model, they are (1) best products, (2) total customer solution, and (3) system lock-in. Each of these clearly defines the attributes that must be created as adaptive processes.

- *Value is created through internal business processes.* The financial and customer perspectives describe outcomes, that is, what the organization wants to achieve: increases in shareholder value through revenue growth and productivity improvements; increases in the company's share of customers' spending through customer acquisition, satisfaction, retention, loyalty, and growth. Processes in the internal and learning and growth perspectives drive the strategy; they describe how the organization will implement its strategy. An organization must focus on the critical few internal processes that deliver the differentiating strategic positioning and that are most critical for enhancing productivity and maintaining the organizational franchise to operate.

- *Strategy consists of simultaneous, complementary themes.* Each cluster of internal processes delivers benefits at different points in time. Improvements in operational processes generally deliver short-term results through cost savings and quality enhancements. Benefits from an enhanced customer relationship start to phase in after initial improvements in customer management processes. Innovations generally take even longer to produce higher customer revenues and operating margins, and the benefits from enhanced regulatory and social processes can occur further in the future.

- *Strategic alignment determines the value of intangible assets.* The fourth perspective—learning and growth—describes the organization's intangible assets and their role in the strategy. When all three components in the learning and growth perspective (human, information, and organization capital) are aligned with the strategy, it has the ability to mobilize and sustain the process of change required to execute its strategy.

The strategy map describes how intangible assets drive performance enhancements to the organization's internal processes that have the maximum leverage for delivering value to customers, shareholders, and communities.

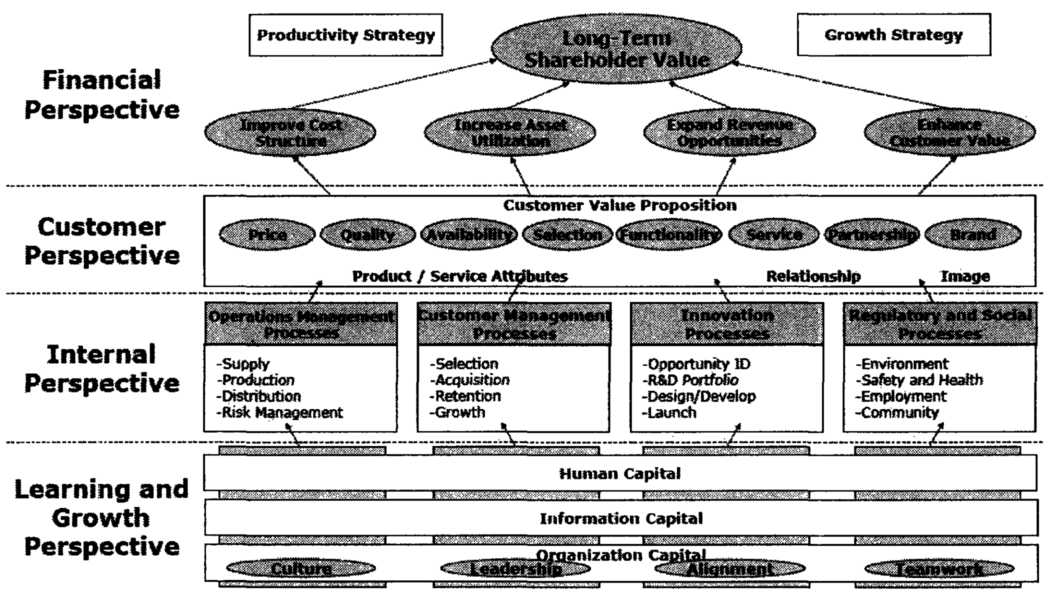

Figure 2-6 Strategy Map Template

Source: Kaplan and Norton, 2004: 11.

Strategic objectives related to each other in the strategy map have to have concrete measurements and goals. In the Balanced Scorecard, "indicators" means a ruler to measure the progress of strategic objectives. "Targets" mean concrete goals for each indicator. A Scorecard is composed of "strategic objectives," "indicators," and "targets" that describe the relationships among them, as Figure 2-7 illustrates. From a multi-dimensional perspective, choosing key indicators for strategic objectives and setting targets at the appropriate level lead an organization to desirable actions for successful execution of the strategy. An objective without a concrete goal and a measurement would never be achieved. Without them, outlines of strategic objectives would remain vague (even though it is named "strategic"), so people could not understand what and how much they should do. Developing a Scorecard requires an organization not only to set concrete goals and measurements but also to balance them in the four-perspective model. Providing the missing link between formulating strategy and executing strategy is one of important roles of the Balanced Scorecard: in addition to providing people with concrete images of what and how they should do concerning strategic objectives, an organization can manage the progress of strategy and evaluate performance.

Perspective	Strategic Objective	Indicator	Target	Actual Value	Achievement Rate
Financial	Improve corporate value	ROE	XX%	…	…
	Maximize income	Sales	¥ XX	…	…
Customer	…	…	…	…	…
	Deepen customers in market X	# of new customer	…	…	…
Business Process	…	…	…	…	…
	Improve inventory turnover	turnover	…	…	…
	…	…	…	…	…
	…	…	…	…	…
Learning & Growth	Improve sale support	operating rate	OO%	…	…
	…	…	…	…	…
	…	…	…	…	…

Figure 2-7 Image of Scorecard

Source: Developed by author.

While the strategy map enables an organization to describe the strategy in a proper manner so it can develop a well-balanced strategy, such a strategy may have a tendency to be too comprehensive and too vague about what people should do. On the other hand, while the existing management tool enables an organization to set concrete objectives, it may be that it is too narrow to fully describe the overall picture. By combining these two systems organically, an organization can complete an integrated strategic management system.

If an organization's strategy is described well on both the strategy map and the scorecard, and the progress of the strategy is appropriately reflected in performance evaluations and a satisfactory reward system, these factors are strong forces for encouraging an organization to implement its strategy. This is the basic mechanism of the Balanced Scorecard.

2.2. Evolution of the Balanced Scorecard

The components of the Balanced Scorecard have expanded as the number of actual applications in organizations has increased. It is no longer limited to performance measurement, as its developers originally intended. Rather, it has now become the backbone of the management system by taking root in organizations. The progress of evolution has moved across three generations (see Figure 2-8). I will overview each generation below.

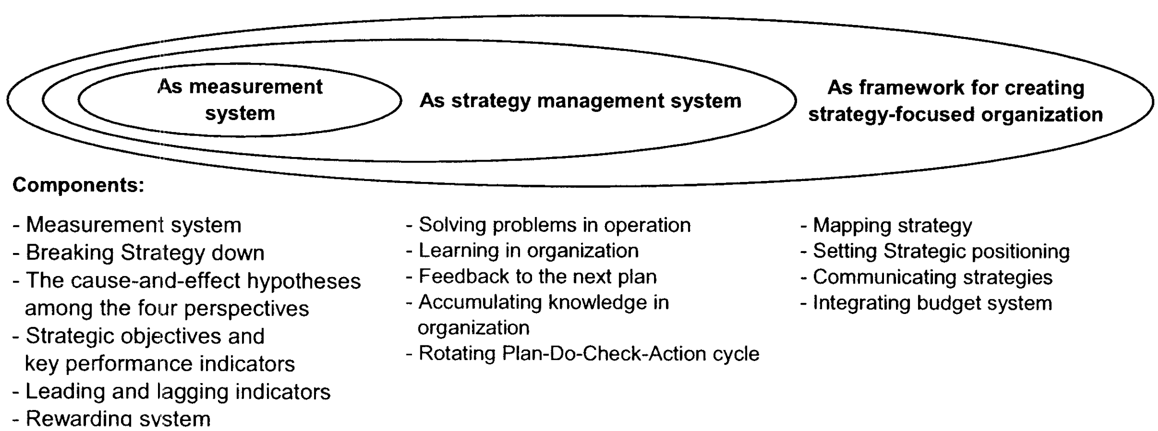

Figure 2-8 Evolution of the role of Balanced Scorecard

Source: Shibayama, et al., 2001: 41. Modified by author.

2.2.1. The First Generation

In the first generation, the Balanced Scorecard was a new "measurement system." It formed part of the performance measurement system in multiple perspectives, that is, not just the financial perspective but also non-financial perspectives. If an organization regarded its performance only from a financial perspective, most likely the organization did not produce better financial results in the future. Other perspectives were needed, including time concepts of short, middle, and long term. In addition, the measures selected by the organization showed employees what was most important to the organization. Those organizations that paid attention to non-financial performance in their activities saw the positive effects on their future financial performance, as shown in Figure 2-9.

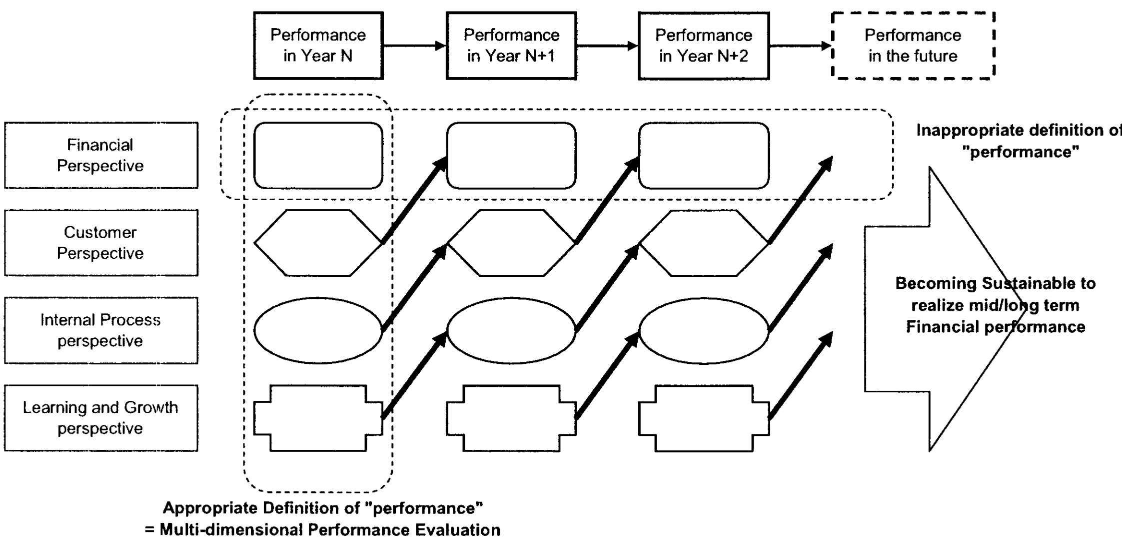

Figure 2-9 Changing the definition of "performance"

Source: Shibayama, et al., 2001: 10 . Modified by author.

2.2.2. The Second Generation

In the second generation, the Balanced Scorecard began to be utilized as a strategy management system that enabled an organization to implement its strategy by setting indicators to determine organizational performance, monitoring them, and connecting their progress to performance evaluation. While the initial concept of the Balanced Scorecard focused on which indicators were appropriate in terms of performance measurements going forward, another concept determined which objectives should be used to implement strategy. (Shibayama, et al., 2001) Moreover, it focused more on the process as a framework for action, as illustrated in Figure 2-10.

From the point of view of the Balanced Scorecard, this role was a step forward. However, for those in organizations who develop a strategy and let people implement it, it also meant being urged to go back to the previous process as part of developing the strategy.

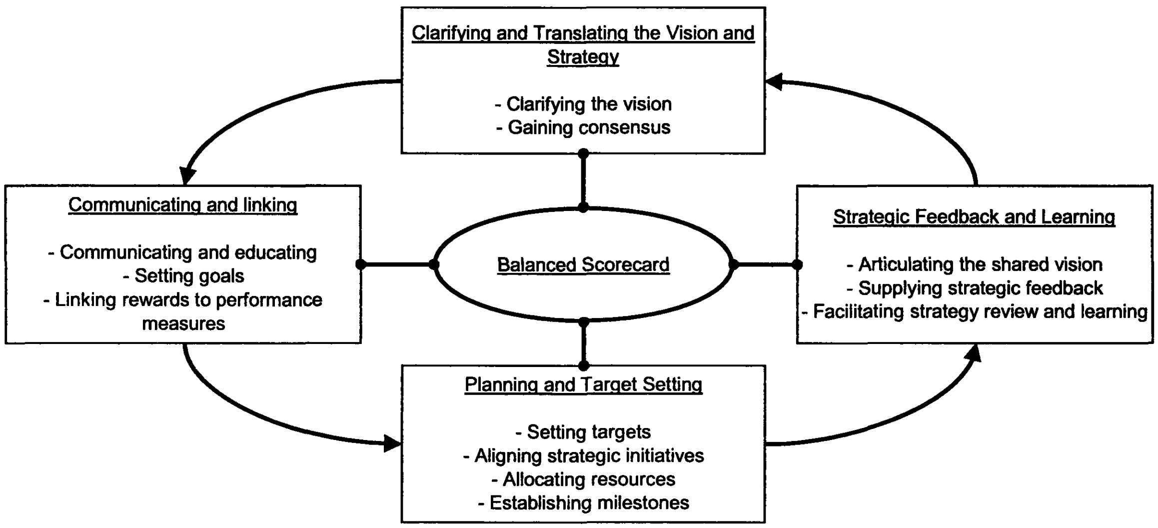

Figure 2-10 Strategic Framework for Action

Source: Kaplan and Norton (1996): 77. Modified by author.

2.2.3. The Third Generation

In the third generation, the role of the Balanced Scorecard has evolved beyond the bounds of a strategy management methodology. Behind this evolution is the notion that an organization needed to align individual activities with the strategy by having everyone adopt the strategy in order to improve organizational performance; furthermore, even in the process of developing the strategy, everyone needs to be involved.

Advocates propose an organization that acted according to the five principles shown in Figure 2-11, so it would be strategy-focused while using the Balanced Scorecard. In this concept, the Strategy Map is one of the tools for changing the organization by improving the quality of communication. As the figure shows, the notion of the Balanced Scorecard tries to cover a wide area of the entire management system.

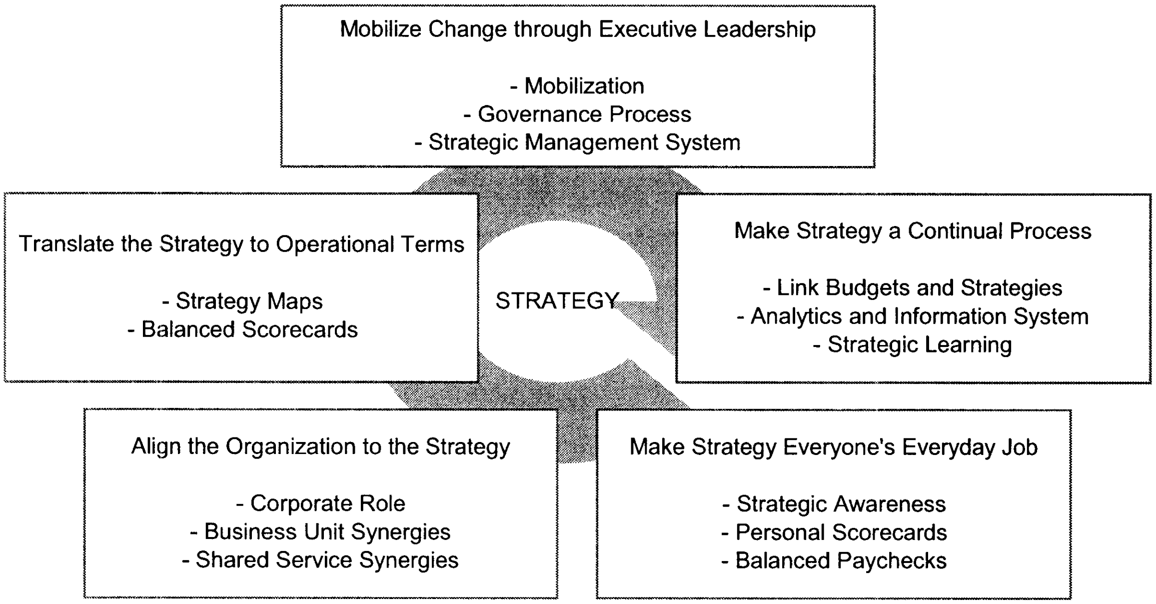

Figure 2-11 The Principles of a Strategy-focused Organization

Source:Kaplan and Norton, 2004: 9

2.3. Conclusion

In this chapter, I discussed the core concept and the premises of the Balanced Scorecard and the expansion of its functions as many organizations began to use it. In terms of desirable activities for an organization, the Balanced Scorecard urges an organization to describe a strategy and measure it in order to manage it. In other words, successful execution of a strategy requires the principles expressed by sentences such as, "You cannot manage what you cannot measure," and "You cannot measure what you cannot describe" (Kaplan & Norton, 2004: Preface 13).

The functions of the Balanced Scorecard are symbolized by its templates—a strategy map and a scorecard—templates for execution of these principles. They are concrete tools to "make things visible." These tools urge implicit knowledge that people in an organization—including top management—can change to explicit knowledge. Furthermore, these tools give the organization a platform that enables it to involve more people in strategy management. Although these tools may vary depending on the organization, those organizations that have solved issues of management successfully by applying the Balanced Scorecard surely have incorporated the notion into their organization. Communication concerning strategy activated by the strategy map and the scorecard as catalyst—even if they are half-built or uncompleted—will be an important tool for successful execution of the strategy.

From my observation, many people firstly feel the strategy map and scorecard are too simplistic to express strategies that are considered highly complex. Although these templates look simple at first glance, when a strategy is described well., most people find that their strategy can be seen along some form of a three-dimensional axis, such as variations of strategic hypotheses, balance in the four-perspective model, and the concreteness of strategic objectives. The scorecard and strategy map are not the only tools of the Balanced Scorecard. Inevitably, an organization must create a place and time for dialogue with people who are involved in managing strategy.

In the next chapter, l will discuss how Japanese organizations have generally accepted the notion of the Balanced Scorecard, and discuss the mentality of Japanese organizations.

CHAPTER 3

APPLICATION OF THE BALANCED SCORECARD BY JAPANESE ORGANIZATIONS

3.1. Initial Mentality of Japanese Organizations

As stated in the previous chapter, the evolution of the Balanced Scorecard went through three generations. In Japan, we can observe the application of the Balanced Scorecard probably began during the second generation. (Shibayama, et al., 2001) When the Balanced Scorecard was initially introduced to Japan, most organizations were aware of problems regarding performance measurement. However, Japanese companies regarded the problem as nothing new because historically the processes for operating a business and enhancing human resources were most important; they believed their performance measurements were already multi-dimensional and none were limited only to the financial perspective. However, as many studies have pointed out, it is less clear how explicitly they ran performance measurements in the non-financial perspectives.

The reality of performance measurement systems in Japanese organizations can be characterized as follows (Kagono, et al., 1983):

- Performance measurement was, in general, not specific but comprehensive. In this regard, non-financial perspectives may have come in sight. On the other hand, nothing may have been uncovered.
- Regarding financial indicators, absolute numbers such as those for sales and operating earning, were preferred. Growth-oriented indicators were common, and few companies had generally accepted standards of effectiveness and efficiency, such as ROI.
- Few companies associated performance measurement with individual reward evaluations. Among those that related performance measures to a reward

system, most evaluation systems were based on team or section efforts rather than individual efforts.

Japanese measurement systems were comprehensive. They had multi-dimensional perspectives but it was less important whether the indicators were measurable in reality, so most were vague and not connected with the reward system. It was not until the mid-1990s after the economic bubble collapsed that questions were raised among Japanese companies about what should be included in performance measurement.

Japanese companies also confronted differences between themselves and foreign companies when measuring profitability, including (Sakurai, 2003):

- The prolonged economic recession in Japan required more efficient management for Japanese companies as the premise not for positive growth but negative growth. Globalization increased the number of foreign investors, which forced Japanese companies to comply with the investors' sense of value in management, such as a greater emphasis on shareholders. As a result, Japanese companies began to focus on improving corporate value.
- By changing the overall sense of value in Japanese society, the performance evaluation system became strongly associated with individual rewards. Interest in performance-based compensation increased.

3.2. The *Houshin* Management System

A discussion of the background of Japanese organizations and the role of the Balanced Scorecard to improve the quality of strategy must also include the Japanese traditional management system, known as the *houshin* ("policy") management system. This system is derived from the concept of a Quality Control System (QCS).

It is no exaggeration to say that the *houshin* management system has been adopted by virtually all Japanese companies, including manufacturers, and it forms the backbone of the entire system of management. Even if not adopted explicitly, it is embedded in some way in the organization.[1]

The *houshin* management system is defined as follows: a system for managing organizational processes in order to pursue the company's goals (sustained by continually improving organizational performance) by optimizing resources in terms of quality, quantity, cost, and timing. It is based on unified objectives and plans developed for the long term (3-10 years), middle term (3-5 years), and annual, under the organization's policies and strategies (Akao, 1989).

Houshin includes *mokuhyou* and *housaku. Mokuhyou* (objectives) means output expected in the future, and *housaku* means initiatives or activities for achieving *mokuhyou. Tenkai-suru* means developing *houshin*s into *mokuhyou*s and *housaku*s horizontally, or breaking *houshin*s down to lower organizational units vertically based on the organizational structure.

One characteristic of the *houshin* management system is rotation of the Plan-Do-Check-Act cycle (PDCA cycle) (see Figure 3-1). That includes identifying problems and causes, then developing feasible *mokuhyou*s and *houshin*s (the Plan stage), deploying *houshin*s and implementing *housaku*s to achieve goals and targets (Do), applying the principles of process management to the process of implementing the *housaku*s (Check), and reflecting on the end results (Act). Eventually the cycle takes root in Japanese management as a way of thinking and behavior.

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[1] Ogura, 2004: 30. According to Ogura's survey of 164 firms on the Tokyo Stock Exchange, 93% (152 firms) utilize the *houshin* management system. The percentage of firms using other management systems, such as Management by Objectives (MBO) and Budget System are 93% (152 firms) and 76% (125 firms), respectively. Ogura's survey suggested that many Japanese firms use these three systems in terms of their management related to strategy.

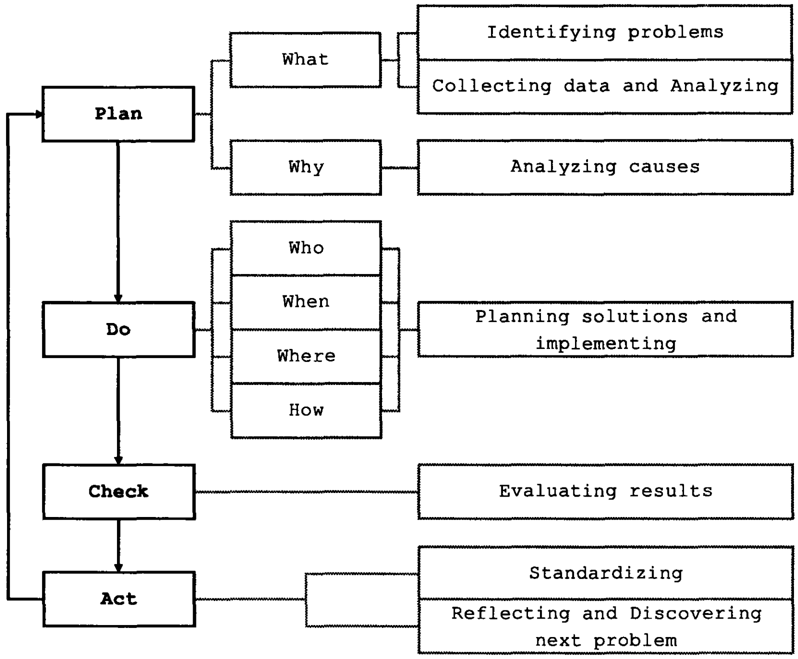


Figure 3-1 The PDCA Cycle

Source: Kaplan, 1993. Modified by author

The *houshin* management system is an original Japanese management methodology styled along the lines of "Management By Objectives (MBO)." However, in the 1990s, it was hoped this system would add the strategic point of view because Japanese organizations found the system limited in several ways. (Sakurai, 2003)

First, the *houshin* management system gives priority to quality—not surprising given that this system was developed as part of Total Quality Control. The main purpose of the *houshin* management system was to control the processes for improving the quality of products and services. Therefore, this system paid less attention to stakeholders. The range of thinking is limited to internal processes and partner organizations; the customer perspective that is a key component of the Balanced Scorecard is less tangible.

Second, although the *houshin* management system recommends that objectives be measured quantitatively and qualitatively, they are not systematized, because each target is set by each objective. It would place activities for improving processes into divisions or business units, which means people would have very little relationship with each other.

Third, the *houshin* management system associates organizational strategies with lower objectives and actual activities based on the PDCA cycle. However, they are still within the vision and strategy because quality improvement and cost reduction are basic premises. It does not provide the system that manages the vision and strategy themselves. Many Japanese organization believed that customers were pleased to be provided with better products and services at cheaper prices, and that was the premise of their strategy. This resulted from their strategic objectives such as "low cost" or "best product." As strategic positioning, few were sensitive to "total customer solution" or "system lock-in."

When comparing the *houshin* management system to the Balanced Scorecard, the functions differ as follows (see Table 3-1):

- The Balanced Scorecard focuses on creating corporate value with improving financial performance;
- The Balanced Scorecard includes the notion of the four-perspective model: shareholders, customers, suppliers, employees, and so on;
- The Balanced Scorecard measures objectives systematically by classifying the weight of each target value; and
- The Balanced Scorecard provides a way of thinking, such as "learning within a double loop," which urges consideration of the means by which an organization developed its strategies.

Table 3-1 Difference between the *houshin* management and the Balanced Scorecard

	Houshin management	Balanced Scorecard
Primary Objective	Quality improvement	Corporate value creation
Stakeholders' Perspective	None	Many kinds of stakeholders
Way of deploying strategy	*Houshin* deployment	Strategy map
Relationship between process and result	Ends and means	Cause-effect relationship
Primary management cycle	PDCA	Double loop

Source: Sakurai, 2003: 290. Modified by author.

3.3. Acceptance of the Balanced Scorecard

While Japanese companies generally disregarded the previous management premise, they began to look for new concepts of measurement and evaluation, not only in the financial perspective but also as a whole. On the other hand, before Japan fell into the recession of the 1990s, some companies had begun to adopt the Balanced Scorecard concept, recognizing the possibilities it held for new views of their existing management system. They were aware of the limitations of their existing management system, and were seeking ways to compete with emerging powers by recognizing the need to develop and implement a new strategy for the future. Knowing that the Balanced Scorecard included the four perspectives, they asked themselves whether they truly had measurable indicators across the multidimensional perspectives. They began to agree that they should implement it, and not just talk about it.

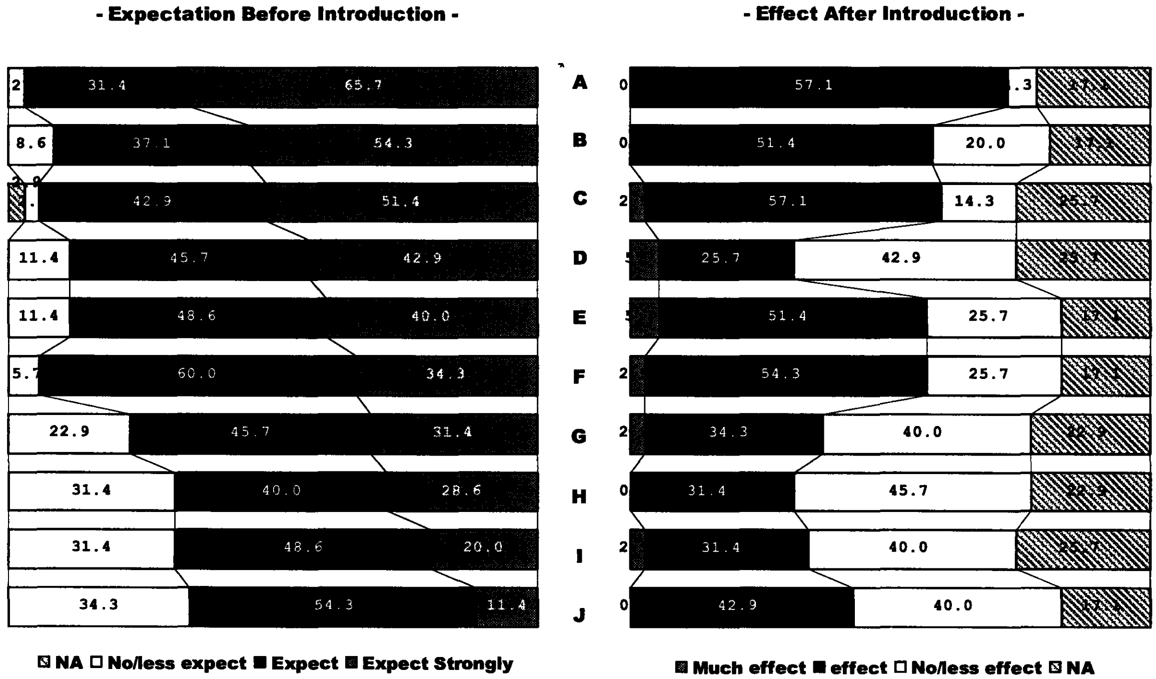
The Balanced Scorecard might have worked in Japan after management reflected on past methods and bases of thinking and behavior. As the Balanced Scorecard became more widely known, awareness accelerated, and many Japanese organizations found they had not set appropriate indicators or that they did not describe their strategy clearly enough when they thought about the causes of their troubled situation. Taking advantage of the maturity of the Strategy Map method as an established format, Japanese organizations began to pay attention to its effectiveness for ensuring against omissions and discontinuity in the strategy itself and in the processes of developing and implementing it.

Utilizing the Balanced Scorecard as a practical matter, they found there was no strategy—or at least no strategy sufficiently concrete to measure or articulate (Shibayama et al., 2001). Organizations had to rethink their plans, beginning with not only appropriate indicators but also the strategy itself: what was/is/should be our strategy? As these experiences among leading organizations became public knowledge, other Japanese companies became convinced that the Balanced Scorecard was a tool not only for implementing strategies but also for improving the quality of organizational strategy. In addition, implementing that strategy would require a high-quality strategy as well.

3.4. Expectations of the Balanced Scorecard

Figure 3-2 illustrates the results of a survey conducted by Nomura Research Institute, which shows that the percentage of companies that expected the Balanced Scorecard to play a role in improving financial performance (which is its ultimate purpose) was relatively low. Rather, there were higher expectations for intermediate outcomes prior to achieving successful financial performance, such as (1) improving the quality of strategy, (2) enabling the strategy to penetrate throughout the organization, (3) improving the ability to implement the strategy, (4) establishing the PDCA cycle, (5) enhancing employee motivation, and (6) improving managers' ability to plan strategy.

Clearly, this result suggested the Balanced Scorecard is expected to improve the quality of an organization's strategy and the capabilities of the managers who develop and implement that strategy. The Balanced Scorecard itself is not necessarily a "strategy-planning" tool, as the developers stated. However, in Japan, as the survey strongly suggests, many companies view the Balanced Scorecard as system for "improving their strategy". They must believe that organizing their strategic elements using this framework could enable them to enhance the quality of the company's strategy. Conversely, the survey results also suggest that companies may lose confidence in their previous strategies and their leaders, especially if they experience a prolonged recession.



Key:

A. Improving quality of strategy
B. Penetrating strategy throughout an organization
C. Improving capabilities of implementation of strategy
D. Establishing the PDCA cycle
E. Enhancing employees' motivation
F. Improving managers' capabilities of planning strategy
G. Cultivating consensus toward rewarding system
H. Measuring performance of indirect divisions objectively
I. Improving financial performance
J. Facilitating communication among individual divisions

Note: Items in descending order of "expect strongly"

Figure 3-2 What do Japanese organizations expect the Balanced Scorecard?

Source: Morisawa, et al., 2005. Adapted by author.

3.5. Conclusion

In this chapter, I provided the reactions of Japanese organizations to the Balanced Scorecard, discussing the characteristics of traditional Japanese management system on which Japanese organizations are based. I also discussed the *houshin* management system, which is likely to invite too much sub-optimization and a too-tactical perspective. As a result, a discontinuity among initiatives in the process of deploying and implementing strategy is likely to occur, which will mean losing sight of the primary purpose.

In the era following World War II, Japanese companies believed they could establish a competitive advantage only if they achieved product quality improvement and cost reduction. While these two forms of competitiveness are still effective as a part of strategic positioning, they are not sufficient to ensure future growth for most Japanese companies. This sense of strategy is ending as companies face the necessity of thinking about their strategy from the customers' and complementors' points of view. (Ogura, 2005)

When a new strategy is required, often a new way of management is also required. Japanese organizations have found that applying the notion of the Balanced Scorecard can be effective for uncovering weaknesses in the existing management system.

The Balanced Scorecard has both similarities and differences with the traditional Japanese management system, which may attract Japanese organizations. Such a feeling of affinity may be the driving force behind Japanese organizations that already have tried to use the Balanced Scorecard. I believe adding a broader scope to the basic perceptions of the Balanced Scorecard as held by Japanese organizations would effectively enhance the existing management systems in Japanese companies.

CHAPTER 4

CASE STUDY: RICOH

4.1. Introduction

Ricoh, founded in 1936, is a Japanese manufacturer of imaging devices and related products and services such as copy machines, printers, and scanners—all of which stress value creation. In FY 2004, Ricoh achieved net sales of approximately ¥1,814 billion (see Figure 4-1), the firm's eleventh consecutive year of sales growth. Ricoh does business worldwide, including research and development, manufacturing, distribution, and sales (see Figure 4-2). Ricoh has approximately 70,000 employees and 300 subsidiaries worldwide.

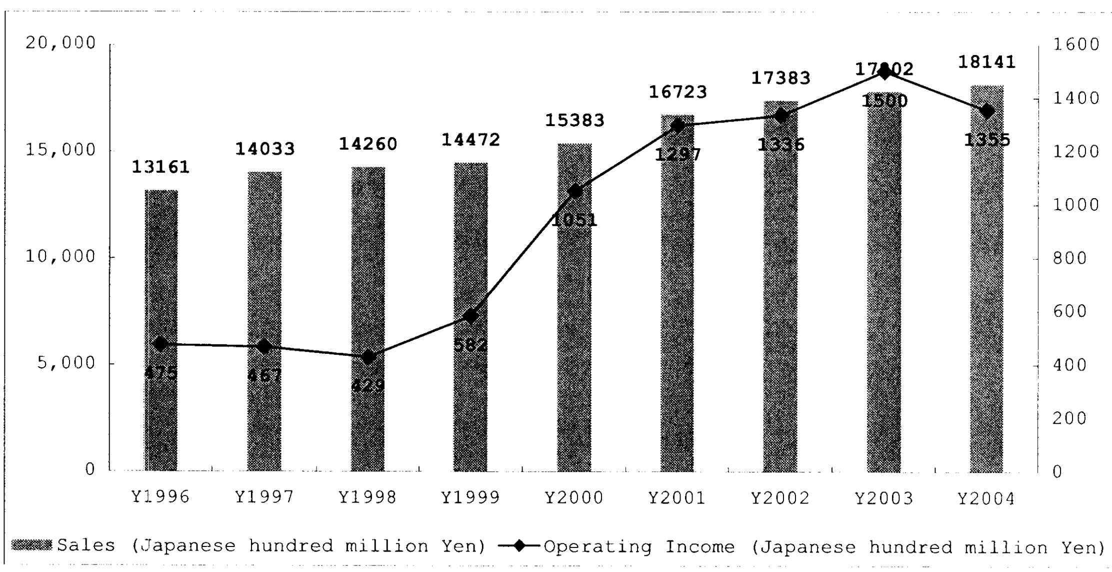


Figure 4-1 Ricoh's financial performance since 1996

Source: created by author from Ricoh 2005 Annual Report

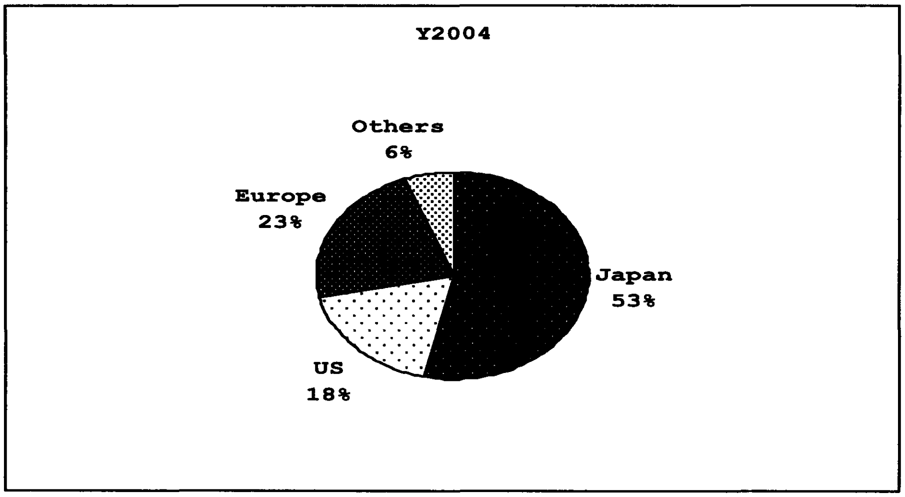


Figure 4-2 Sales by geographic segment, 2004

Source: created by author from Ricoh 2005 Annual Report

In this study of Ricoh, I will describe how Ricoh reinforced the existing management system by using the concepts of the Balanced Scorecard. As noted earlier, many Japanese organizations already have a basic management system based on the so-called *houshin* management system, and Ricoh is no exception. It is also true that they realize their current system is both insufficient and limited in strategy formulation and implementation. Ricoh tried to eliminate these problems by integrating the existing management system with the Balanced Scorecard. The Ricoh example illustrates the importance of keeping the firm's strategies current and executing them quickly.

4.2. Background

4.2.1. A New Strategy for Ricoh

In 1999, Ricoh established a new corporate vision: "Being No.1 in the 21st century." This vision was part of its 13th mid-term plan, which began in 1999 with a long-term goal of increasing corporate value. In order to accomplish this vision, top management developed basic policies, such as (1) innovating the management structure to increase corporate value,

(2) reforming the profit structure by creating new businesses that will be the core in the future, and (3) enhancing cash flow management and the cost structure.

In order to crystallize the first basic policy, Ricoh began to examine how to improve the existing management system, and the decision was made to apply the Balanced Scorecard. Figure 4-3 shows the relationship between the vision, the basic policies, and the role of the Balanced Scorecard.

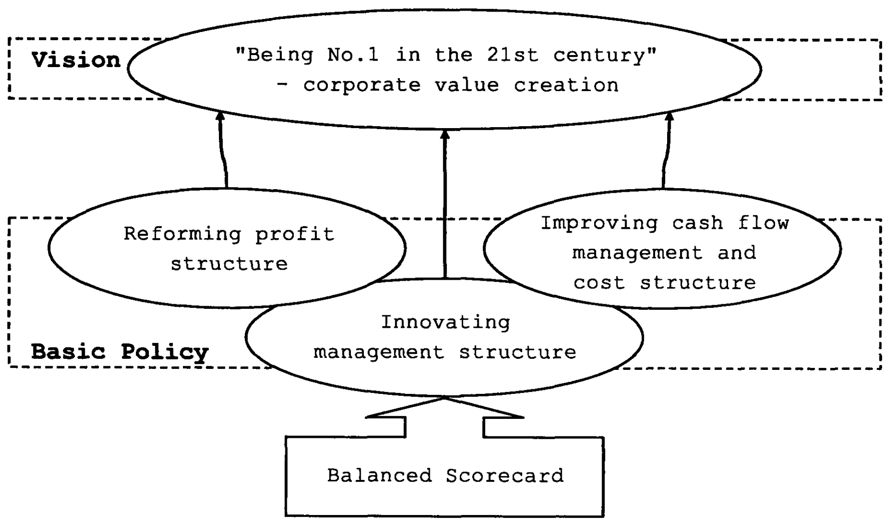


Figure 4-3 Ricoh's vision and basic policies

Source: Ricoh documentation, 2004. Modified by author.

4.2.2. Management Problems

The reason that top management set the policy "Innovating management structure" as one of the basic policies was that the firm felt sense of crisis. Although the existing business had grown steadily, top management realized that the current strong financial performance had occurred as a result of favorable environmental conditions in Ricoh's existing market. Top management was concerned that there might have been a general complacency about earnings and past strategic successes within the organization. Such a mentality may have contributed to lax discipline, for example, ambiguous targets and weak commitment from both top management and managers. As a result of examining the existing management system, problems such as those described in Table 4-1 were highlighted.

Table 4-1 Potential problems with Ricoh management

Category	Summary
Management & Execution	Time needed to execute, including decision making, is too slow to adapt to market change or to build new businesses.
Group management	Little attention is paid to managing, and Ricoh encourages each business unit and subsidiary to be independent. Ricoh does not pursue synergy at the corporate level.
Rule and Responsibility	Rules, authority, and borders of responsibility are vaguely defined, even in existing businesses.
Performance Measurement	Ricoh cannot pursue accountability because its performance measurement is vague in terms of strategy evaluation. Transparency is not sufficiently preserved in management rules.
Personnel system	Motivation to achieve goals is weak because there is little connection between the reward system and performance evaluations.

Source: Ricoh internal documentation, 2005. Modified by author.

Ricoh realized that it would need considerable effort to achieve the policies set forth above because it meant entry into new business areas and expanding Ricoh's existing business domain. Now that problems with management system were revealed, Ricoh acknowledged the need to improve its entire management system. These problems might not have become apparent as long as Ricoh competed in a market that it understood well. However, when the time came to consider a new strategy for expansion, top management believed it would have to be completely improved, knowing they could not lose their sharpness or sensitivity to customers if they wanted to be winners in the 21st century.

The problems identified above cover the entire management system. Thus, Ricoh's initiatives for reforming its management structure were composed of four parts: (1) reforming the board of directors, (2) reforming its organizational structure, rules and authority, (3) reforming the structure of its subsidiaries, and (4) reforming some important systems (e.g. personnel and budget) which support these reforms.

Most important, Ricoh found it would be critical to revise its strategy management system for developing and executing its strategy in an appropriate manner as the backbone of all of these reformations. Mr. Sakurai, CEO of Ricoh, commented:

> *Since I took over the presidency, what gave me a headache was that we could hardly reach our targets even though we developed our business plans properly every year. As we reflected on implementation the previous year, we developed the next year's plan. The problem was that the new plan was always about the same as the previous ones. This meant we could not accomplish what we wanted to do and had to do even though it was clear to us. As a result, our strategy could not be deployed in a proper manner for implementation. We may have lacked strong intention to do so. Doubtless, we did not have such strategy management system that would ensure implementation of the strategy. (Nikkei BP, 2005)*

A manager in the Corporate Planning Department who joined the project commented:

> *Of course, we had carefully monitored financial performances such as sales, profit, and so on. However, we might have paid less attention to the progress of our strategy that created and improved customer satisfaction and corporate value. This was partly because we may have gotten the idea that we already knew our business well. We could say our management system did not have the strategic point of view.*

To improve the existing system, Ricoh undertook the following issues: (1) confirming how to deploy the new strategy, including definitions of terminology, (2) improving the process of consensus-building by setting objectives and targets for achieving the strategy in the PDCA cycle; and (3) combining the utility of the new strategy management system with performance evaluations.

Based on the need for these steps, Ricoh decided the Balanced Scorecard offered the best solution because it could provide the missing link between strategy formulation and strategy execution in the existing strategy management system. Ricoh calls this new system "Strategic Management by Objectives (SMO)."

4.2.3. Connection Between Developing Strategy and Implementing Strategy

Figure 4-4 shows the entire structure for deploying the new strategy and the connections to other relevant systems, such as budget system and reward system. As the figure indicates, SMO is still designed mainly from the basis of the existing management system, but it is reinforced by the idea of the Balanced Scorecard.

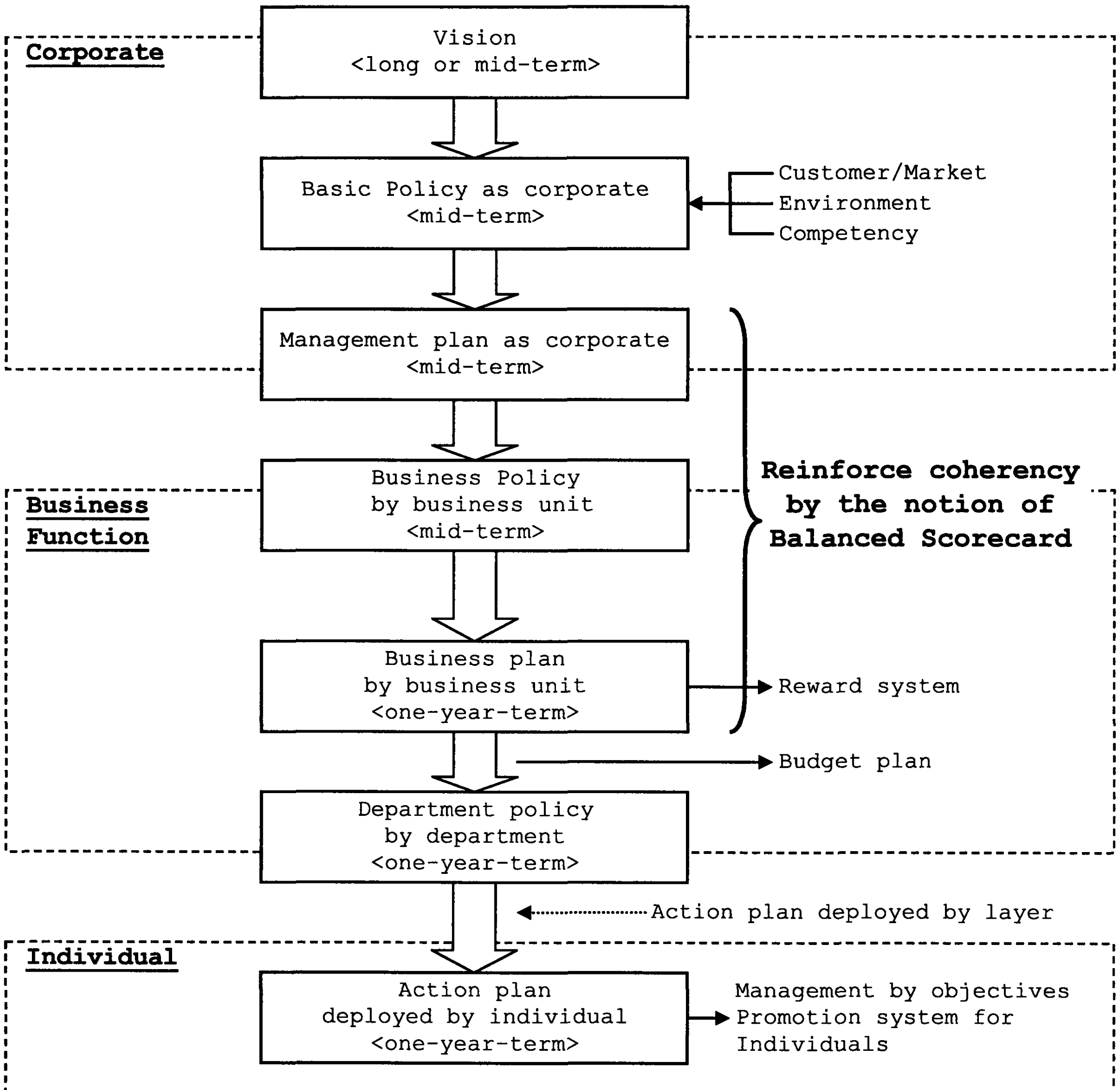


Figure 4-4 Ricoh's strategy cascade in SMO

Source: Sakurai, 2003: 59. Modified by author.

Before that, Ricoh's way to cascade down the vision and strategy had two discontinuities. One existed between the corporate strategy and the strategy at the business unit level. Ricoh's strategic intention as a corporation was not sufficiently deployed to the business units. The other lay between the mid-term plan, i.e., the business strategy, and one-year-plan, i.e., action plans for implementation. As the president commented, business strategies were not necessarily deployed for implementation in an appropriate manner.

The management plan as a corporation includes customers' value based on customer segmentation, which Ricoh wants to obtain. In the wake of the management plan, the four-perspective model enables them to organize scattered objectives developed by a business unit and to narrow them down to important objectives that deserve the adjective "strategic." This process, improved by the four-perspective model, is effectively aligns the business unit's strategy with the intention of the corporation. For example, in developing the mid-term plan, arguments about each perspective, such as "what is the customers' value for the business unit" (from the customers' perspective), and "what are effective processes to create them" (from an internal process perspective), connected the corporate plan with the business units' plan.

In deploying the mid-term plan of each business strategy to the one-year plan, Ricoh designed the elaborate process shown in Figure 4-5 using the concepts of the Balanced Scorecard. For Ricoh management, the ideas developed in the mid-term plan include business policies and strategic objectives. The mid-term plan is translated into a one-year plan by the business unit and functional division. The mid-term plan includes focused initiatives and performance indicators. Moreover, the target value for each performance indicator is set every half-year.

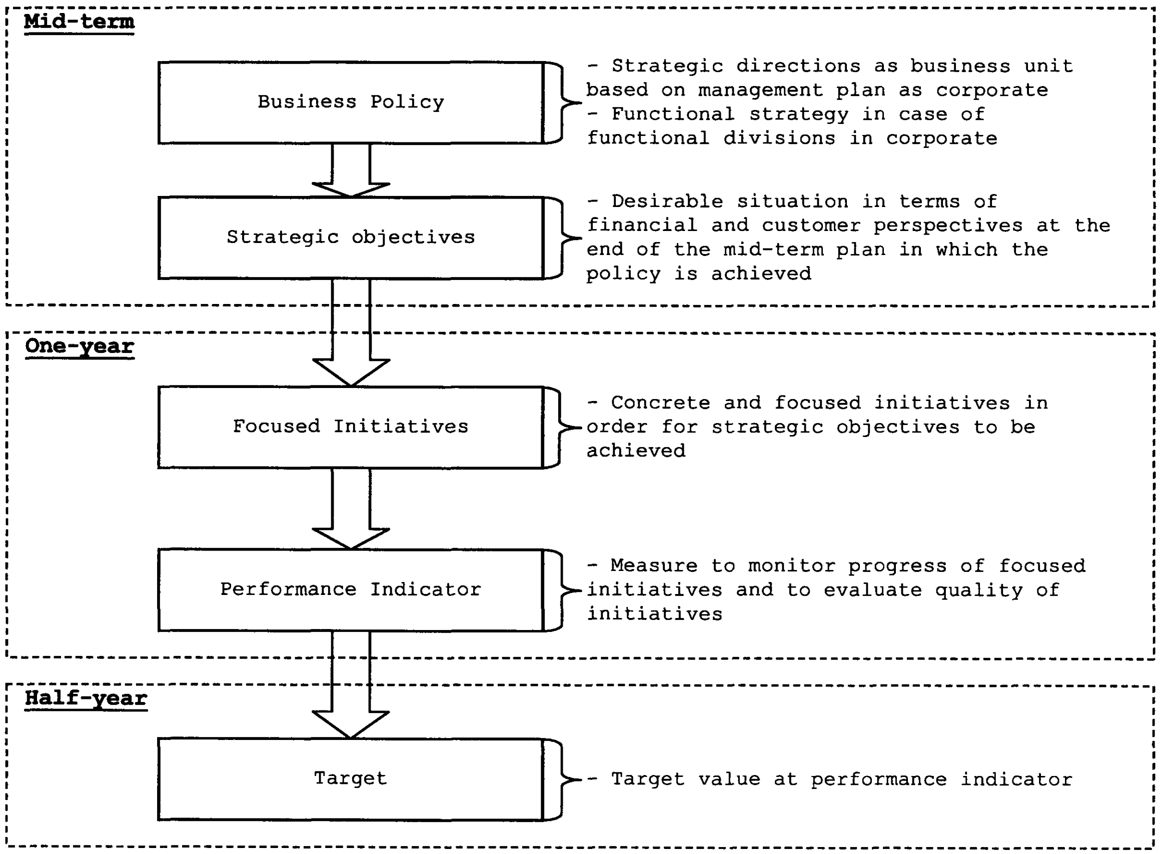


Figure 4-5 Method of deploying the mid-term business strategy to the one-year plan

Source: Ricoh internal documentation, 2004. Modified by author.

As the figure shows, Ricoh clearly defined each of the strategic elements so that people would understand how to implement the new strategy. For the business units, *business policy* means its strategic direction as a unit. Each unit develops its direction based on the management plan. In the case of functional divisions, *functional direction* is the future. *Strategic objectives* are the financial and customer perspectives to be achieved at the end of the relevant mid-term plan. Strategic objectives must be specifically stated in such a way that focused initiatives can be deployed. *Focused initiatives* are the means with which to realize the strategic objectives. As the name indicates, they have to be focused on specific actions. *Performance indicators* are the measures that monitor and evaluate the progress of each initiative. They are quantitative, and try to eliminate qualitative aspects as much as possible. *Targets* are values that correspond to performance indicators. Performance indicators and targets, as a set, are monitored to ascertain how much they are stretched. They have to be considered not from the status quo but from the new strategic view.

In addition to clear definitions, Ricoh developed a format for strategic thinking that strengthened the linkages among the elements. Ricoh does not use a typical strategy map or scorecard; instead the format it has adopted is a mixture of both related to relationship as Figure 4-5 shows. Ricoh embeds the concepts of the Balanced Scorecard, including the four-perspective model, cause-effect relationships, and quantification. It is designed so that people can prevent initiatives from spreading too broadly. It recalls not only linkages among strategic elements but also linkages among focused initiatives in one organization. By using this format, people can ascertain whether it is likely that the focused initiatives will support the strategic objectives and whether targets in the performance indicator are appropriate.

4.2.4. PDCA Cycle for Ensuring Implementation

Ricoh strengthened its operation through a rotating PDCA cycle that implements the strategy. Figure 4-6 illustrates Ricoh's PDCA cycle. Ricoh deals with strategic elements such as focused initiatives deployed in the one-year plan. This cycle is handled by the Group Management Committee (GMC), which is comprised of top management including the CEO. The committee has two missions: (1) to move from commitment to implementation of the focused initiatives by each general manager responsible for a business and functional strategy; and (2) to evaluate performances using performance indicators. This is where top management and general managers devise an internal contract about implementation of visible focused initiatives. (Morisawa, et al., 2005)

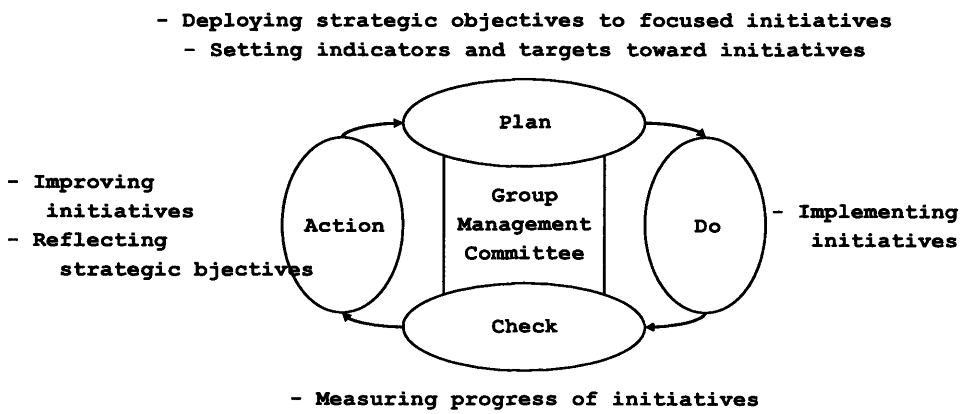


Figure 4-6 The PDCA cycle for implementing strategy

Source: Ricoh internal documentation, 2005. Modified by author.

Using the PDCA cycle, at the beginning of the period members of GMC together with each manager discuss the coherency of implementation, i.e., whether the business policy (the mid-term plan) is being steadily deployed into one-year business plans. At the end of the period, members discuss the effectiveness of the focused initiatives. When problems are discovered, they are sent to the appropriate organization for revisions. Ricoh rotates the cycle once every six month among approximately 50 divisions.

The GMC becomes the driving force for Ricoh's new management because interactions in the committee create strong commitments not only among general managers but also among top management.

4.2.5. Connection to the Reward System

Ricoh links performance results toward targets with its reward system—a bonus payment system. However, Ricoh's measures were vague. Even if Ricoh wanted to increase motivation, it could not because it lacked rationality and consent. With the new plan, the connection to the reward system encourages people to increase their commitment to implementing the strategy. Moreover, by clarifying each division's strategy, it is easier for people to establish clear goals and tasks. Thus, the new strategy management system naturally connects the new strategy with the previous Management by Objectives system that Ricoh had used for individual performance evaluations.[2]

Ricoh has one other reward system to encourage commitment. The President of Ricoh, Mr. Sakurai, sends letters, written in his own hand, to each general manager, commenting on the results of the GMC evaluations. This letter is one means of direct interaction between top management and the general managers. The interviews I did indicated that many tough discussions are conducted in the Group Management Committee (Morisawa, et al., 2005). For general managers, I believe this is an important element that creates confidence in top management.

4.3. Reflections and New Approaches

After introducing the new strategic management system, Ricoh found it was effective in several important areas. First, there were positive impacts on financial results and customer service in the business units. Ricoh has overcome one of its weaknesses: broken linkages between strategy and implementation. Ricoh now has had several consecutive years of sales growth. Compared with 2001 and 2004, the capital earnings rate improved from 6.0 to 7.7%, which means Ricoh's financial health is improving. Overall, Ricoh's new management system appears to be working effectively.

Second, using the PDCA cycle to implement the new strategy has given top management a better understanding of the business units' strategies, not only from a financial perspective but also the relationships among the four perspectives. As a result, the new system encourages quick decision-making because added information is available—both qualitative and quantitative—about the strategies.

Third, through the Global Management Committee, many general managers are better able to discuss how to produce good performance. The quality of discussions during GMC meetings has improved. As intended, one of the primary purposes for building the new

[2] The reason Ricoh used Strategic Management by Objectives was to emphasize "by objectives." Hearing the word "manage," most Japanese employees are likely to associate it with negative impressions, that is, harsh management following strict norms. Ricoh wanted people to manage themselves voluntarily with objectives that included stretched targets they set themselves, not set by others.

strategy management system was to create a more reasonable performance evaluation system. Not only has that purpose been achieved, but it also created enhanced quality among Ricoh managers. While considerable time and energy is spent on discussions about strategy at both GMC and other meetings related to the system, those who attend the meetings acquire deeper and broader knowledge.

As its next step, Ricoh recognizes that it must create stronger linkages among focused initiatives, strategic objectives, and business policies. Ricoh says more cause-effect relationships have been observed following the analysis compared with the initial periods, however, present hypotheses of cause-effect relationships remain untested. Fifty divisions, including business units, have an average of twenty performance indicators. Therefore, Ricoh would have a thousand indicators total—a huge number. However, Ricoh is eager to experiment in order to find successful equations. On the other hand, during the trial period, Ricoh developed many performance indicators rather than initiatives for implementation. It could not sufficiently examine a cause-effect relationship among the indicators, especially performances in both financial and customer perspectives. This caused Ricoh to focus on important initiatives.

Ricoh says that a further important point is to urge employees to shift their mentality from "post-process style" to "pre-process style." President Sakurai says he does not want employees to think of the Strategic Management System as merely a system that measures performance. He calls that "post-process thinking," in which goals are set lower intentionally in order to be evaluated well. On the other hand, the "pre-process style" means people identify focused initiatives and performance indicators that are needed to achieve the goal. These problems are seen in many organizations that try to connect their strategy management system to their performance evaluation system. This problem is rooted deeply in the human mind, and Ricoh has accepted the problem as the issue relevant to how to improve organizational culture.

The concepts of the Balanced Scorecard are somewhat familiar to the Japanese people because the Balanced Scorecard is similar to the *houshin* management system. On the other hand, because it seems to be easy, the probability of failure might be high. President Sakurai commented:

> *The Balanced Scorecard can be an effective idea and tool for management if those who are responsible for business, such as top management down to middle management, utilize the Balanced Scorecard seriously. However, if you misunderstood the nature of this idea or mistook a way of introduction, the Balanced Scorecard could cause collapse in your organization.*

As stated previously, Ricoh's SMO system enables to carefully deploy its vision and strategy by making them visible through the Balanced Scorecard so people at lower levels can easily understand and focus on what is important. Furthermore, Ricoh considers not only deploying its strategy but also monitoring it carefully, putting much time and effort in the SMO process.

Ricoh's case is a good example for Japanese organizations that hope to improve their existing management system to ensure execution of developed strategies.

CHAPTER 5

CASE STUDY:

BANK OF TOKYO-MITSUBISHI – AMERICA HEADQUARTERS

5.1. Introduction

Bank of Tokyo-Mitsubishi[3] (BTM) is one of the world's largest banks. Among Japanese companies, BTM has the second-largest aggregate market value at the end of 2005. BTM's America headquarters (BTMHQA), based in New York and supporting operations in both North and South America, offers a full range of commercial, investment, and trust banking products and services to its multinational customers (see Table 5-1).

Having made the decision to adopt the Balanced Scorecard, BTMHQA expected improvements in operations and reinforcement of its internal control system. The role of the Balanced Scorecard provides a common language for implementation of strategy.

Table 5-1 Business hub network managed by BTMHQA

Type		Total 9 countries	
		The North America	The South America
1	Overseas Subsidiary	6	1
2	Branch	6	3
3	Sub-branch	4	0
4	Representative Office	2	2

Source: Nomura Research Institute, 2005. Modified by author.

[3] BTM changed its name to Bank of Tokyo-Mitsubishi UFJ following its integration with UFJ Bank in January 2006.

5.2. Reasons for Introducing Balanced Scorecard

BTMHQA was motivated to introduce the Balanced Scorecard for two reasons: changes in its organization structure, and regulatory changes. (Kaplan and Norton, 2004)

5.2.1. Changes in the Organization Structure

BTM changed its organization from a regional style to a matrix style. As part of its global strategy, in 2000 BTMHQA reorganized its American operations into four business units: global corporate banking, treasury, investment banking, and corporate center (see Figure 5-1). Each business unit reports directly to the head office in Tokyo, although the units make up one organization for both North America and South America.

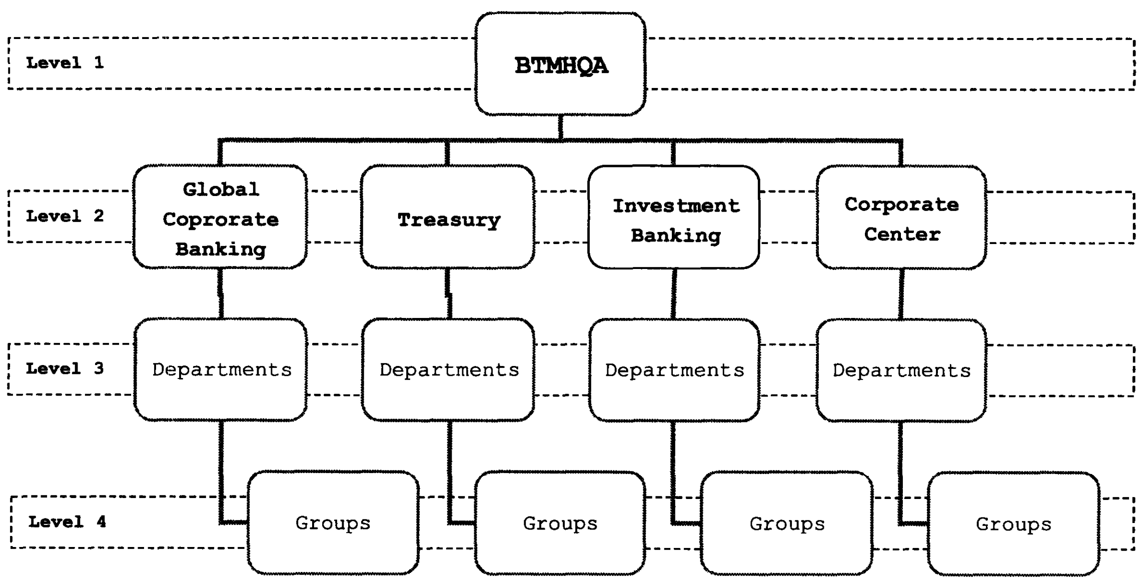


Figure 5-1 BTMHQA's organizational structure

Source: Nomura Research Institute, 2005. Modified by author.

5.2.2. Regulatory Changes

Another change was the enhanced oversight of financial institutions by regulatory authorities. With the enactment of the Gramm-Leach-Bliley Act, the walls separating segments of the U.S. banking industry such as banking, security, and insurance, were removed. In addition, financial rules were established, and regulators strengthened banking supervision while focusing on corporate governance. Despite stellar growth, BTMHQA was unsure of the effectiveness of its corporate governance system.

5.2.3. Cultural Gap

In addition to the two changes mentioned above, BTMHQA faced other operating problems (shown in Table 5-2), mostly related to communication within the organization. These problems could be attributed in part to Japanese management systems and practices. It is well known that Japanese organizations have, in general, competed successfully without well-articulated strategies. Such strategies have never been necessary in a society whose people are culturally so in tune with one another that business can be run with few words. Traditional Japanese methods of doing business prevailed. For example, executive decisions were not routinely disclosed throughout the organization. Other common practices include rotating employees throughout functional areas (to foster cultural unity) and lifetime employment. In addition, BTMHQA relied upon its seniority system as the primary basis for making promotions, instead of short-term performance. Until recently, Japanese nationals dispatched from Tokyo occupied most of an overseas company's leading positions. (Kaplan and Norton, 2004)

Table 5-2 Problems in BTMHQA organization

1	Communication between different cultures	Local culture vs. Japanese culture
2	Organizational structure	Matrix-Style - Four business units in one entity, which reports directly to Tokyo
3	Balance between Headquarters and local hubs	Empowerment
4	Discrepancy of the business standard	For example, discrepancy in assessment policy between sales Dept. and HQ
5	Efficiency of the back-office department	Back-office Dept. had no objectives set explicitly in terms of BTM strategy
6	Occurrence of bottleneck on flow of information	Bad communication among three layers such as the front, the middle, and the back
7	Improving accountability	Room for improvement in the internal control system

Source: Nomura Research Institute, 2005. Modified by author

BTMHQA began to realize that these practices caused the firm to lose its effectiveness in global competition, where a diverse workforce and the sheer speed of business require a clear articulation of strategy in order to create organizational success. In situations where regulatory change was a factor, BTMHQA realized it was no longer enough for strategy to be understood only by top management. BTMHQA's top management needed to reinforce and convey the strategic message throughout the organization. (Kaplan and Norton, 2005)

5.3. Methods for Adopting BSC

5.3.1. Begin with a Strategy Map

Having made the decision to adopt the Balanced Scorecard as BTMHQA's strategy management system, top management first tried to formulate the entire strategy by developing strategy maps and scorecards for each division. This was a bottom-up effort that failed because the maps and scorecards were not organized and they lacked uniformity. This proved how little BTMHQA's strategy was understood by each division, mainly because BTMHQA had not defined a complete strategy that penetrated the entire organization.

Based on this harsh experience, top management changed the process for formulating strategy from a bottom-up style to a top-down style. Top management clarified the strategy and described it on a strategy map at the corporate level, sorting out information that had been made apparent in the previous process. Then this map was cascaded down to all divisions for them to develop strategy maps at the division level.

5.3.2. An Ingenious Device

BTMHQA developed a clever technique for sharing its strategies as Figure 5-2 depicts. It classifies objectives in its strategy map into three types: common, shared, and unique. (Nagumo, 2002)

- "Common" means a mandatory bank-wide objective, of which there are six. For example: "Enhance cost efficiency" is required in the financial perspective of every strategy map and scorecard.

- "Shared" means an interdivisional objective shared by units that are expected to cooperate to achieve specific results. For example: "Streamline credit-approval process," an internal process objective for enhancing operating excellence between the credit and lending units; or "Enhance collaboration throughout the supply chain," shared among front, middle, and back offices; or "Close collaboration between relationship managers and product offices," which means facilitating the offering of high-value products to targeted customers.
- "Unique" means an intra-divisional objective that is to be fulfilled independently by a specific group. For example: "Maintain all 'know your customer' files," an internal risk management objective of the treasurer's office.

Thanks to this classification system, employees can easily see the juxtaposition of themes, categories, and shared objectives.

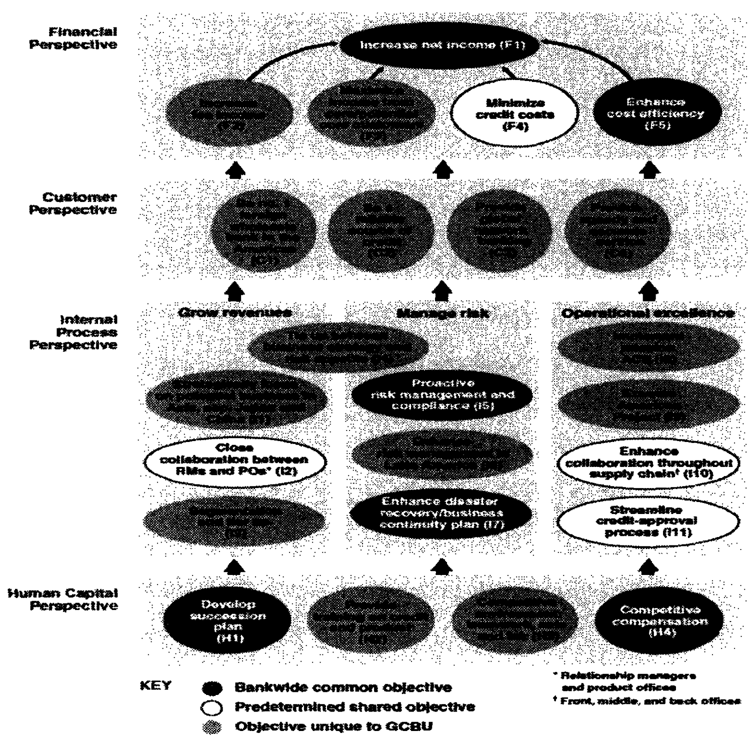


Figure 5-2 Global Corporate Banking Unit's Strategy Map

Source: Nagumo, 2002

5.3.3. Changing the Role of Committees

BTMHQA had many committees that discussed strategy and performance. However, following its decision to adapt the Balanced Scorecard, BTMHQA reorganized the committees and changed the way they operate. BTMHQA created strong linkages between the committees' purposes and strategic objectives as they align with the four perspectives. Table 5-3 highlights the relationships among topics in each committee.

Table 5-3 Relationships between committees and the four perspectives

Commitee	Business Strategy	Profitability	Back-Office	Risk Management	Credit Risk	Compliance	IT	HR
Frequency	Quarterly	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Quarterly
Financial Perspective	レ	レ		レ	レ			
Customer Perspective	レ		レ					
Profitability improvement	レ	レ						
Risk Management	レ		レ	レ	レ	レ	レ	
Productivity improvement	レ	レ	レ				レ	
Human Asset	レ							レ

Note: "Profitability improvement", "Risk management", and "Productivity improvement" are relevant to common streams of strategic objectives in the BTMHQ's internal process perspective.

Source: Nomura Research Institute, 2005. Modified by author.

The Business Strategy Committee is the backbone of BTMHQA's strategy management. Strategy maps and scorecards are used to explain the progress of strategies and the current status of operations. Moreover, all managers responsible for strategic objectives must attend all meetings of the Committee. Through the use of this and other committees, BTMHQA can share the best ways of doing business and managing operations among the divisions. Furthermore, BTMHQA uses the committees to encourage managers to continually formulate and improve new strategies.

5.3.4. Risk Management

One of the most important aspects of BTMHQA's adoption of the Balanced Scorecard is connecting strategy management with risk management. Risks become obvious in the process of implementing strategies, and it becomes necessary to make strategies obvious in order to estimate risks rationally and to lower or prevent risk. BTMHQA introduced a Control Self-Assessment (CSA) based on the COSO framework (Committee Of Sponsoring Organization) of the Treadway Commission and connected that with the process of strategy management using Balanced Scorecard.

When the strategic objectives were set in a strategy management system in which top management utilized the Balanced Scorecard, a CSA begins to identify risk items and controlled items. In this way, BTMHQA can proactively dispose of impediments to strategy implementation, which increases the probability that strategies will be successful. The progress of strategies is checked by internal audits, and if problems arise, they are immediately reported to top management. As a result, BTMHQA's strategy management system using the Balanced Scorecard, and its internal control system that uses the Control Self-Assessment system, work together to form one loop, which means top management can see strategies and business risks concurrently. (Kaplan and Norton, 2004)

5.4. New Approaches

BTMHQA has now established and implemented a new management structure. After adopting the system, changes quickly appeared, and BTMHQA soon observed an increased effectiveness, as follows. (Morisawa, et al., 2005)

- Regarding communication between different cultures, the Balanced Scorecard began to function as a common language soon after its introduction. Strategies, including the process of implementation, are routinely transferred to both local employees and Japanese employees because strategies are clarified by the Balanced Scorecard and articulated in ordinary conversations and at important meetings. The American experience could be shared throughout the entire BTM organization as a single unit. A sense of unity beyond cultural differences grew as a result.
- Sharing objectives helped to unify the operation. Lower-level divisions that had not agreed with each other began to cooperate and act in greater harmony.

There were noticeable improvements in their efforts to identify customer solutions together. It became easier to collaborate because of shared objectives. Furthermore, articulating each strategy clearly let each division know of the other divisions' strategies. They learned from the strategy maps made by not only their own division but also from others. Operational productivity and accuracy has improved because of better communication among the layers. Organizational sensitivity to risk has improved.

- The back office set its objectives to provide information to the business units efficiently, and they became more focused on providing service to the bottom line and contributing to top management. The back office became familiar with quantitative approaches to managing performance. Senior management had better control over their activities.
- The Plan-Do-Check-Action cycle in strategy management, using tools of the Balanced Scorecard, has taken root. Each employee's role was clarified; at the same time, each employee was asked how much he/she could contribute to implementing the new strategy.
- The incentive system was improved, blending the traditional Japanese seniority-based system with a local system that includes a performance-based HR architecture, similar to performance objectives in the Balanced Scorecard.
- Most important, employees can set their own objectives based on the senior strategy from the strategy map. The increased transparency of the incentive system makes people more comfortable.

From the view of top management, they recognize this system is essential to managing strategies and employees who work in different cultures and different business units, yet are all now unified into one entity. It has become absolutely necessary for successful managing. At the same time, managers and employees are keenly interested in the system, and a sense of tension is created in the organization because they know top management always see their performance through the system.

BTMHQA's purpose for adopting the Balanced Scorecard—enhancing the management system by clarifying its strategy—has been accomplished. Mr. Naotaka Obata, a then BTMHQA manager, commented (Kaplan and Norton, 2004):

> *I have been particularly interested in the synergies between Japanese culture and U.S. best practices. It is in this context that we have developed a Balanced Scorecard initiative, which, in addition to becoming the core methodology for strategy management and performance measurement for our bank in the Americas, has also underlined the importance of teamwork in implementation. Our next challenge will be the further development of business process improvement practices, such as those that have been successfully adopted by many Japanese manufacturers, particularly in BTM's CSA methodology.*

CHAPTER 6

CASE STUDY: KIRIN BREWERY

6.1. Introduction

In this chapter, I will examine the application of the Balanced Scorecard concepts by Kirin Brewery Company (Kirin).

In 2005, Kirin Brewery hit a new record high for operation income as a corporate. In addition, in 2006 the low-alcohol business is highly likely to regain its number one market share position for the first time since 2000. These strong performances in the financial and customer segments may prove to be the result of the effective application of the Balanced Scorecard in reforming multi-dimensional organizational issues.

Kirin has held a dominant share of the Japanese beer market. However, since the introduction of a competitor's new product in 1987, Kirin's share has declined continually. In 2001, Kirin lost the leading position it had held for 47 years.

In truth, however, the cause of this situation was not only the competitor's innovative product. Kirin's then-President, Koichiro Aaramaki, was concerned that Kirin had lost its number one ranking because it had lost the confidence of consumers. Aramaki wanted employees to keep uppermost in mind the company's major code of conduct: "Customer Standards and Quality Standards," not just occasionally but constantly. To do this, the company decided it would be better to embed a process that employees could always recall in the existing management system. Kirin thought it needed a system that could check whether employees were thinking and acting with dynamism based on Kirin's vision and strategy.

The Balanced Scorecard was adopted because Kirin regarded it as the most appropriate tool for achieving these goals. I will show how Kirin Brewery improved its entire management system by utilizing the concepts of the Balanced Scorecard.

6.1.1. Profile of the Company

Kirin's home base is Japan, and its corporate origins can be traced back to 1870, when W. Copeland, an American entrepreneur, established Japan's first brewery, the Spring

Valley Brewery, in Yokohama. In 1885 it became the Japan Brewery Company, Ltd., and in 1888 the company introduced a German-style lager under the brand name Kirin Beer. The firm changed its name to Kirin Brewery Company in 1907. In 2003, Kirin ranked ninth worldwide based on production (see Table 6-1).

Table 6-1 Beer Company Ranking

Name	Home Country	Production Volume	Sales
		2003	2004
		a million hecto liter	US million dollar
InBev	Belgium	191.8	11,839
Anheuser-Busch	USA	152.9	14,934
SABMiller	South Africa	132.6	11,366
Heineken	Netherland	101.0	13,647
Molson Coors	USA	59.4	6,962
Carlsberg	Denmark	54.3	6,596
Scottish & Newcastle	UK	48.2	3,193
Grupo Modelo	Mexico	41.7	3,600
Kirin	**Japan**	**34.3**	**15,515**

Source: Hori, 2005: 4-6. Modified by author.

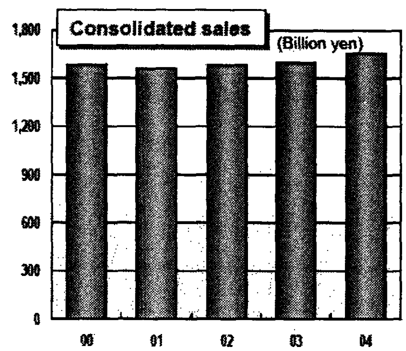
Over the years, the firm has diversified into a wide range of products, including soft drinks, pharmaceuticals, supplemental foods, and nursery products. Diversification began in the late 1960s, with entry into the soft drinks and whisky markets, to which Kirin applied its existing distribution network and sales forces. Other businesses were part of a second phase of diversification based on the firm's proprietary technologies developed for beer manufacture. Kirin had approximately 22,000 employees and 276 subsidiaries worldwide as of the end of 2004 (see Figure 6-1).

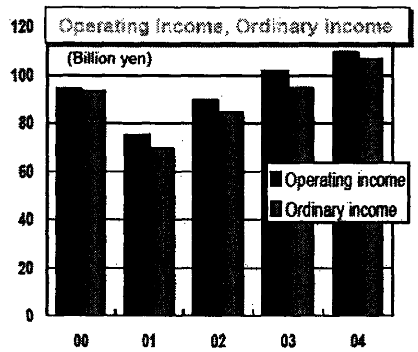
Kirin at a glance

(As of December 2004)

Date of incorporation	February 23, 1907
Main businesses	Alcohol beverages, drinks, pharmaceuticals
President	Mr. Koichiro Aramaki
Number of consolidated companies	276
Employees	22,160• Parent: 5,439• •
Fiscal year end	December 31
Dividend	13.5 yen
Consolidated sales	1,654.8 billion yen
Consolidated operating income	109.3 billion yen

(All figures as of December 2004)





Note: The Presidency was taken over by Mr. Kazuyasu Kato (SF1986), as of March 30th, 2006.

Figure 6-1 Overview of Kirin

Source: Kirin internal document, 2005

Kirin earned sales of approximately ¥1,655 billion and operating income of approximately ¥109 billion in FY2004 (see Figure 6-2). Despite the diversifications, however, Kirin remained dependent on low-alcohol beverages. In FY2004, 52.6% of the company's net sales were generated from this business (see Figure 6-3). Figure 6-3 also illustrates that 82.6% of net sales were earned in the domestic market in FY2004. Therefore, geographically the company had a weak presence overseas.

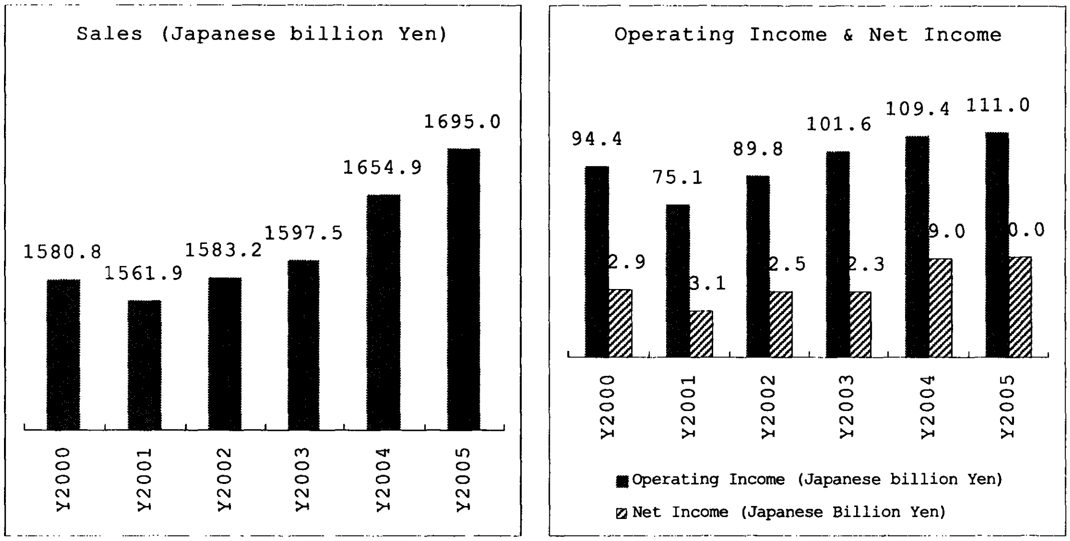
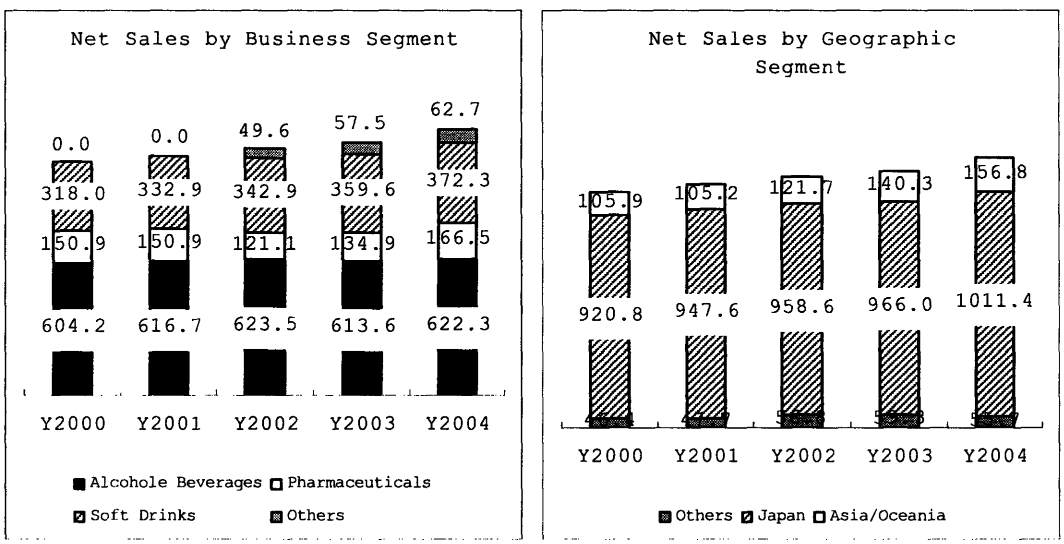


Figure 6-2 Kirin's Financial Performance

Source: Kirin Annual report, 2005. Adapted by author.



Note: unit is Japanese billion yen.

Figure 6-3 Net Sales by segment

Source: Kirin Annual Report, 2005. Adapted by author

6.1.2. Introducing the Balanced Scorecard Concepts

For Kirin, FY2001 was not only the start of the new mid-term plan but also the year when it had to face the fact that changes were needed because it had become apparent that annual sales of low-alcohol beverages would not reach the intended goal. This meant Kirin would lose its leading position in the Japanese beer industry, which it had held since 1954.

While this situation had been expected for several years, the actual reality that Kirin would fall to second position negatively affected the morale of not only employees directly involved in the low-alcohol business but also other employees in the firm. Consequently, Dr. Aaramaki, Kirin's President, announced a "New Kirin Declaration," to all employees companywide. It can be summarized in the following four points:

- At all times, act in accord with our policy of "Customer Standards and Quality Standards" as the corporate philosophy (see Figure 6-4).
- Focus resources on the low-alcohol business.
- Improve the synergies in every Kirin function.
- Realize a fluid and energetic culture that can create new ideas and initiatives

In the declaration, the point stressed most urgently was for employees to recall Kirin's fundamental principle. When Mr. Aaramaki took over the presidency in 2001, he walked around many sales *genba* (field sites) nationwide. As a result of his observations, he came to believe that excellent sales performance depended on employees in each *genba* focusing continually on rebuilding relationships with customers and striving to align themselves with their managers' leadership.

He also believe the difference depended on whether they acted in accordance with Kirin's basic corporate philosophy. Therefore, in the declaration, he placed strong importance on sticking to the basics rather than striving to meet numeric goals. The President requested all employees to review their activities from the customers' point of view because he believed that competitor-driven thinking, rather than customer-driven thinking, had become widespread throughout Kirin.

Corporate Philosophy

We contribute to the health, enjoyment, and comfort of people all over the world.

Corporate Guidelines

Customer Standards / Quality Standards

We strive to develop our own technologies and supply products and services that are valuable to customers.

Fair and Open Activities

We strive to be a trustworthy corporate group by engaging in fair and open business activities.

Respect for Humanity

We strive to be a corporate group in which individual employees can exercise their initiative and creativity and enjoy a rewarding work life.

Sound Management

We strive to develop our management infrastructure from a long-term and global perspective and to continuously fulfill our responsibilities to customers, shareholders, the communities where we do business, and employees.

Social Contributions

We continuously strive to make positive contributions to society and to take global environmental concerns into consideration in our business activities.

Figure 6-4 Kirin Brewery's corporate philosophy

Source: Kirin Web home page

As competition in the Japanese beer industry became severe (see Figure 6-5) and competitors caught up with Kirin, the company began to pay attention mainly to competitors, and it lost sight of the customers' point of view. The Japanese low-alcohol industry is an oligopoly market dominated by a few beer manufacturers. Market share is undoubtedly a key indicator because all manufacturers pursue economies of scale, and competition tends to place market share above anything else. Although market share was one way Kirin had achieved its customers' confidence, Kirin employees—particularly senior and middle managers—came to believe that achieving a high market share was the primary way to maintain the firm's number one position, and each action taken by competitors came to dominate Kirin's decision-making process.

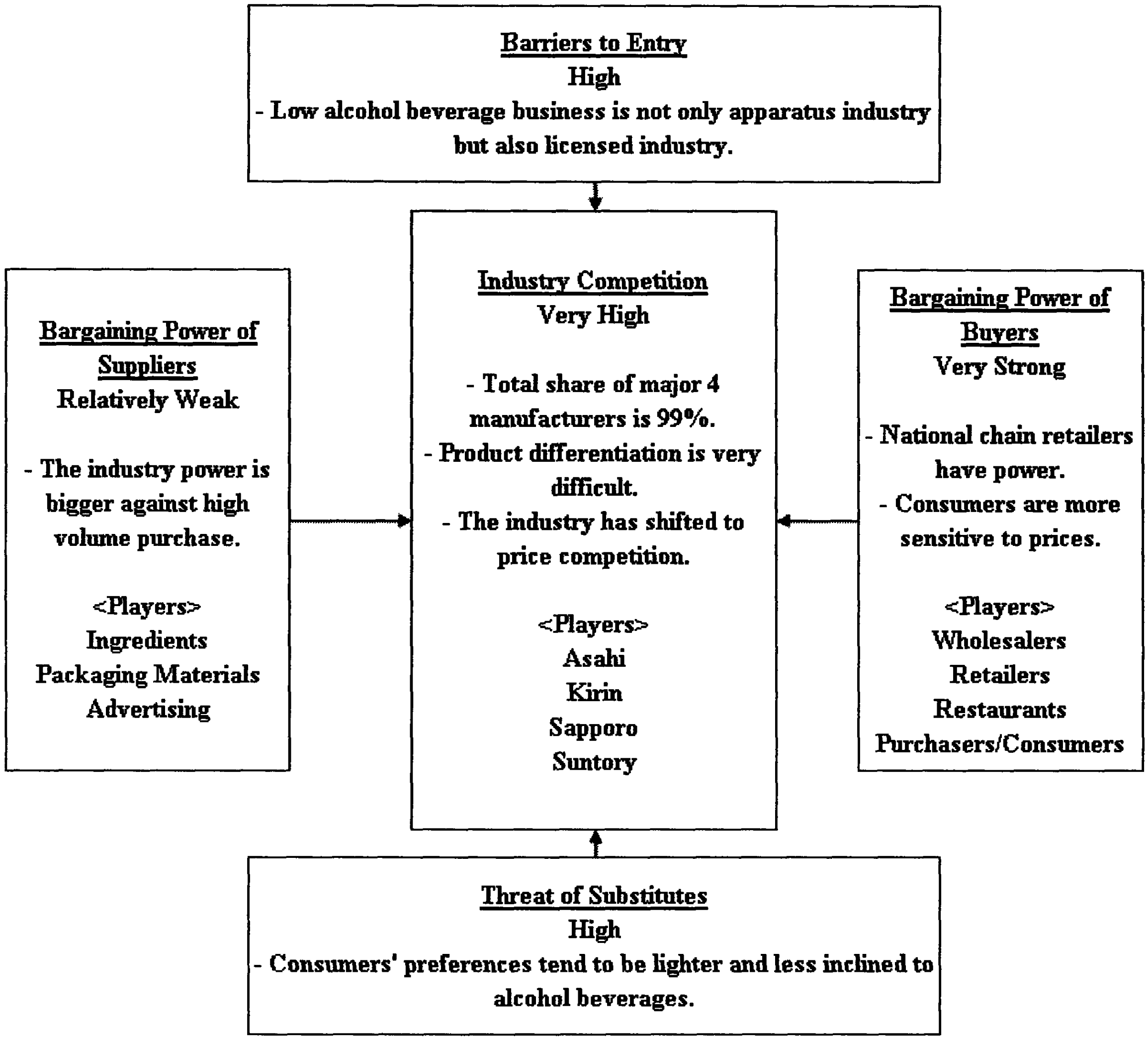


Figure 6-5 Five Forces Analysis of low-alcohol beverage industry in Japan

Source: developed by author

At Kirin, the term "customer" meant final consumers and purchasers, but not wholesalers or retailers, both of which were defined as "partners" who delivered the value of Kirin's products to customers by cooperating with each other. Given its previous success through depending on these partners as an important resource, Kirin slowly began to regard them as the final customers. As a result, Kirin also began to base its actions on the points of view of these middlemen. Kirin spent much of its budget to support these middlemen, even though they began to rapidly lose their power with the emergence of new outlets such as nationwide supermarkets and convenience stores. Before the firm realized it, and despite dramatic channel structure changes, the Sales Division tended to take shortsighted actions to enlarge the firm's market share, thus not necessarily acting from the customers' perspectives.

The New Kirin Declaration required all employees to reform their thinking by emphasizing "Customer Standards and Quality Standards" as the key to effecting the firm's organizational goal. In addition to articulating this declaration, the President ordered improvements in the management system in order for the intent of the declaration to penetrate deep into the company.

6.2. The Delta Model

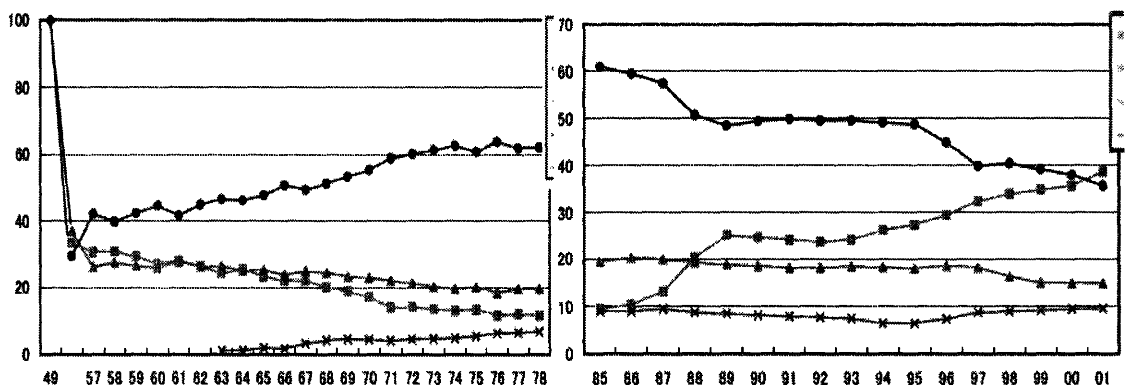
The Delta Model (Hax and Wilde, 2001) is frequently used to explain an organization's strategic options in one of three ways: "Best Product", "Total Customer Solutions", and "System Lock-in". The Delta Model explains these strategic options as follows:

- *"Best Product" option*: This option is built on the classic forms of competition through low cost or differentiation. Its relevant economic drivers are centered on a product or service. A company can differentiate by enhancing product attributes in a way that adds value for the customer. It can achieve this differentiation through technology, brand image, additional features, or special services. Through this option, companies bond with customers through the intrinsic superiority of their product or service.
- *"Total Customer Solutions" option*: This option is based on a wider offering of products and services that satisfies most, if not all, the customer's needs. The focus here is on the customer's economics, rather than the product's economics. A company might offer a broad bundle of products and services that is targeted and customized to a specific customer's needs. In that respect, the most relevant performance measurement of this option is customer market share.
- *System Lock-in option*: This has the widest scope. Instead of narrowly focusing on the product or the customer, the company considers all the meaningful players in the system that contribute to the creation of economic value. In this

position, bonding is most influential. The company is particularly concerned with nurturing, attracting, and retaining "complementors," along with the normal industry participants. A complementor is not a competitor but a provider of products and services that enhance a company's offering. (Hax and Nicolas, 1999)

6.3. Overview of the Beer Business at Kirin

A brief overview of Kirin's history up to the point where it lost its leading position is helpful in order to understand the impact within the firm when Kirin lost its number one position and the serious efforts of employees to regain customer confidence. Figure 6-6 shows the changes in market share after World War II.



Note 1: ●=Kirin; ■=Asahi; ▲=Sapporo; ×=Suntory
Note 2: Numbers for 1995 and later include low-malt beer

Figure 6-6 Changes in Market Share in the Japanese Beer Industry

Source: Fujita, 2002

6.3.1. Before World War II

Since the alcohol business began, Kirin sought to build its operational effectiveness by adopting three keys as its competitive advantage:

- The public's perception of "Kirin Beer" was its authentic pilsner lager beer.
- Kirin was strongly committed to the simultaneous pursuit of both product quality and cost control based on its beer-brewing technology.

- It consistently maintained corporate philosophies such as "Quality First and Sound Management."

By executing these management policies, Kirin attained its unique position despite being a niche player in beer industry before World War II. This was because Kirin had successfully created both a unique product and a brand image as part of its operations.

6.3.2. After World War II

After the war, Kirin seemed to aim at "Customer Solutions" as its best strategic option. Targeting off-premise markets where beer consumption was increasing explosively, Kirin sought to meet the consumers' desire to enjoy beer at home. In addition to developing production bases nationwide, Kirin established a door-to-door delivery network of bottled beer based in innovations in its logistics system and initiatives for building distribution roots involving wholesalers and retailers. Kirin's efforts paid off handsomely. The successful enhancement of customer bonding enriched not only Kirin's brand image (in addition to its unique positioning before the war) but also its overall cost superiority. And Kirin had already achieved superior low-cost production operations.

6.3.3. Seizing the Lead

Since the early 1950s the public perception was "Beer means Kirin." Kirin finally captured the leading industry position from its competitors in 1954. Strengths generated by adaptive processes would be the main resources by which Kirin kept its leading position for such a long period in the Japanese beer industry. By 1966 Kirin held over 50% of the market; moreover, in 1960 it began to diversify into soft drinks, and in 1970 into the hard liquor business. This was planned specifically to fulfill the customer desire to drink in comfort at home, and Kirin met this demand through utilizing its strong distribution network. I would say this was part of its "Customer Solutions" strategic option.

6.3.4. Crisis of Corporate Breakup

By 1979 the firm held 63% of the beer market in Japan. At this point, the Fair Trade Commission, acting under provisions of the Japanese Anti-Monopoly Law, threatened to break Kirin into two separate companies and prevent it from gaining a monopoly in the market. In the end, Kirin remained intact, but it had to refrain voluntarily from most of sales activities for a while in order to prevent the argument from recurring. As a result of this event, the bond between customers and Kirin, and between retailers and Kirin, began to break.

In the 1980s, as the Japanese lifestyle changed and new retailers emerged, sales of bottled beer began to decline. This was because these new changes urged consumers to select canned beer for home use and to buy their beer at new outlets such as supermarkets with which Kirin was less familiar. Kirin responded slowing to these two changes, and soon gradually began to lose its cost superiority.

6.3.5. The Competition

In the late 1980s, the release of a competitor's innovative new product had a tremendous negative impact on Kirin's sales. The new product attracted not only many of Kirin's former customers but also many new light users, such as women and the younger generation.

In general, it is hard for beer manufacturers to adopt the strategic option to continue developing innovative products because it is difficult to create obvious differentiations in taste due to the fundamental attributes of beer. Thus, even the competitor, which had made such a big hit with its innovative product, failed to release the next new product, instead focusing on effective operations: (1) the freshness of its product, and (2) improvements in its business efficiency. By doing this, the competitor tried to improve its brand image as a corporation.

6.3.6. Losing the Number One Position

In the 1990s, since it had fallen behind the times, Kirin tried to catch up with changing lifestyles by transforming its existing channel policy. Kirin successfully released some new brands in 1990. However, these efforts did not bring Kirin to past levels it had before in terms of cost superiority and brand image. Despite the success of the new category beer of "malt beer" in 1998, the competitor continued to improve its strength, i.e., its brand value as a corporation, which drove Kirin's value down in relation to the competitor. Thus, with the loss of two of the strengths Kirin had enjoyed before as part of its competitive value, at the end of 2001, Kirin lost its number one position in the beer industry to the competitor.

From the Delta Model point of view, Kirin had chosen a Best Product strategic option, under which Kirin continued to struggle with creating an adaptive process that would strengthen customer bonding – something it has struggled with throughout its entire history.

6.4. Problems in the Sales and Marketing Division

In October 2001, in the wake of the Kirin New Declaration, Kirin put together a project team whose mission was to rebuild the management system in the Sales and Marketing Division of the low-alcohol business unit.[4] Although this Division was not the only cause of poor performance in the low-alcohol business, Kirin decided it would be the most effective place to begin improving both employee morale and corporate performance. This was because the Sales and Marketing Division has a big effect on all of Kirin not only in terms of resources consumed (i.e., workforce and budget) but also the psychological impact on other divisions in the firm. Even if other divisions do their best, if the Sales and Marketing Division did not change, Kirin would have had less likelihood of overall success.

6.4.1. Problems in the Division

In addition to the problem that had been defined by the President, the project team identified management issues in the Sales and Marketing Division, as follows:

- Sales and promotion activities, as well as the division structure, were outdated, although circumstances changed dramatically.
- Employees did not understand the strategy for sales and marketing. Even basic communications to penetrate the strategy did not seem to be sufficient.
- The PDCA cycle of the strategy as a divisional management system did not work well.
- Despite empowerment to local branches, in terms of decision-making about sales promotion issues, Kirin had less room for local negotiation as national

[4] The low-alcohol business unit at Kirin is composed of three divisions: the Production Division, the Logistics Division, and the Sales and Marketing Division.

chain retailers became powerful. Instead Kirin have concentrated the power of decision-making in the head office rather than empowerment.

- On the other hand, the head office of the Sales and Marketing Division was rarely able to lead local branches because awareness of branches' rights embedded by the empowerment policy remained a harmful effect. As a result, the head office could not make decisions quickly.
- Confusion over leadership increased the time needed to reach consensus in the Division. As a whole division, it could not conduct value creation from the customers' point of view. Moreover, confusion also made it vague where responsibility for results would lie.
- The head office did not provide branches with the means to sharing marketing strategy and strategic objectives with each other on which branches could depend when they executed sales operations at their sites.
- A planning process with less communication in the division resulted in less commitment to the plan. At the same time, the plan itself became too comprehensive mainly because of poor communication. For branches, such a plan made it harder to understand what the head office's intent would be, how they would implement, and why they would do it under the circumstances.
- In the process of developing an annual plan, people tended to discuss only quantitative objectives, such as sales, profit, market share, budget, etc. They had no systematic way to monitor and reflect intermediate processes in order to achieve these objectives. The PDCA cycle was not rotated, repeating Plan and Do with neither Check nor Act.

Many of the division's problems could be attributed to delays in making changes. Originally this was a problem because the division could not let go of past successes. Since 1997 the division had promoted empowerment to local branches in order to rapidly meet changing circumstances; however, some bad outcomes occurred mainly because the power shift among channels was faster than Kirin had expected.

6.4.2. Identifying Issues

When the problem was recognized, Kirin identified the set of issues shown below:

Penetrating the "New Kirin Declaration" within the Division:

- Just murmuring about the importance of the corporate philosophy repeatedly cannot change the organization. We have to clarify who the customer is for us and what quality for the customer is through customer segmentation, and then make sure of what and how to work according to "Customer Standard and Quality Standard."

Developing the sales and marketing strategy with high quality:

- High quality has two meanings: (1) the extent of cause-and-effect relationships among between objectives and financial goals, and (2) how each function in the division aligns with the strategy. We have to keep coherency both vertically and horizontally within the Division.

Rotating the PDCA cycle of the strategy speedily:

- Financial indicators are unlikely to be objectives in order to go into action. In order to improve the quality of the strategy, there is no way except rotating the PDCA cycle in an appropriate manner, in particular, executing Check and Act. We have to start with building a new learning style from this rotation.

After other firms' implemented case studies and benchmarking activities, Kirin decided to introduce the methodology of the Balanced Scorecard as the backbone of a new management system because the Balanced Scorecard was believed to be the best way to resolve these issues as follows:

- To show the whole picture of the strategy and processes toward the goal structurally;
- To develop the strategy from customers' point of view;
- To improve the quality of the strategy and organizational skill to develop the strategy;

- To share the vision and the strategy within the Division;
- To promote communication with each other on the theme of the strategy;
- To enhance commitment to implementation of the strategy; and
- To establish transparency in performance evaluation.

6.5. Adopting the Balanced Scorecard

Kirin's method for adopting the Balanced Scorecard was relatively straightforward. Where many firms would develop customized ways to implement, such for tools, processes, and so on, instead Kirin remained with the basics of management processes that are part of the Balanced Scorecard. Kirin named its new management system: "Kirin Innovative and Strategic Management System (KISMAP)".

6.5.1. Definition of "Customer"

The reason why Kirin wanted to penetrate Customer Standard within the division, and why it decided to introduce the Balanced Scorecard, was because these options had the customer perspective as an explicit part of their format. Therefore, Kirin remained with the four-perspective model definition of "customer" when it designed KISMAP. Kirin defined "customer" as the final consumers and purchasers of Kirin's products. In the past, Kirin tended to pay the most attention to market share based on performance indicators in management, considering competition with competitors, and these were the standards for how much they would increase market share. Because market share in the low alcohol industry was calculated mainly by volume of dispatch to wholesalers, Kirin and its competitors tended to think customers were wholesalers and retailers. One thing Kirin wanted to change was this thinking. The General Manager of the Division clearly articulated that market share was undoubtedly an important indicator, but it was used to measure customer approval which was not its main purpose. In addition, wholesalers and retailers were defined as partners for delivering customer value together, and they were positioned at the top of the internal business process perspective.

Furthermore, Kirin wanted those joining indirect organizations, as well as those in direct organizations, to remember the Customer Standard even though they could not contact customers directly. Kirin did not want them to think of the direct organizations as their customer. If a conflict of execution occurred between a direct and an indirect organization, Kirin wanted both of them to decide the best solution from the real customers' point of view. If they regarded a direct organization as a customer, they would always have to say "yes" toward the direct organization.

Thus, the definition of customer was a meaningful change for Kirin.

6.5.2. Basic Process and Components of the New Management System

Kirin's existing management system and style was traditional, like other Japanese firms, and based on the *houshin* management system. In KISMAP, the things managers had to think about in terms of strategy changed little, at least on the surface, even after the introduction of the Balanced Scorecard. The biggest difference from the existing system was thinking deeply and communicating more—not in a competitor-driven way or for Kirin's own convenience, but from customers' point of view—as the premise of the new definition given by the new framework.

Figure 6-7 illustrates main components in KISMAP. The process forces managers to go back and forth, which is time-consuming; however, far more information now circulates in the Division. Moreover, these processes cannot be done alone; they require much communication vertically and horizontally within the Division.

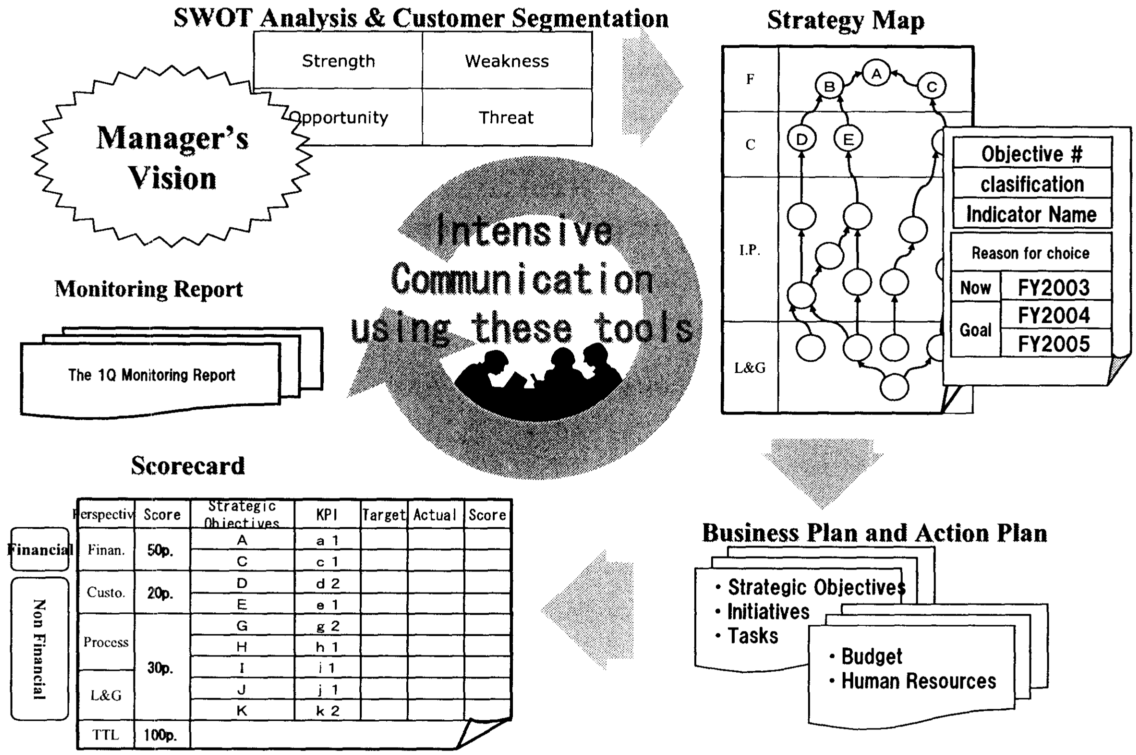


Figure 6-7 Main Components of KISMAP

Source: Kirin internal documentation

In the process of developing a strategy at each manager's level, a manager sets a vision in the wake of a superior manager's policy. Then he or she executes the definition of customer and conducts a SWOT analysis which includes reflections of the previous strategy and initiatives including how much the organization has improved.

From this process, the manager creates a "scenario for success," which includes strategic positioning, key success factors, strengths they want to improve, and weaknesses they want to overcome. At this time, the scenario also includes several vague strategic objectives and targets.

Then the manager breaks the scenario into strategic objectives, indicators, and targets, using a strategy map, clarifying cause-effect relationship among strategic objectives. The process enables managers to clarify the volume of resources such as budget, people, support of other department, and so on. Therefore, it becomes easier to develop an action plan than ever before.

These processes pass through an action plan to a scorecard, which is used both for evaluation of the strategy and for evaluation of the manager's performance, with the strategy map.

In terms of output from the planning phase, the existing management system required only a business plan and shown in Figure 6-13. This was both the pre-process toward these outputs, and the post-process after making these outputs that Kirin reinforced mainly by the Balanced Scorecard methodology. Moreover, in terms of the PDCA cycle, it became easy for Kirin to monitor and evaluate strategy progress and results making these and other initiatives visible through this process.

Thus far, most Kirin managers had stated their vision, done a SWOT analysis based on customer segmentation, and developed strategic objectives and performance indicators as part of the existing management system. The problem was that most of them thought they were finished. They had just developed a plan as a superior manager, or as the planning department had ordered them to make. But in reality, after making the plan, they often put it into their desk and rarely read it except when making the next plan. This fact may be one reason why most of them had little commitment to implementing the strategy.

6.5.3. Monitoring the Strategy

Besides the elements I explained earlier, Kirin also developed a format for monitoring, which included a "monitoring sheet." Using this, Kirin checked the progress of the strategy and implementation every quarter. As stated earlier, monitoring was one of the weak points in the division's management style. Thus far, Kirin had monitored its strategy once a year, usually in June. Obviously, this invited delayed responses when circumstances changed. Kirin found that monitoring was critical in terms of collecting information about the market including customers, competitors, and employees. The more often monitoring was done, the fresher such information became.

To reinforce the monitoring process, Kirin established a "double-loop process (see Figure 6-8)" in KISMAP, in order to quickly revise not only initiatives in implementation but also the strategy itself, by updating many kinds of information based on which the division that developed the strategy.

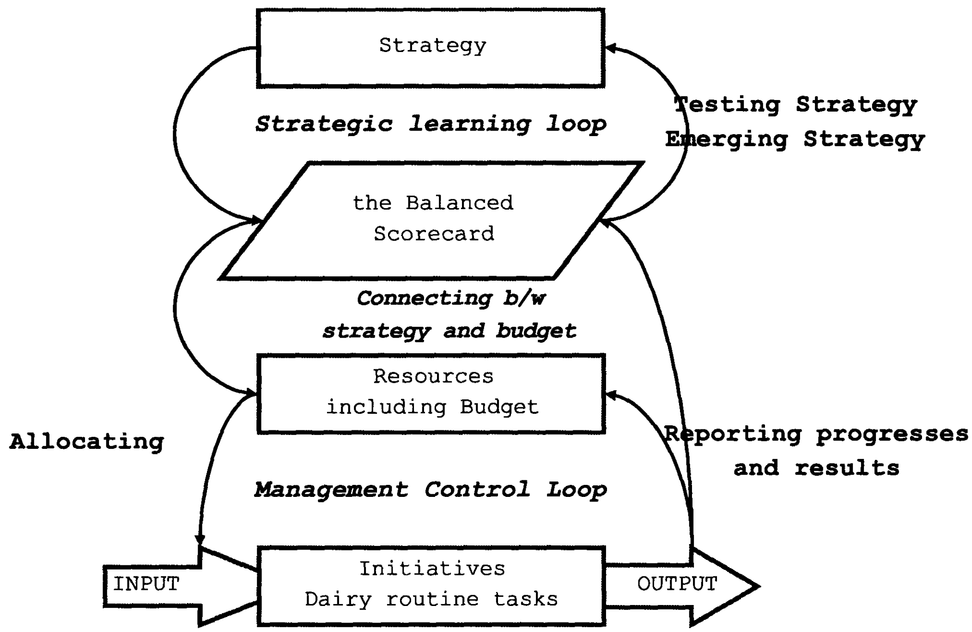
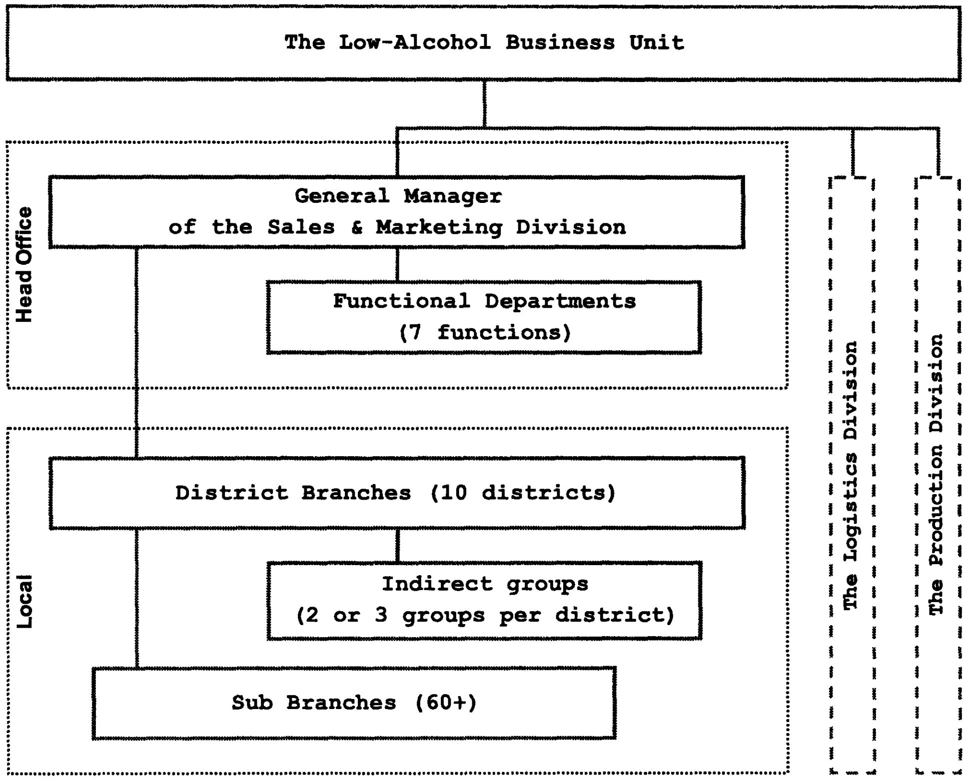


Figure 6-8 Double Loop of the Strategy

Source: Tanaka, 2003: 650.

6.5.4. Scope of Adoption

The PDCA process, using a set of KISMAP tools, was introduced to all managers beginning with the General Manager of the Sales and Marketing Division, down to managers who joined local branches, such as district managers and sub-branch managers. It also included managers at both direct and indirect departments (see Figure 6-9). Over 100 sets were developed, which was a natural conclusion because Kirin intended to connect the results of strategy implementation to each manager's reward evaluation, while the characteristic of each manager's responsibility varied depended on each manager's mission or ratio of strategic-to-ordinary-task.



Note: as of 2003

Figure 6-9 Organizational Chart

Source: author.

6.5.5. Connection to Personnel Evaluation System

Although the developers of the Balanced Scorecard propose that the results of performance evaluation should be connected to an organization reward system, many Japanese organizations put that concept on hold. Even if they were connected, they often allowed the two systems to connect only loosely. For example, some firms turn the results into a bonus evaluation system, or a lump-sum reward payment in case of excellent performance. This is mainly because they are concerned whether performance evaluation using the Balanced Scorecard will persuade employees. To ensure a smooth introduction, it may be reasonable to avoid connecting it tightly to the reward system, considering the Balanced Scorecard would be new concept. In addition, because the Balanced Scorecard often indicates an obvious evaluations, the Japanese—who have a culture in which they generally do not like to show everything—might not prefer to connect the evaluation system to the reward system.

However, Kirin took a straightforward approach to this issue. It directly passed along the results or progress of implementation measured by the management process in KISMAP with the personnel evaluation system handled by the Personnel Department. The results of a scorecard at the end of the year would weigh 60 percent of the score in a personnel evaluation (see Figure 6-10). Needless to say, its purpose was to pull commitment to implement the strategy. Because many strategic objectives were shared with managers vertically, this system required the commitment of both an evaluatee and an evaluator.

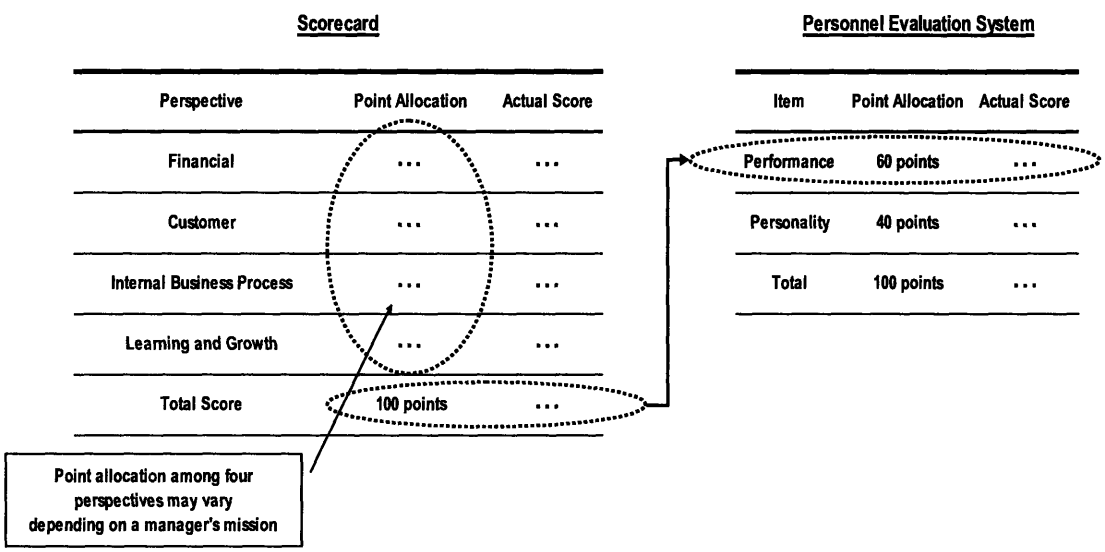


Figure 6-10 Relationship between Scorecard and Personnel Evaluation System

Source: Kirin internal documentation.

The vagueness of Kirin's evaluation system had been a problem for some time. The Personnel Department also wanted to make performance evaluation clearer in light of securing transparency in the personnel evaluation system. To Kirin, there was no way to make the performance more visible other than KISMAP.

6.6. Reflections

After a trial period in 2002, beginning in Fall 2002 (the stage when the FY2003 plan was developed), Kirin officially introduced KISMAP to the Sales and Marketing Division. As of the beginning of 2004, Kirin finished one cycle of rotations through PDCA using the FY2003 plan, including performance evaluations for that year. According to the project members, many indirect effects were observed just as they expected, relatively soon after introduction of KISMAP:

- KISMAP stamped the strategic mentality suggested by the Balanced Scorecard, including the four-perspective model, on people repeatedly. The mentality that starts with the customer perspective began to take root, especially among managers who had stuck with past successful experiences. Even in daily conversation, the number of remarks, such as "What do you mean by that from the customers' perspective?", exponentially increased.
- KISMAP prioritized initiatives in terms of how to create customer value. The previous strategies had been called "something-for-everyone." This has changed. People now focus on activities that are important from the strategic point of view.
- KISMAP revealed each function's role and responsibility. Managers became involved in deploying initiatives and sticking with their implementation.
- KISMAP encouraged the organization to circulate information about changes, such as the progress of initiatives, problems and change of customers, market, and competitors. Furthermore, such information was organized according to the framework of the Balanced Scorecard. This allowed managers' decision making to become quicker.
- KISMAP made initiatives measurable. It became easy to know where the company stood. In addition, Kirin could evaluate employees more easily, and could decide whether they should stay, change, or stop.

- KISMAP encouraged people to work together. It became to be easy to set up new teams because the tools of KISMAP revealed each initiative and its purpose. Relationships among functions in divisions, such as marketing and sales, were strengthened and coherent initiatives were conducted through sales promotions and new product releases. Cross-organizational initiatives, both in the Division and beyond, were promoted.

Many in the Sales and Marketing Division seemed to find the Balanced Scorecard useful. Moreover, most directors and officers showed similar responses. The General Manager of the Division commented:

> *Now I realize all the strengths of Balanced Scorecard that other companies were talking about. It has revealed the importance of implementation. I was impressed with the increased communication from the customers' perspective. I have never thought that the simple format of a strategy map would cause these change within the organization. I feel we have started to walk in the direction toward which we wanted to go.*

One member of the project commented:

> *These changes were brought about by describing a strategy map to the General Manager of the Division. The map made clear the most important things to do as an organization and how performance would be evaluated. The map articulated who customers are and what we think customer value is. People began to understand the logic of creating customer value as an organizational strategy from the map. In the previous plan, it was a bit difficult to understand the logic. We could not see relationships among objectives—why, what, and how—in the previous way.*
>
> *Second, these changes were brought about by improved information regarding quantity, density, and speed, in the process of KISMAP as the new communication platform with common way of thinking. This map was formulated through much communication with most managers in charge of main functions in the headquarters. Moreover, when the draft was completed, the GM set meetings with managers of local branches to exchange opinions. In the past, plans were created mainly by the planning section and were never open to discussion with the branch managers before completion. People were now involved in formulating the upper strategy using KISMAP. Not being ordered by upper managers but exchanging opinions with each other increased their commitment to the strategy and execution plan.*

Kirin's current competencies are shown in Figure 6-11. By choosing "Total Customer Solutions" as its strategic option, Kirin is doing its best with collective efforts throughout the company to improve corporate value and regain customers' confidence.

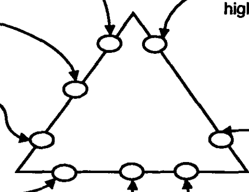
In 2006, the low-alcohol business is likely to regain its number one position in terms of market share for the first time since 2000, which means Kirin are steadily regaining the confidence of consumers. At the same time, it would be proof of the effective role of the Balanced Scorecard in reforming multi-dimensional organizational issues.

Exclusive Channel
- Kirin continues to develop good relationships with several national chains, for example, by brewing specific products for their exclusive sale and involving them in developing new products.
- Kirin has more strong networks with traditional retailers, but this is becoming somewhat of a weakness.
- Kirin is relatively weak in on-premise market channel.
- Kirin owns a chilled delivery system, the first in the industry.

Dominant Exchange
- Kirin utilizes a sophisticated information system to exchange sales information with suppliers and wholesalers in order to plan production and promotion.
- Kirin provides consumers and partners with information about various kinds of alcohol culture, which assures people that Kirin represents the alcohol manufacturer in Japan. This results in consumers' perception of Kirin as the most "traditional", "trustworthy", and "friendly", which are strong brand assets

Proprietary Standard
- Kirin has patented many production methods and technologies. Although they do not always reach the industry's standard, this leading position makes it easy for Kirin to access high technologeis and complementor companies.

Customer Integration
- Kirin improves corporate value as an synthesized beverage manufacturer, dealing with a wide range of alcohol beverages and soft drinks, not just beer.
- Beyond providing products, Kirin also supports a range of issues facing wholesalers and retailers, such as management, finance, sales promotion, merchandizing, logistics, and so on.



Low Cost
- Production cost per unit is lowest in the industry although Kirin has more products than its competitors.

Horizontal Breadth
- Kirin's "full-line" strategy, designed to meet consumer needs in any occasion, results in the most strong products in every sub-category of regular beer, low-malt beer and ready-to-drink cocktails.
- Kirin also continues to propose new categories, not only in low-alcohol but also in soft drinks based on the input and cooperation of the R&D group.

Differentiation
- Kirin established a cooperative group R&D structure for product development.
- Kirin pursues freshness of products for differentiation, using a completely advanced distribution network.

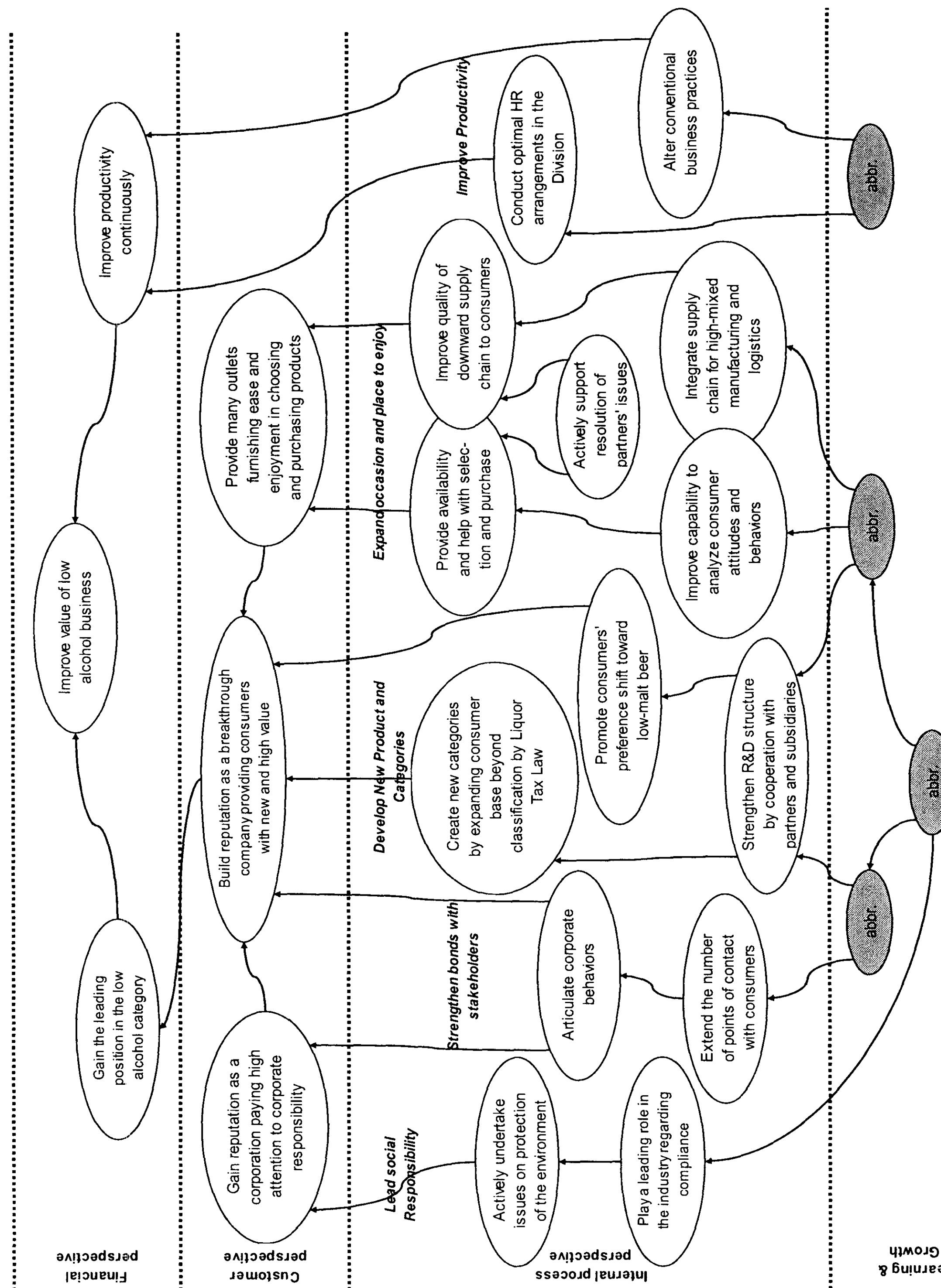
Redefining Experience
- Kirin takes the consumers' time, place and occasion into consideration when developing new products and promotions; thus Kirin continually proposes products that blend with consumers' lifestyle. This includes health-conscious low-malt beer, and eco-conscious packaging.

Firm / Managerial Infrastructure
- Focus on customers, not competitors - Obtains high reliability of product quality from consumers - Manages business units based on EVA and BSC
Human Resource Management
- Large empowerment to each business unit - Implement management by objectives and self-control in 10+ yrs
Research and development
- Owns laboratories such as brewing and packaging technology, customers' behavior & preference - Synergize R&D results of all business units - Owns laboratory about life-science arena
Procurement
- Owns malt procurement worldwide network - Buys packaging materials as Kirin group (all beverages)

Manufacturing	Logistics	Marketing and Sales
- Full automatic production in all 12 factories - Improved to multi-functional factories - Lowest production cost per unit - Most CAPEX among competitors in these 3 years	- Integrates and streamline wholesales network - Establishes Chilled logistics network - Owns two logistics centers	- Owns multi brands in top 3 brands of every categories - Has initiative to developed new products - Has national-wide sales offices - Sponsor of National Soccer Team in 20+ yrs - Owns integrated sales KM system

Figure 6-11 Analysis of Kirin's low-alcohol business by the Delta Model & Value Chain

Source: developed by author from Kirin internal documentation.



Note: Modified and abbreviated partially by the author due to security protection

Figure 6-12 Image of the mid-term Strategy Map of the Domestic Liquor Business

Source: Kirin's internal documentation.

6.7. New Issues Facing Kirin

The next issue facing Kirin is to connect KISMAP with other management systems to bring dramatic improvements to the group management system, and then to expand it to other business units. In order to penetrate the Kirin New Declaration and the corporate strategy throughout the organization, it will be necessary to integrate all the management systems so they can work closely with each other.

First, Management By Objectives (MBO) was introduced in the 1980s in order to manage individual objectives. It includes performance evaluation and career development for every employee including managers. There are two main problems with MBO: (1) the discrepancy between people's jobs and important initiatives led by the business strategy; and (2) transparency of performance evaluation and reward. While KISMAP is the strategy management system, MBO is the management system for individual activities agreed in the relationship between a manager and a member. Moreover, MBO is the system that has the most influence on the quality of personal behavior because it includes the reward evaluation. If KISMAP was the system for describing and executing management's intentions, a weak tie between MBO and KISMAP would become one of the biggest causes of poor strategy implementation. Now that KISMAP is creating a strategy and its progress is clear, it is expected to solve MBO's problems.

Second, the "KVA management system (KVA)" was officially introduced in 2001. In the wake of the importance of management as a corporate group, KVA was developed to manage Kirin's business units, including business groups composed of subsidiaries, in terms of the efficiency of capital cost. KVA is the system from the standpoint of corporate strategy. It is used for performance evaluation of senior managers, decisions to "make or buy," and M&As concerning business functions. Under the KVA management system, each business unit does its best to achieve the goals set by top management. How to achieve the goal is left to the unit as far as empowerment allows.

The problem facing KVA is the difficulty business units have in thinking and describing concrete initiatives related to improvement of EVA and EVA drivers. People cannot easily imagine what and how to do that only through financial indicators like EVA. It meant that top management has a problem managing them because they do not know the background and situation of each business unit. Improvements to EVA and a methodology for describing and monitoring it were urgently needed. In addition, as the performance evaluation system for senior management connected to their reward, KVA was required to add a multi-dimensional perspective to financial indicators in order to enhance transparency as well as MBO.

Thus far, each system tends to work separately. From the employees' point of view, it is hard to deny that each system seems to do the same things. KISMAP, based on the Balanced Scorecard, could be the backbone of the entire management system, in addition to making up for the weakness that they have.

As a long-term corporate strategy, Kirin should look for new diversifications, including expansion of both its business domains and its geographic scope. Kirin has targeted expansion into new markets such as China and South East Asia. It is an important priority for Kirin to establish a process to coordinate management systems across its various business units and culture to improve the successful execution of its strategies. The company will be required to build a robust management infrastructure that is capable of meeting international competition.

CHAPTER 7

CONCLUSION

Among Japanese companies, strategy was basically thought of as how to allocate organizational resources and assets. Most Japanese companies had selected "best products" as their strategic positioning, which meant they would provide better quality products and services at lower cost. Furthermore, it was generally thought that if an organization was able to participate in the industry, the organization would gain an advantage even if it took a back seat to the industry. (Ogura, 2005)

However, after the recession of the 1990s and the advent of global and domestic competition, most organizations begin to think that it has to choose one of two alternatives: gain the lead position, or avoid competition by taking a niche position. Above all, in order to win the competition, the core issues are how to build a system that is superior to competitors and how to operate that system according to the company's strategic intent.

When an organization changes its strategy, it simultaneously has to change its internal management system because the system strongly affects both the attitude and behavior of the people who actually execute the activities that lead to the success of the strategy. Just changing its strategy will not change the people. Without a change in the management system in which people work, they will not change.

In Chapter 3, I pointed out the limitations in existing management systems on which most Japanese companies have been based, in the light of differences with the Balanced Scorecard. In addition to that, Table 7-1 shows other aspects of Japanese management system. These attributes are generated and reinforced by influencing each other based on the Japanese culture and experiences of past success.

On the other hand, in the wake of changes needed to survive, that is, from product-oriented to customer-oriented, most Japanese companies have to move in a new direction that results in a change in management system. They are facing various aspects of discontinuity.

Table 7-1 Japanese organizational mentality

Category	Attribute	Direction of change in the future
Vision	- Obvious - Relatively poor-articulated	- Penetrated - Well-articulated
Strategic positioning	- Best product - Low cost	- Adding differentiation of products based on customer segmentation
Adaptive process	- Operational effectiveness	- Innovation - Customer targeting
Responsibility	- Vague and comprehensive	- More obvious and flexible
Performance evaluation	- Focus on the process - Relatively vague	- Adding view of the result More obvious
Way of decision making	- Bottom-up - Consensus	- Adding top down - Middle up and down
Way of communication	- Non-linguistic - Closed - Context-oriented	- Linguistic - Disclosed - Content-oriented
Organizational culture	- Homogeneous - Group mentality	- Heterogeneous

Source: Nagumo, 2003. Modified by author.

In Chapters 4, 5, and 6, I described specific management issues facing three Japanese companies, and how they tried to improve the systems by applying the concepts of the Balanced Scorecard. I picked these cases because I believe they are generally representative of most Japanese companies.

In Ricoh's case, the need was to create bridges between strategy formulation, strategy execution, and strategy evaluation. In BTMHQA's case, the issue was to bridge between people who have different backgrounds, such as missions, tasks, and cultures. In Kirin's case, the issue was to bridge between corporate philosophies, that is, the organization's sense of value, and people's actual activities including attitude and behavior. Each case showed that the companies have successfully obtained implementation by improving "management visibility" through enhanced communications about strategy, which were further intensified by the concepts of the Balanced Scorecard.

These cases imply three main roles for the usefulness of the Balanced Scorecard for Japanese organizations who wish to improve their management system:

1. Making the strategy tangible;
2. Improving and creating capability within an organization; and
3. Enhancing a strategic mindset in employees.

First, the Balanced Scorecard makes organizational strategy tangible which had tended to be intangible in Japanese companies. The Balanced Scorecard makes a strategy more easily understood by employees, and enables the strategy to become visible knowledge through organizational communication. The Balanced Scorecard also can be a catalyst for sharing strategy with people. It clarifies each employee's responsibility, and contributes to integrating the corporate culture with the strategy.

Second, a strategy that is described well by the Balanced Scorecard urges an organization to create the capability that an organization wants to have or improve. What the organization wants becomes explicit in the four-perspective model. The process to connect the capabilities with the strategy necessarily generates communication between top management and employees. Well-articulated strategy in the strategy map and the scorecard enable people easily to understand why, what, and how to have such capabilities.

Third, managing by utilizing the Balanced Scorecard encourages an organization to internalize strategic ways of thinking that were insufficient in Japanese organizations as a normative mental model. The Balanced Scorecard expects an organization to improve the probability of success by repeatedly examining strategic hypotheses connected by cause-effect relationships. This process enables it to penetrate such mentality. In general, the larger an organization becomes, the more difficult it is to keep people's thinking integrated as one organization. The process that the Balanced Scorecard proposes can enhance a strategic mindset by repeatedly rotating the management cycle, including strategic formulation, deployment, monitoring, and evaluation.

As stated earlier, now that differentiation from competitors in the same industry is an important matter of priority, the cases I examined suggest that an organization will be required to execute the following operations. (Ogura, 2005)

First, for an organization, taking time to execute its strategy makes the company's competitiveness weaker, rather than taking time to make decision about choice of its strategic alternatives. Conversely, organizations that can execute their strategy promptly will be given opportunities to survive in competition even if their choice of strategies is less appropriate. To do so, an organization has to build a system that enables people to understand its strategy so that the company can inform employees of its strategy promptly and exactly. Moreover, such a system has to have linkages between the degree of strategy execution and the employees' contribution to the execution.

Second, to establish competitive advantage by differentiation in customer-driven way of thinking, it is not sufficient to execute the strategy promptly. It must also have the learning capabilities to adapt to changing circumstances that may lessen the organizational competitive advantage. One learning capability is to ensure the achievement of the goal by changing organizational initiatives when it faces changed circumstances. Another learning capability is when the company faces much larger changes, those who make decisions to change strategy must share information concerning the change.

The former learning capability includes the ability to decide which way one should go—whether it would be better to execute the existing programs regarding important objectives, or better to achieve objectives by changing the programs. On the other hand, the latter learning capability includes the ability to find environmental change at the level where the strategy needs to be changed and then informing decision-makers, including top management, about the change.

In order penetrate the strategy and implementation of the strategy, an organization should not depend on the individual learning capability of each employee. An organization has to make various internal management systems align with the strategy, for example, the performance evaluation system that appreciates and rewards employees who execute the strategy and work to obtain the learning behavior.

Whatever management methodologies are chosen, some aspects must be considered in order to execute them appropriately (Kobayashi, 2003):

- How appropriateness it is in light of the company's organizational purpose, considering the characteristics of the management methodology;
- How appropriately it is executed toward the objects that an organization wants to manage; and
- How much people are willing to accept the management methodology.

An organization has to answer these questions one by one so that a management methodology produces the desired effect. In other words, how a management methodology will achieve an effect depends on the context in which it will be executed, not just picking some methodology.

I believe this thesis has shown that by applying the Balanced Scorecard to management systems, it is possible to resolve many of the issues that Japanese companies face today.

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