EXECUTING STRATEGY IN THE FINANCIAL SERVICES INDUSTRY: THE KEY TO COMPETITIVE ADVANTAGE

Arun H. Dhingra

Financial services organizations face many barriers to growth and market dominance. They sell largely undifferentiated products and services in an increasingly crowded marketplace. Both customers and talented employees find it easy to move from one institution to another. Industry regulation is changing the business environment and further limiting competitive practices. There is also increasing scrutiny and skepticism by customers and by the public as a result of the recent scandals, and price transparency is becoming more important than ever. Industry consolidation simultaneously impacts the flexibility of organizations to react and respond to marketplace changes, making core products and services almost indistinguishable.

These challenges and others make it all the more important for organizations to articulate and execute on their strategy in the financial services sector. Since it is difficult to differentiate in the marketplace, the organizations that most effectively and quickly execute on their strategy will ultimately succeed.

The Balanced Scorecard drives strategy execution

The most successful tool for articulating, implementing, and managing strategy is the Balanced Scorecard. The Balanced Scorecard (BSC), developed in 1992 by Drs. Robert S. Kaplan and David P. Norton, has gained global acceptance as a powerful framework to help leaders define and rapidly implement strategy. This is accomplished by translating the vision and strategy into a set of operational objectives and measures that drive behavior and performance.

The BSC concept is built upon the premise that measurement motivates and that measurement must start with a clearly described strategy. There are two primary elements of a BSC. The first is the strategy map.
which articulates the strategy in a series of linked objectives representing the most important priorities for the organization. The second is the scorecard, which holds the specific measures and targets that represent the yardstick and expected level of success. The information reported from the scorecard on a periodic basis provides management with a clear representation of progress on executing the strategy.

With failure rates of executing strategy in the 70% to 90% range, it is evident why execution is more important than vision. Why do organizations have difficulty implementing well-formulated strategies?

Our experience and research with many hundreds of organizations shows four barriers to effective strategy execution:

- The vision barrier—a low percentage (about 5%) of the workforce actually understand strategy
- The people barrier—approximately only 25% of managers have incentives tied to strategy
- The resource barrier—60% of organizations do not link budgets to strategy
- The management barrier—a high percentage (around 85%) of executive teams spend less than an hour per month discussing strategy

Given the constantly changing landscape facing the financial services industry, the discipline to measure and manage strategy is the key to successful execution.

### Leveraging critical priorities with the BSC

Today’s financial service providers find that they need to effectively focus on several priorities in order to succeed in an increasingly competitive environment. Some of those priorities are unique to the marketplace, while others can be found in many industries. These priorities include:

- Increasing revenue through customer-focused sales and service
- Penetrating new markets, new products, and new segments
- Focusing on core competencies
- Creating alignment throughout the organization
- Aligning and leveraging information technology to create a competitive advantage

Many financial services organizations have used the BSC framework to stay ahead of their competition and make quick, fact-based decisions about strategy. They have increased their flexibility and agility to respond to the five priorities listed above.

### Increasing revenue through customer-focused sales and service

The financial services industry has begun to experience a shift from a product-driven culture to a laser-like focus on customer needs to increase revenue. A product-driven organization is characterized by a culture that identifies an inflexible but potentially sellable product and then seeks to proliferate it. Conversely, the starting point in a customer-focused sales culture is to know the needs of targeted customers and segments. With the focus squarely on the customer, product solutions that lead to greater customer satisfaction, a more intimate customer relationship, a greater share of the customer’s wallet, and ultimately, long-term profitability can be conceived and delivered.

The use of the BSC’s customer perspective provides companies with the ability to be more customer-focused and supports the shift taking place in the service areas in financial services organizations. In years past, customer service was delivered primarily through the physical branches and locations of the organization. Now, in response to increasing customer demands, financial services organizations go through great effort to provide the same level and type of customer service, whether it’s through the branch, phone, Internet, or even an ATM. The need to be more customer-focused and to provide customers with service “when, where, and how they want it” has led these firms to invest heavily in upgrading all service channels and making them more integrated and seamless for the customer.

Several other factors will lead financial services companies to create and drive an improved customer-centric culture. Although outsourcing will continue to increase for the foreseeable future, financial services companies will need to carefully consider the outsourcing of any customer-facing activities. Employee incentives linked to customer satisfaction should become more common. Executives increasingly focus on leading indicators of customer attitudes as a greater priority in
running the business to ensure they are ahead of their customers’ needs and desires. Successful organizations will view the customer first before their internal processes in order to ensure their internal processes best support their customers’ needs. Using a “voice of the customer” perspective, the BSC is designed to help the organization listen to its customers.

In short, the BSC enables executives to listen to customers in a routine yet strategic way, to make decisions more astutely and quickly than the nearest competitor, and ultimately to acquire, grow, and retain more valuable customer relationships. By placing the customer at the center of the strategy, organizations can find those indicators of success and adjust their internal processes accordingly.

**Penetrating new markets, new products, and new segments.** With competition eroding margins on core offerings, financial services organizations will need to develop the competencies required to succeed in new markets, new products, and new customer segments. There will be an increased focus on the emergent middle class in developing markets. Demand for financial services in China, India, and Indonesia will be boosted by rapid rates of GDP growth. The industry will also see a trend towards new products. For example, opportunities within wealth management arise from increased demand in two areas.

First, due to lower overall investment returns in recent years, there will be a need for more active management. A combination of increased margin pressure and customer demand will lead to increased levels of advocacy whereby organizations support particular products based on customer needs. These include the need for customers to have access to new and innovative solutions and delivery channels. An example of this can be found with online banking, which has only recently seen an explosion in usage and importance as a strategic differentiator. For a more detailed look at how one financial services organization used the BSC to succeed with a new venture in the online banking market, see the case study at the end of this article on Wells Fargo Online Financial Services.

Second, because of the magnitude of people coming into retirement, and because people are living longer, there will be an increased focus on products that help manage wealth over the customer’s life cycle. In the next twenty-five years, the percentage of the global population sixty-five years and older, many of whom will be in need of retirement solutions, will nearly double. The BSC provides a powerful and proven means for an organization to rapidly implement sweeping strategic change. In addition, the BSC helps specifically with new markets, products, and segments by measuring the financial results in each of these areas (e.g., profitability or revenue broken down by product, customer segment, or market). The BSC also motivates the organization to innovate creatively and launch products more rapidly through the establishment of appropriate internal process objectives and measures.

**Focusing on core competencies.** Potentially the most important trend to financial services companies, which signifies a shift in the industry, is the need to focus on core competencies and place resources in areas where the organization can achieve and maintain world-class performance. This idea, highlighted by the hedgehog concept from Jim Collins’ book, *From Good to Great*, simplifies the offering from each organization and calls for added focus on activities and markets in which they excel. Equally as important to the concept is the exit of other areas that are not part of a company’s core strengths. This is a major shift from recent years when organizations worked to become a “one-stop shop” for their customers. The problem with this supermarket concept is that price transparency is increasing due to Internet-based information and service providers. As customer loyalty has declined, organizations realize that the best differentiators are the quality of customer service and power of their brand. Trying to be everything to all people dilutes both brand power and the quality of customer interactions.

The strategy map allows companies to identify the most critical objectives required to execute the strategy. The strategy map enables the management team to place its strategic bets on the organization’s core competencies and carefully map key investments and initiatives to strategically support those core competencies. Equally as
important, the strategy map highlights the areas where the management team chooses not to focus and where resources will either be decreased or cut altogether. Finally, by placing most of the resources in the core areas, the organization has the flexibility to exploit new opportunities related to its core competencies.

**Creating alignment throughout the organization.** Financial services firms are often characterized as large bureaucratic dominated by functional "silos." Business units keep track of their own P&L, and at times their autonomous nature makes them behave as if they were a separately run company. Similarly, support units are often so large and complex that they are criticized for losing touch with their business unit customers. Furthermore, managers and staff more closely identify and align with the goals of the individual business or support unit rather than with the enterprise as a whole.

The alignment of incentive programs is an important component of motivating and aligning employees. By carefully selecting enterprise-wide measures, top management sends a clear signal to employees about what aspects of performance are important. This is useful up and down the line because it sets priorities. By cascading enterprise measures down through business units, support units, departments, and individuals, and by linking reward systems to enterprise-wide targets, companies have the ability to break down hierarchical, bureaucratic attitudes and foster a customer-centric culture.

The need to provide proper incentives to retain employees is especially important now since the percentage increase in jobs to be filled globally is actually rising at a higher rate than the global workforce. This is also true as the increasing lack of differentiation between financial services firms makes it easier and more attractive for employees to hop around to gain career momentum, rather than looking to grow their careers within the same organization.

The learning and growth perspective of a strategy map articulates the Human Resources strategy and highlights potential areas for improvement for employee development. In this perspective, for example, organizations clearly articulate their strategy for attracting and retaining top talent. This communication helps to further align employees to the strategy, which, in turn, produces highly motivated individuals. Many financial services organizations create a separate human capital strategy map to expand upon the goals of HR and to further align their business objectives with that of those business partners. Therefore, creating an HR strategy map and BSC develops employee alignment even further.

**Aligning and leveraging IT to create a competitive advantage.** With increased competition and downward industry pricing pressures, financial services organizations have a renewed focus on operating as efficiently as possible. The demand for price transparency often forces these cost savings to be passed through to investors. Financial services organizations increasingly leverage information technology to produce gains in productivity, cost, and overall ease of doing business for the customer. Today's tech-savvy investors demand efficient, readily available, and easy to use technology-heavy offerings from their financial institutions. The days of picking up a telephone for every transaction are over. As customers are being migrated to these more efficient, technology-driven channels, it is the financial service organizations that are able to harness the power of IT and leverage it as a competitive advantage that will be successful in this new marketplace.

In addition, internal IT organizations at financial services organizations need to be aligned to further anticipate how customer needs will evolve. To focus customers more effectively and efficiently, technology platforms should be consolidated and integrated to enable the mining of customer data. Effective cross-functional integration fosters synergistic behaviors, such as the joint building of customer databases and the sharing of customer information. Investments in predictive models, as opposed to the collection of historical data, will help organizations better understand customer needs throughout their life cycle. Furthermore, some organizations will elect to position themselves in technology-laden niches that cut across multiple sectors, such as information processing services.

Information technology helps financial services organizations enable decision making at the strategic level. The BSC clearly
lays out the internal processes that need to be supported by investments in technology. Once the enterprise priorities are articulated, the organization can closely align the operations of its information technology function through the development of a cascaded Information Technology Balanced Scorecard. The IT scorecard will allow the organization to quantify the value of IT, and the disciplined measurement approach that the BSC provides will monitor the success of technology investments and ensure that they are aligned to the enterprise strategy.

Using the BSC to drive strategy execution: four case studies

This section highlights real-life experiences of financial services organizations that successfully applied the BSC as a strategic program in their organizations to execute their strategy and deal with the challenges of today's marketplace.

1. Succeeding in new markets—Wells Fargo Online Financial Services
2. Aligning to the strategy at Bank of Tokyo-Mitsubishi
3. Focusing on core competencies at Northwestern Mutual
4. Aligning IT at T. Rowe Price

Succeeding in new markets—Wells Fargo Online Financial Services. Wells Fargo was already an established banking leader at the time they initiated their online service offering. The Wells Fargo Online Financial Services (OFS) division was a leader in Internet banking as early as 1995. They were the first major bank to go online with full-service operations. Wells Fargo OFS was established as a relatively self-contained division within Wells Fargo Bank in the 1990s. They had their own marketing, finance, human resources, and investment support such that they were able to craft a mission and operating philosophy. The philosophy, though consistent with the demands of an Internet-based startup service business (high growth, high investment), also contrasted with the parent company’s historic emphasis (and strength) in coupling innovative approaches with aggressive cost cutting as the primary financial measure of operating success.

The newly established OFS division had two challenges:

1. How to organize the near endless stream of “great ideas” (over 100 of them) that had been documented and proposed as improvement initiatives for their Internet banking startup.
2. How to develop the right business objectives and measures that would support a radically different approach to banking than that of the parent company, yet somehow be compatible with the parent company’s culture, business assumptions, and business practices—particularly their emphasis on operational efficiency.

Wells Fargo OFS implemented the BSC in order to:

1. Measure success in their new online business and make sure that the results they were getting made strategic sense.
2. Strategically prioritize the bewildering array of new initiatives at OFS.
3. Help OFS make the transition from an R&D experiment to a serious service delivery arm of Wells Fargo in a new market that would include 450,000 customers and gain over 1,000 customers per day.

In other words, OFS implemented the scorecard to grow fast, emphasize the right things, and stay in control.

Wells Fargo Executive Vice President Dudley Niggs, made the following comment:

"Our culture embraces financial measures... However, if we only look at financial measures we risk making poor decisions. We would never develop new technologies or product offerings. We would just reduce costs, which would be disastrous in our industry. We’re operating in an environment where new projects and opportunities come up continuously and our business environment and competitors are changing all the time. We need a tool to help us synchronize our strategy with what we are doing on a daily basis and translate that into measurable results.

Wells Fargo OFS began to reap the benefits immediately after building their BSC. Before the BSC, the planning and budgeting process (especially for new initiatives) was strictly cost focused and subject to weekly changes in relative prioritization. This proved to be time-consuming, con-
fusing, and frustrating for everyone involved. There was no explicit tie to strategy. After implementation, the prioritization of resources for improvement initiatives became more rigorous and strategically directed. As this “startup” company began operations in a new market, they excelled at execution because resource allocation and project approval were linked to strategy.

In addition, the OFS business began to review more than just the typical financial measurements. The monthly reviews generated remarkable changes in management focus and interaction. The BSC became a very powerful management reporting system, and OFS leaders used it to educate the chairman's office at Wells Fargo on the OFS strategic objectives and measures.

In addition to many other financial and nonfinancial improvements and results, average cost per consumer dropped by 22% in one year, total online customers increased by over 200%, and Wells Fargo received several awards for Best Online Bank. The BSC helped Wells Fargo enter a new market and succeed by focusing on and executing its strategy.

**Aligning to the strategy at Bank of Tokyo-Mitsubishi.** As one of the world’s largest banks, the Bank of Tokyo-Mitsubishi (BTM) manages more than $608 billion in assets across more than 700 locations in Japan and throughout the world. BTMHQA, the bank’s Americas headquarters, decides the offerings of its Americas operations and which commercial, investment, and trust banking products and services it will market to its multinational customers. BTMHQA’s mission is “to be the number one foreign wholesale bank in the Americas.”

As part of a global initiative in 2000, BTM’s Americas operations were reorganized into four independently managed business units (global corporate banking, investment banking, treasury, and corporate center), each reporting directly to its respective head office in Tokyo. As a result of these changes and changes in the regulatory environment, BTMHQA realized that it was no longer enough for strategy to be implicitly understood by top management. Its leaders needed to reinforce the strategic message throughout the organization. Japanese organizations are renowned for competing successfully without well-articulated strategies. There has never been a necessity in a society whose people are culturally so in tune with each other that businesses run on shared understanding. But, as BTMHQA discovered, this practice has been losing its effectiveness in the global economy where workforce diversity and the sheer speed of business require clear articulation of strategy for organizational success.

Takehiko Nagumo, Vice President for corporate planning, turned to the BSC as a tool to build strategic alignment because he felt it was the right vehicle to implement a common strategic platform, a needed risk-control framework, and, eventually, a new pay-for-performance system with coherence and synergy. “We knew that we would first have to articulate each unit’s strategy before we could even determine the integrated regional strategy, and a bottom-up approach seemed to be an essential first step,” says Hideo Yamamoto, Senior Vice President and group head of corporate planning.

With the goal of aligning the business around the strategy, BTM developed the Americas-level scorecard by first establishing a “strategic foundation,” which defined broad categories and themes within the four perspectives of the BSC that each objective would be aligned to. Each objective was classified according to three types of objectives—common, shared, or unique.

- Common: A mandatory bank-wide objective, of which there were six in total. Example: “Enhance Cost Efficiency,” required in the financial perspective of every scorecard.
- Shared: An interdivisional objective shared by units that are expected to cooperate to achieve specific results. Examples: “Streamline Credit-Approval Process,” an internal process objective for operational excellence shared among the credit and lending units; “Enhance Collaboration Throughout the Supply Chain,” shared among front, middle, and back offices.
- Unique: An intradivisional objective to be fulfilled independently by a given group. Example: “Maintain ‘Know Your Customer’ Files,” an internal/risk management objective that was specific to the treasury office.
This classification system became the template for the bank’s Americas scorecard as well as for each business unit’s scorecard. Visually, employees could now easily see the juxtaposition of themes, categories, and shared objectives across the organization. A common understanding of the BTM strategy was communicated through the development of the BSCs.

Scarce one year after adoption, changes were already visible. The Americas business was aligned to the overall strategy and strategy had truly become everyone’s job. Almost immediately after developing strategy maps, employees began talking about strategy for the first time because they knew what it was. Shared objectives helped unify the back (processing), middle (risk assessment and review), and front (deal-making and customer facing) offices. Internal BTM auditors explicitly recognized the BSC as an effective means of enhancing corporate governance. Finally, risk managers now make regular presentations on their metrics in their scorecards and the maps are a foundation for the discussions at the management review meetings.

Said Mr. Naotaka Otoba, CEO of BTM HQA:

Our Balanced Scorecard has become the core methodology for strategy management and performance measurement for our bank in the Americas. Once fully integrated, we expect that these methodologies will form the basis for successful integration of the best Japanese and U.S. business practices. If successful in the Americas, we would like to propose this initiative for implementation for our operations in Japan.

Focusing on core competencies at Northwestern Mutual. Northwestern Mutual is one of the oldest and most respected companies in the United States. Headquartered in Milwaukee, the company, with its subsidiaries and affiliates, offers investment products and advisory services to address the needs of policy owners and clients for financial protection, capital accumulation, estate preservation, and asset distribution. Since its founding in 1857, the company has been driven by a strong value system and culture of integrity with one core premise: doing what’s best for its shareholders. The company’s approach to mutuality, including its long-term investment strategy and intense attention to operating fundamentals, helps it maintain the highest financial strength ratings from all four of the country’s major rating agencies.

Traditionally, Northwestern Mutual’s business model was based on providing superior life insurance and a few ancillary products, all through a single, career sales force of financial representatives. Although the company had sold investment products for several decades, its primary focus remained on selling risk-based insurance products. But the world had changed. In the mid to late 1990s, the company broadened its focus in response to evolving needs of policy owners and clients, more fluid investment markets, and finally, in 1999, the enactment of the Gramm-Leach-Bliley Act that formalized direct competition between insurance companies, banks, and other financial institutions. Northwestern Mutual was now pursuing a strategy that emphasized helping clients achieve financial security by offering integrated solutions containing both insurance and investment products. In 2001, Ed Zore, the new CEO, was faced with the task of remaining focused on the core competencies of a successful organization while fundamentally changing the business model that had served them well for so many years. Ed Zore turned to the BSC to help with the transition.

Northwestern Mutual adopted a strategy that focused on enhancing its core insurance business and expanding its investment product business to meet more diverse policy owner and client needs. The company’s vision was to leverage its traditional strengths and core competencies—building relationships, providing expert advice, and offering strong product value—to become the premier company helping clients achieve lifelong financial security. To do this, the company built out its “network of specialists,” a joint work model that enabled its traditional life insurance sales force to draw upon product and investment experts as needed to address clients’ increasingly complex financial security needs. This strategy required the company to balance its desire to expand capabilities to address more policy owner and client needs while maintaining focus on the fundamentals that had allowed it to become the premier life insurance company.

Through the development of the strategy map, the leadership team was able to build
consensus and clarity around this new strategy. The strategy map described how it was going to meet the demands of the marketplace by expanding its product offerings but also achieve differentiation by remaining focused on its core insurance business. Northwestern Mutual viewed the BSC as a tool to communicate and monitor the success of its broader strategy. The scorecard framework also served to further Zore's goals of enhancing employee engagement and moving the company to a performance and measurement-based culture.

The senior management team is using the company scorecard as a mechanism for facilitating regular, quarterly discussions about execution of the company strategy. The company has used the scorecard as an element in a broad campaign to educate employees about the new company strategy. According to Deb Beck, Executive Vice President of Planning and Technology:

When Ed Zore became our new CEO, he made employee engagement a top priority. We believe the scorecard has helped us take engagement to another level, as employees have been better able to visualize how their roles further the company's strategic objectives.

The scorecard has also become a visible part of the company's annual planning cycle. All new project-funding proposals are now linked to the company's strategic objectives. There have been great strides towards Zore's goal of increasing employee engagement. A dramatic increase has been seen in the percentage of employees who feel that they understand the company's business direction and saw a clear link between their jobs and company objectives.

The case of Northwestern Mutual provides an example of how a longstanding, successful organization was forced to adapt to changing environmental conditions and fundamentally change their strategy. By using the BSC to focus on the effective execution of that strategy, Northwestern Mutual was able to meet the new demands of the marketplace, while maintaining the focus on their core competencies that made them the premier life insurance company.

**Aligning IT at T. Rowe Price.** T. Rowe Price (TRPA), a Baltimore-based asset management firm, is a leading provider of investment services for individual investors and corporate retirement programs, with $156.3 billion total assets under management at the close of 2001. TRPA serves as investment advisor for more than eight million institutional and individual accounts in the T. Rowe Price family of no-load mutual funds and other investment portfolios. With more than 600 employees and contractors and annual expenditures exceeding $100 million, T. Rowe Price Investment Technologies, Inc (TRPT), a wholly owned subsidiary of TRPA, provides mission critical information and technology management services to business units in the T. Rowe Price enterprise.

In late 2000, TRPA articulated an enterprise-wide goal of delivering "world class service." Although TRPA had a long history of outstanding fund performance, the increasingly crowded market for individual and institutional fund management demanded more. Such giant players as Fidelity Investments and Vanguard reaped huge market share by delivering a constellation of fund choices and technology-powered, high-function customer service. TRPA management was determined to defend and grow its market share. In addition to supporting this enterprise goal, TRPT faced challenges often seen in enterprise-wide IT organizations:

1. Deliver and demonstrate the value of technology to its customers and business units, and
2. Effectively and efficiently prioritize and apply scarce IT resources across the enterprise.

In response to these conflicting pressures, senior TRPT management engaged in an effort to improve the processes by which its own performance measures were selected, consolidated, communicated to stakeholders, and used to inform business decisions. The BSC management framework was selected.

With the goal of more closely aligning with the enterprise goals, the TRPT management team set out to develop its strategy map and BSC. Leadership identified seven strategic objectives:

- Demonstrate value to business units
- Gain a shared understanding of TRPIT’s strategy at all levels
• Ensure a faster, more complete strategy alignment and execution, both within and across business units.
• Assess performance and communicate results on a regular basis.
• Establish greater accountability.
• Evaluate and prioritize initiatives more quickly and effectively.
• Enable world-class service.

These objectives were communicated often to stakeholders and employees to develop an understanding of the importance of the TRPIT organization and its alignment to the enterprise strategy. Following the development of the strategy map, TRPIT quickly began collecting data and communicating results. In an all-day meeting attended by about forty senior and midlevel managers, TRPIT senior leaders and the enterprise CEO launched a carefully structured communication program that ensured that every member of TRPIT understood the strategy map and how his or her contributions fit in. TRPIT's customer advocacy group undertook an effort to work with such TRPA staff organizations as finance, legal, and human resources to identify and map key business processes, understand and prioritize improvement opportunities, and develop technology solutions.

The BSC has resulted in a heightened focus on cost-benefit analysis, standards compliance, accountability for project management, and the contribution of the TRPIT organization. By nature of implementing the BSC framework, the TRPIT could better enable business unit performance and enhanced strategy execution capabilities for the enterprise and provide T. Rowe Price with a competitive advantage in the increasingly competitive marketplace.

Conclusion

Intense competition and changes in the external environment are forcing financial organizations to rapidly adapt and fundamentally change the way they run their business. Significant resources are spent on formulating well researched and well thought out strategies, but it is the organizations that successfully implement those strategies that will differentiate themselves from the rest of their competitors. Many highly successful companies, such as the ones mentioned in this article, have turned to a strategic management discipline such as the BSC to ensure that they are properly executing on their core strategy, measuring their progress towards their main objectives, allocating resources in accordance with organizational priorities, and understanding and responding to customer demands as quickly and effectively as possible. The BSC is a proven management framework in the financial services industry. It has a long track record of helping organizations respond to their challenges.

NOTES
3 Portions of these case studies were excerpted from the publication: Robert S. Kaplan and David P. Norton, "Strategy Maps: Converting Intangible Assets into Tangible Outcomes," Harvard Business School Press, 2004. For more in-depth information on these case examples, please refer to the book.