

Balanced Scorecard

INSIGHT, EXPERIENCE & IDEAS FOR STRATEGY-FOCUSED ORGANIZATIONS **REPORT**

Article Reprint No. B0211D

Building a Strategy-Based Culture at Bank of Tokyo-Mitsubishi

*by Takehiko Nagumo, Vice President, Corporate Planning Group, Bank of
Tokyo-Mitsubishi Headquarters for the Americas; and Barnaby Donlon,
Senior Consultant, Balanced Scorecard Collaborative*



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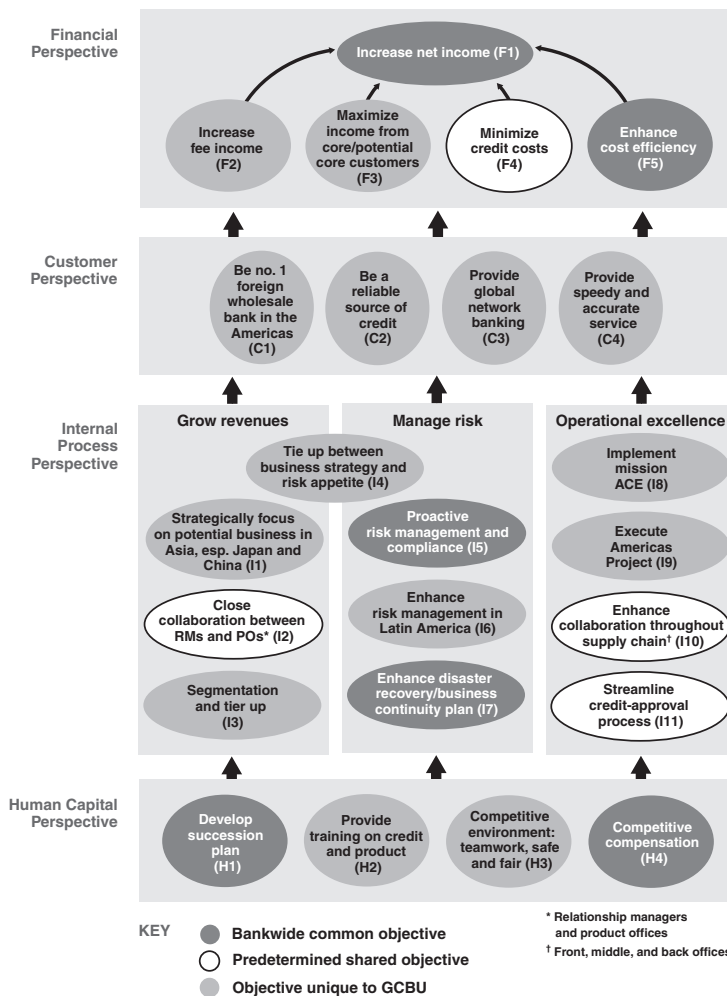
by Takehiko Nagumo, Vice President, Corporate Planning Group, Bank of Tokyo-Mitsubishi Headquarters for the Americas; and Barnaby Donlon, Senior Consultant, Balanced Scorecard Collaborative

A major global enterprise — no matter how stunning its success — cannot run for long without a well-articulated strategy. Executives at Bank of Tokyo-Mitsubishi’s Headquarters for the Americas (BTMHQA) knew that. They also knew the bank urgently needed to enhance its corporate governance framework and performance evaluation system. One year after adopting the Balanced Scorecard, BTMHQA has made remarkable progress in fortifying and integrating these systems — and the head office has taken note.

As one of the world’s largest banks, the Bank of Tokyo-Mitsubishi (BTM) manages more than \$608 billion of 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 — which

Figure 1. Global Corporate Banking Unit’s Strategy Map



commercial, investment, and trust banking products and services it will market to its multinational customers. Last year, with the Japanese banking industry still mired in recession and regulatory authorities increasing their risk-related oversight of financial institutions, BTMHQA began to question the effectiveness of its corporate governance,¹ despite its stellar growth.

In 2000, as part of a global initiative, 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.

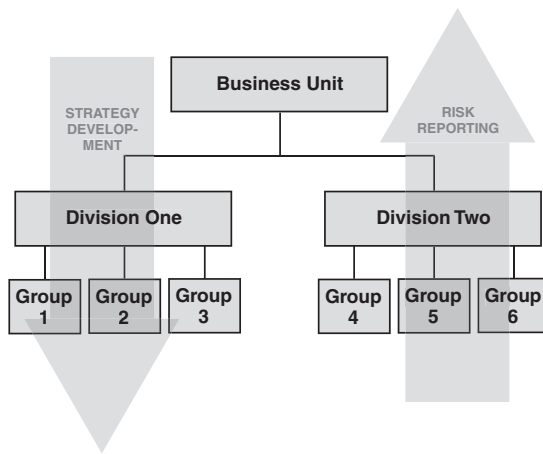
Takehiko Nagumo, vice president for corporate planning, turned to the Balanced Scorecard. The Balanced Scorecard, he felt, was the right vehicle to implement a common strategic platform, a needed risk-control framework, and, eventually, a new pay-for-performance system — with coherence and synergy.

Daunting Challenges

Japanese organizations are renowned for competing successfully without well-articulated strategies. They’ve never been a necessity in a society whose people are culturally so in tune with one another that business can practically run on *ishin-denshin* (mental telepathy). 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.

Unifying any workforce to a common set of strategic goals is daunting enough, but at BTM it was magnified by many cultural differences.

Figure 2. Articulating Strategy, Aggregating Risk



For the first time, BTMHQA's corporate risk management office could aggregate and link all of the operational risks to strategy.

Traditional Japanese ways of doing business prevailed; executive decisions were not routinely disclosed throughout the organization. Until recently, Japanese nationals dispatched from Tokyo occupied most leadership positions. Other common practices included rotating employees throughout functional areas (to foster cultural unity) and lifetime employment. And BTMHQA still relied upon seniority instead of short-term performance as the primary basis for promotion.

Other complexities compounded the challenge:

Geography. BTMHQA's network of offices was so vast that cross-border communication would depend on the visual presentation of strategy.

Existing management approaches. The mission of the organization was determined by the "Rules of Organization," a document that defined the roles and responsibilities — but not necessarily the strategy — of each business unit.

Limited communication of strategy. Because organizational strategy was implicitly understood, it was not well documented or communicated broadly throughout the organization. As a result, the usual mechanism that helps unify employees toward common goals wasn't in full force.

Compensation system. Like most Japanese organizations, performance

evaluation was not directly correlated to strategy execution. For non-Japanese staff especially, this was sometimes a morale buster. So, the need for a closer link between pay and performance was evident to many people.

Program Design

By mid-2001, BTM was ready to adopt the BSC. But the path wasn't clear. "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. A task force of representatives from each business unit developed a worksheet for each group to complete; from the collected responses the team would craft the integrated regional strategy.

Several months later, however, BTM ended up with little more than dozens of bubble diagrams and considerable confusion about objectives, measures, targets, and initiatives. "Looking back, our bottom-up exercise proved to be hard to roll up to a regional strategy," Yamamoto says. His team agreed: the lack of common strategic themes was the leading impediment to creating an integrated regional strategy.

The management team now realized that a more disciplined, top-down

approach was the only way to go. So BTM established a "strategic foundation" for all strategy maps, including an Americas-level scorecard, and asked each group to recast its strategy within the new model. This exercise amounted to a gap analysis for each group; each had to identify how its previously defined objectives fit within the new strategic model.

Across the four perspectives of the Balanced Scorecard, three themes were established: grow revenues, manage risk, and attain operational excellence. Each group had to classify its objectives as either "common," "shared," or "unique." (See Figure 1.)

Common — A mandatory bankwide objective of which there were six in total. *Example:* "Enhance cost efficiency" (Figure 1, F5), 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" (I11), an internal/operational excellence objective shared among the credit and lending units; "Enhance collaboration throughout supply chain" (I10), shared among front, middle, and back offices; and "Close collaboration between relationship managers and product offices" (I2), meant to facilitate the offering of high-value products to targeted customers.

Unique — An intradivisional objective (typically in the internal perspective) to be fulfilled independently by a given group. *Example:* "Maintain 'Know Your Customer' files," an internal/risk management objective of the treasury office.

This classification system became the template for the bank's Americas scorecard.² Visually, employees could now easily see the juxtaposition of themes, categories, and shared objectives.

Linking Risk Management to Strategy

Next, BTMHQA moved to integrate what it considered two key, closely

related programs: COSO control self-assessment,³ a voluntary operational risk management program that BTMHQA was adopting; and a nascent incentive compensation program. Like the Six Sigma–Balanced Scorecard link many organizations make (through their scorecard’s Internal/Operational Excellence theme), BTMHQA linked COSO to the Internal/Manage Risk theme on its scorecards. Within this theme was one of the bank’s common objectives, “Proactive Risk Management and Compliance” (I5). Every unit conducts periodic risk assessment based on the COSO framework, and the result is incorporated into the Balanced Scorecard as part of the overall score. For the first time, BTMHQA’s corporate risk management office was able to aggregate and link all of the operational risks to strategy. (This interaction is depicted in *Figure 2* on the previous page.)

While other major BTM Americas programs — for example, an expense-reduction initiative and a project to modernize management information systems — found a home in the Balanced Scorecard, it was the relationship between COSO, organizational performance evaluation (the preliminary step toward incentive compensation), and the BSC that created the greatest change in mindset. The BSC, in fact, became the medium between control self-assessment results and performance evaluation. Having these two frameworks operating in concert — where risk or return cannot be pursued at the expense of the other — is a unique and innovative management approach. That’s true even in the U.S., where, until recently, there has been no sufficient mechanism for balancing risk and business strategy. After envisioning the linkage to compensation, BTM embraced it as the key to its future success.

Outcomes

Scarcely one year after adoption (corporate in December 2001, business units and divisions in January 2002),

changes are already visible. Strategy has started to 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. The maps created a foundation for discussions at meetings. Also, BTM employees immediately recognized that performance against strategy needs to be measured — it’s not just a conceptual exercise.
- Support and oversight functions (like HR, audit, and credit examination) are now familiar with quantitative approaches to managing performance. They are more focused on the bottom line, and senior management has better control over their activities.
- Shared objectives are helping to unify the back (processing), middle (risk assessment and review), and front (dealmaking and customer-facing) offices. The bank’s New Jersey–based operations unit now meets regularly with front and middle offices about how to improve collaboration along the supply chain and accelerate results for their shared measures.
- In BTM’s most recent internal audit, auditors explicitly recognized the Balanced Scorecard as an effective means of enhancing corporate governance.
- Risk managers now make regular presentations on the metrics in their scorecards. One powerful metric in the BTMHQA scorecards is “share of issues,” which measures the percentage of issues identified through COSO-based self-assessment out of all the issues identified by other parties, such as internal and external auditors and regulators. The higher the percentage, the more proactively the bank’s business lines are identifying risks. This metric immediately had the effect of making the business lines pinpoint risks they had previously ignored or waited to react to. The associated metric “share of issues closed during period” is now forcing a quicker resolution of risk issues.

This metric reflects BTMHQA’s efforts to emphasize the importance of being more risk sensitive, based on the assumption that those within a banking institution are more aware of its risks than anyone else. Waiting for third parties to identify risks is too reactive an approach and will no longer be tolerated at the bank. Linking COSO-based self-assessment to the BSC to enhance its effectiveness is perhaps the most creative aspect of BTMHQA’s scorecard initiative.

- Throughout FY2002, BTMHQA has been rolling out the Balanced Scorecard to its Americas branches. The bank’s progress has prompted BTM’s head office in Japan to explore the potential of the Balanced Scorecard for itself.

Large-Scale Success

Making strategy explicit is a critical first step to performance measurement and management at any organization — especially one with a cross-cultural environment. What’s truly impressive is the linkage BTMHQA accomplished among three complex and fundamental initiatives. At a time when corporate governance is of heightened importance, not just among financial institutions, there’s an increasing need for management programs and controls that work hand in glove. BTMHQA proves it can be done — no matter how big the organization or extensive its reach.

¹ *The 2000 Gramm-Leach-Bliley Act and other market developments have prompted U.S. regulators to focus increasingly on corporate governance as a critical factor in sound banking practice.*

² *Once unique to BTMHQA, this BSC-building process has proved to be one of the most elegant and efficient methods. The Balanced Scorecard Collaborative is now applying it elsewhere.*

³ *COSO (the Committee of Sponsoring Organizations of the Treadway Commission) is a voluntary private-sector organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance. See <http://www.coso.org>.*