BALANCED SCORECARD COLLABORATIVE
Hall of Fame

Chemical Bank

CHEMICAL

Abstract

In 1993, Chemical Bank and Manufacturer's Hanover merged and launched a metropolitan markets division that targeted customers and small businesses in New York City. Retail banking was experiencing slow revenue growth, rising costs, increasing outflows of deposits to mutual funds, and more demanding customers.

Chemical Bank's new three-pronged strategy involved over 100 major initiatives for changing every part of the business. The executive team felt strongly that this scope and depth of change would require strong management. They selected the Balanced Scorecard as a tool for focusing and controlling these change efforts. They also found it useful on two occasions for reducing the number of retail branches while minimizing account losses.

This case study covers the years 1993-1996. Chemical Bank achieved the following as a result of its Balanced Scorecard implementation:

- Retained 85-90% of targeted customer accounts in spite of massive branch closings resulting from merger with Manufacturers Hanover.
- Retained 95-100% of targeted account balances when a second merger was completed in with Chase Manhattan in 1996.

Chemical Bank exemplifies the following principles of a Strategy-Focused Organization:

- Translate the Strategy
- Mobilize Change Through Executive Leadership
- Make Strategy a Continual Process

Background

In 1991, Chemical Bank and Manufacturers Hanover Corporation completed one of the largest bank mergers in history to become the Chemical Banking Corporation (CBC). This new entity grew still larger during the initial years of its Balanced Scorecard implementation (1993-96) to become the second largest bank in the United States. In 1996 it merged with Chase Manhattan Bank to become the largest bank in the nation, operating under the name of Chase Manhattan Corporation.

Retail banks in the early 1990's experienced increasing pressures from deposit outflows to mutual funds, rising costs, more demanding customers and retarded revenue growth. The Chemical/Hanover bank merger compounded this turmoil. Both banks had to adjust not only to new market realities but also to each other's very different corporate cultures. Michael Hegarty, Head of CBC's Retail Bank, began a transformation effort in early 1995. He felt that the Balanced Scorecard would help them increase their "share of wallet" with targeted customer groups. At the same time, he wanted to protect against seemingly inevitable account losses resulting from merger-generated downsizing and the consequent closing of some 100 unneeded metropolitan retail branches.

Hegarty wanted to move the bank away from a generic approach to its marketplace — collecting and processing deposits. Instead, his strategy involved broadening their product and service lines and increasing their knowledge of customer needs. He felt this would enable them to then target the most desirable customers with new offerings, supported by new relationships, resulting in a larger "share of wallet."

Mobilize

Vice Chairman Michael Hegarty sponsored the BSC project. Additional executive support was supplied by Tony LoFrumento, Vice-President of Strategic Analysis; Ted Francavilla, Managing Director of Strategic Planning and Finance; and Lee Wilson, Chief of Staff for the Retail Bank.

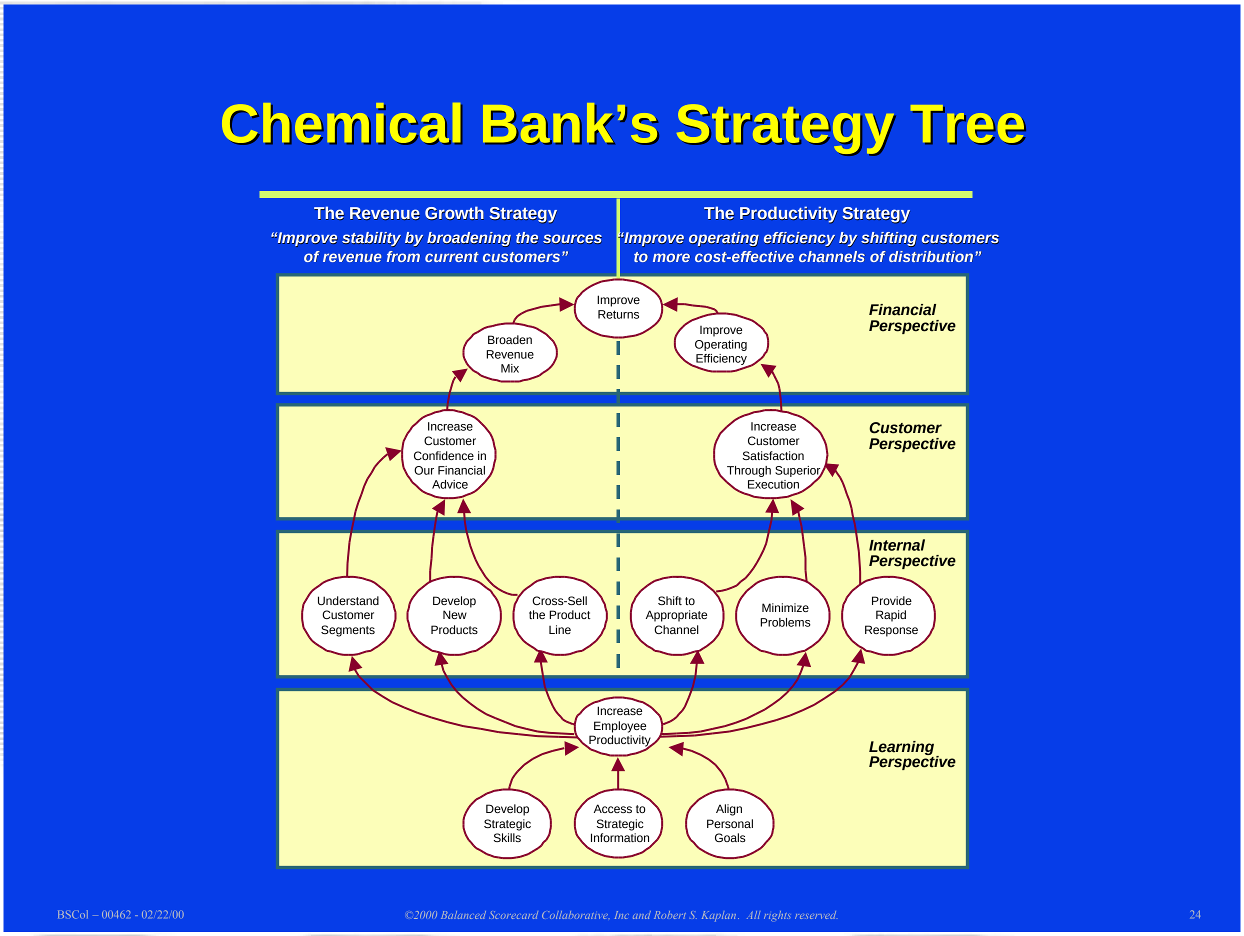
Hegarty saw his bank and others experiencing increased financial pressures from deposit outflows to mutual funds, rising costs, more demanding customers and retarded revenue growth. The Chemical/Hanover bank merger compounded this turmoil. Both banks had to adjust not only to new market realities but also to each other's very different corporate cultures. He needed a management system that would allow him to both control and drive the change management process involving over 100 separate initiatives; hence, the BSC.

Francavilla, who had seen the BSC concept at a one-week business school executive program, immediately asked LoFrumento to chair a middle-management task force to build a BSC for the New York Markets division. In the beginning this was without the benefit of Hegarty's direct support and involvement. Soon they realized that his support was critical to the project's success. A presentation by the originator of the Balanced Scorecard concept, Dr. David Norton, secured Hegarty's interest and involvement.

Thereafter, Francavilla functioned as the internal champion (with Hegarty's open support) for the BSC project and led the day-to-day development activities. The senior management group was divided into four sub-groups, each responsible for developing strategic objectives for one of the four perspectives of the BSC. They, in turn, enlisted the involvement of lower-level managers to translate those objectives into suitable measures upon which all could agree. The process of completing the strategic map of objectives and measures and obtaining consensus on the resulting corporate scorecard took about six months, ending in December of 1993.

Mobilize

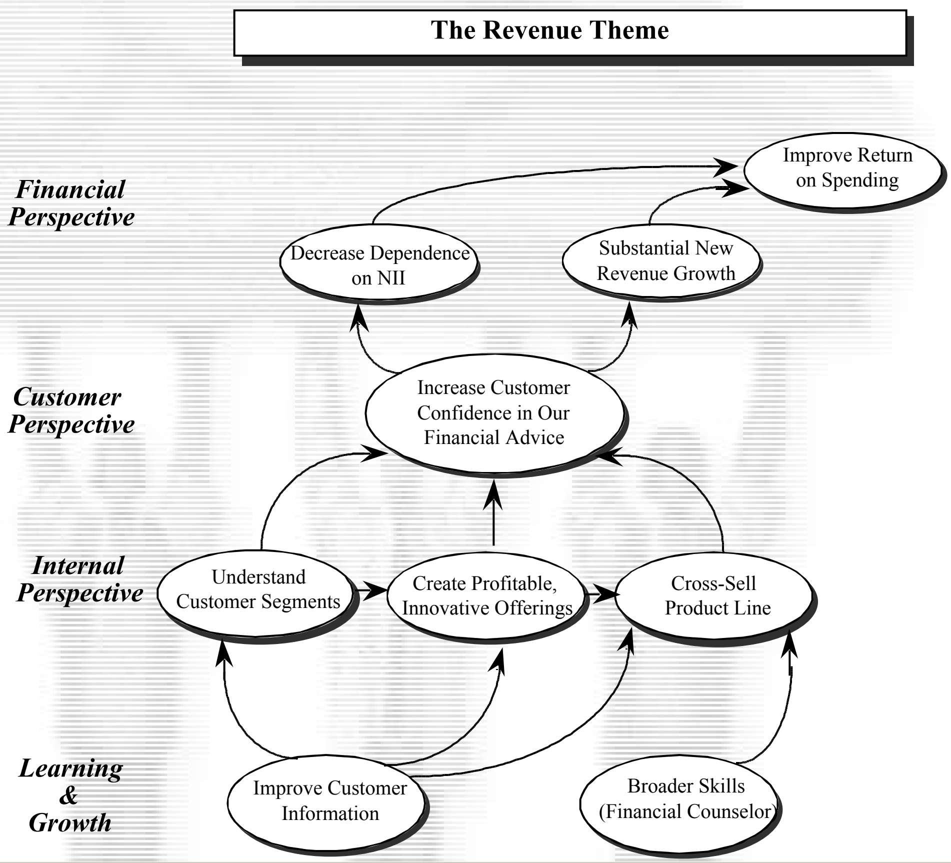
Below is the result of Chemical Bank's leadership's BSC discussions.



Translate

One segment of the strategy map emphasizes revenue generation and the themes that drive the hypothesized cause-effect linkages in that segment.

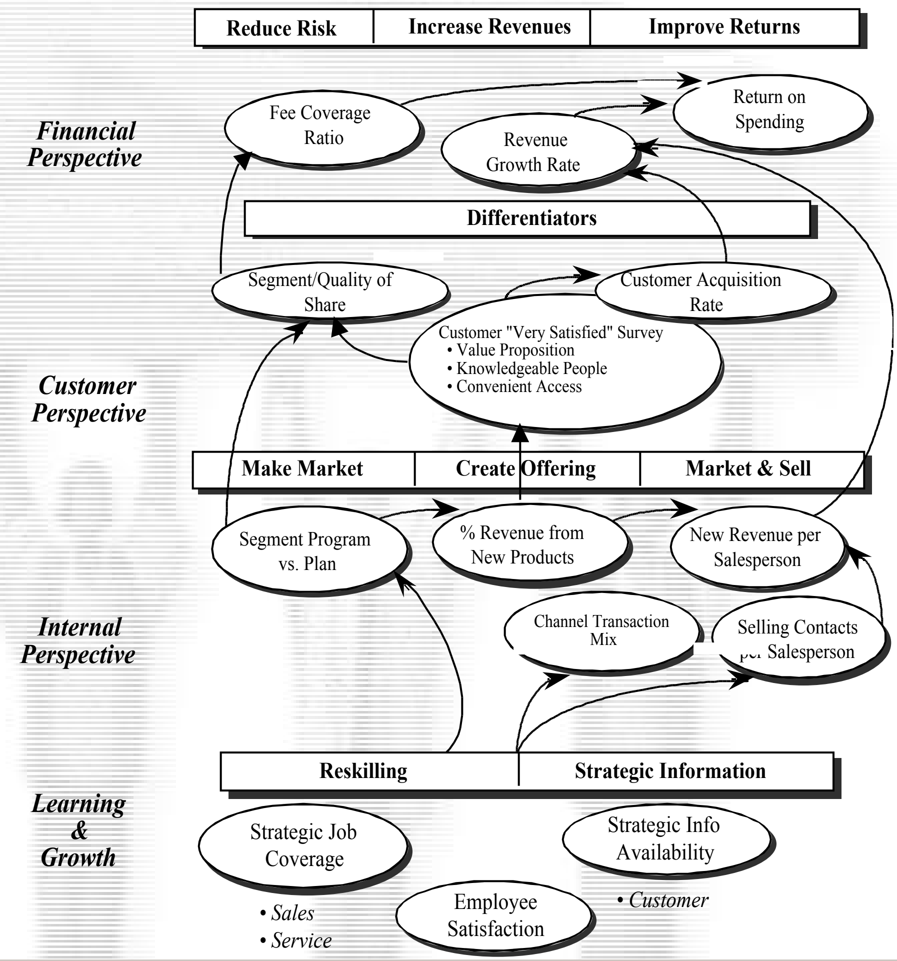
Vision Fragment: Revenue Generation Theme (Objectives)



Translate

The objectives from that map were then translated into a map of supporting strategic measures.

The "Revenue Generation" Theme's Linkages Lead to Several Critical Strategic Initiatives (Measures)



Translate

The Chemical Bank scorecard resulting from the Strategy Map supported the New York Metropolitan strategy.

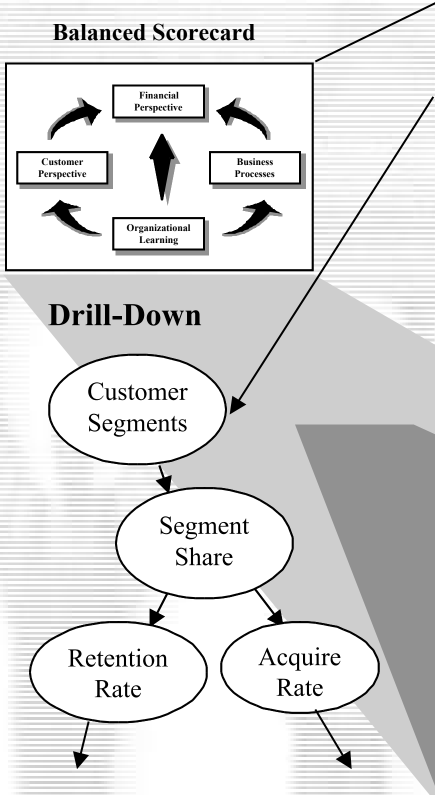
Chemical Bank/NY Markets Balanced Scorecard

Perspective	Strategic Objective	Measures
Shareholder	F1 Increase return on spending	F1 Return on spending
	F2 Improved operating efficiency	F2.1 Deposit servicing cost F2.2 Funding efficiency index
	F3 Reduced dependence on NII	F3 Fee coverage ratio
	F4 Achieve substantial new revenue growth	F4 Revenue growth rate
Customer (Differentiators)	C1 Offer customized value propositions C2 Differentiate through knowledgeable people C3 Offer convenient access	C1.1 Segment share C1.2 Quality of share C2 Customer "very satisfied" survey by segment
Customer (Essentials)	C4 Perform consistently and seamlessly C5 Service customers expediently C6 Eliminate mistakes	C3.1 New customer acquisition rates by segment C3.2 Customer retention rate by segment
Internal (Development)	I1 Segment and target customer base	I1 Segmentation program vs. plan
	I2 Create profitable and innovative offerings	I2.1 Channel transaction mix I2.2 Percent of revenue from new products
Internal (Delivery)	I3 Cross-sell our products	I3.1 New revenue per salesperson I3.2 Selling contacts per salesperson
	I4 Provide service & quality excellence	I4.1 Trailway to trolls I4.2 Request fulfillment time I4.3 Internal customer satisfaction
Learning & Growth	L1 Build strategic information assets	L1 Strategic information availability
	L2 Develop strategic skills & competencies	L2 Strategic job coverage
	L3 Focus our resources	L3.1 Strategic resource alignment L3.2 Personal goals alignment
	L4 Link accountability & reward to strategic objectives	L4 Return on compensation L5 Employee satisfaction

Translate

Below is a structured view of various initiatives that grew out of the customer segmentation portion of Chemical's scorecard.

Chemical Has Undergone A Major Review Of Its NY Markets Business Strategy



Strategic Initiatives

#1: Segmentation & Targeting
Develop a segmentation and targeting strategy which will allow us to focus the strategy on markets of high potential where we have a relative advantage.

#2: New Product/Service Development
Manage the new product development process in order to achieve the objectives for increased non-interest income and shifting channel transaction mix.

#3: Selling Effectiveness
Dramatically improve the sales process to increase the number of weekly contacts with customers, thereby increasing new revenue per salesperson.

#4: Channel Mix
Shift the mix of transactions to the most cost-effective channel for each market segment in order to reduce deposit service cost.

#5: Distribution & Service Excellence
Dramatically improve the timeliness and quality of services to improve targeted customer retention and to significantly improve operating efficiency.

#6: Process Redesign
Fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical measures of performance.

#7: Strategic Skills & Competencies
Develop the skills and competencies necessary to achieve our objectives for cross-selling and service excellence.

#8: Strategic Information Assets
Develop the strategic information assets necessary to achieve our segmentation, cross-selling and service excellence objectives.

#9: Focus & Accountability
Develop the programs to insure that our capital, expenses and the time of our people are invested in strategic priorities.

Govern

Strategic Learning

Chemical Bank's senior management met monthly to review scorecard results from two points of view: an "operational mode—did we accomplish what we targeted on the scorecard?" and a "strategic mode—are we still moving in the right direction?"

The management review meeting evolved to a new structure with the advent of the Balanced Scorecard. Before the scorecard, 20% of the meeting was devoted to strategy -- after the BSC, 80% of the meeting was spent discussing strategy.

These review meetings required significant leadership involvement in order to carry the required weight in the minds of those who were invited, so that they would attend regularly and come fully prepared.

Further, the administrative support to make them effective should not be minimized. At Chemical Bank, a full-time Assistant Vice-President and half the time of a Vice-President from the Strategic Planning Group were dedicated to managing the scorecard review process. This process involved planning the agenda, handling meeting logistics, assisting with data preparation and reporting, and coordinating the action lists that resulted from decisions made at these meetings.

In other words, these meetings were so important to the strategic operation of the company that no effort was spared to make them consistently successful.

Analytics & Information Systems

The bank's paper-based Balanced Scorecard tracking system became quite cumbersome and only permitted top-level data views with little drill-down. They decided to create an automated client/server-based scorecard data system, implemented by ASI Financial Services. This tool dispersed information down through four organization levels, allowing branch-level users to view it from their PC's.

Govern

Concurrent with the completion of the initial corporate scorecard in December of 1993, Hegarty assigned personal responsibility for individual strategic measures to senior managers, each of whom was designated to collect the information and report on their assigned measure.

For example, Dave Mooney, manager of the Manhattan branch network, owned three measures under the “Market and Sell” theme. He met frequently with branch marketing and selling managers to discuss progress along these three measures.

Initially, the accountability for results on the measures extended only to the top 27 managers in the Retail Bank. The BSC was not used to drive comprehensive, bank-wide change yet. Because of gaps in the data, the leaders did not feel that they were prepared to present a credible and complete picture of the bank’s performance to the rank and file employees. Specifically, they did not have data yet for new measures like “Strategic Job Coverage” and “Strategic Resource Alignment,” both of which needed to be created as data streams. Also, diverse information systems impeded the integrated presentation of the measurement results.

Later, Dave Mooney used one of the measures, “selling contacts per salesperson” in the Manhattan branches. He asked for 10 completed sales contacts per week. His consistent follow-up to review results by branch and person on this measure cemented its day-to-day importance in the minds of the employees of the branches. He commented on the process:

“Measures don’t manage. The BSC gave us an engine, but it was management that had to put the vehicle in motion. The great value of the BSC was that it articulated the key levers of performance and reduced these to a few important drivers.”

Strategic Management

Hegarty and his associates used a variety of tools to communicate and reinforce their new strategy. These included not only the Balanced Scorecard, but also mission and vision statements, gap analysis, strategy consensus and brand positioning. These formed the “architecture of success” which was used to communicate strategic direction and new initiatives in a comprehensive way to 15,000 individuals in the bank.

Results

As a result of its Balanced Scorecard, Chemical retained 85-90% of targeted customer accounts in spite of massive branch closings resulting from the merger with Manufacturers Hanover.

It also retained 95-100% of targeted account balances when a second merger was completed in with Chase Manhattan in 1996. According to Lee Wilson, Chief of Staff for the Retail Bank, "We got tremendous value out of that process. It saved us several billion dollars of balances and added somewhere between 20 and 30 million dollars per year to earnings."

Profits increase in dramatic steps after BSC introduction:

Year	Profits
1993 (base year)	X
1994	8X
1995	13X
1996	19X

"We always had communication," says Mike Hegarty, Vice Chairman, Chemical Bank. " That part isn't new. But the communication was by anecdotes, and not a basis for setting priorities for programs or for resource allocation. The BSC came along in the resource-constrained environment of the 1990's, where excellence in revenue, expense, and investment management would be decisive. The BSC helps us take the 'noise' out of the anecdotes, it will tell us whether we have the right priorities for our activities and whether our activities are in sync with our strategy."

BSCol Hall of Fame

Balanced Scorecard Collaborative Hall of Fame winners have achieved breakthrough performance largely as a result of applying one or more of the five principles of a Strategy-Focused Organization: mobilize change through executive leadership; translate the strategy to operational terms; align the organization to the strategy; make strategy everyone's job; and make strategy a continual process.

Other selection criteria are: implement the Balanced Scorecard as defined by the Kaplan/Norton methodology; present the case at a public conference; achieve media recognition for the scorecard implementation; produce significant financial or market share gains; and demonstrate measurable achievement of customer objectives. Hall of Fame honorees are nominated by the Collaborative's in-house experts and are personally selected by Balanced Scorecard creators Dr. Robert Kaplan and Dr. David Norton.

About Balanced Scorecard Collaborative

Balanced Scorecard Collaborative, Inc. (BSCol) is a new kind of professional service firm dedicated to the worldwide awareness, use, enhancement, and integrity of the Balanced Scorecard (BSC) as a value-added management process. Led by Balanced Scorecard creators Drs. Robert Kaplan and David Norton, BSCol provides consulting, conferences, training, publications, action working groups, software certification, and online services. For more information, please call us at 781.259.3737, or visit us on the web where you can join Balanced Scorecard Online for the latest insight and resources at bscol.com