The Chrysler Group Comes Back: Using the BSC to Drive a Turnaround

by Lauren Keller Johnson; adapted from a presentation by Bill Russo, Director of Business Strategy, the Chrysler Group

Until recently a leader in bold, expressive automotive design, Chrysler saw its fortunes sputter in the late 1990s due to a slowing economy, aggressive competition, and rising internal costs. The company's complicated merger in 1998 with Daimler-Benz further distracted top managers. Within three years, financial results grew dismal. The Chrysler Group (CG) — one of DaimlerChrysler's five units — knew it needed to initiate a speedy turnaround. In March 2001, it implemented the Balanced Scorecard. By the second quarter of this year, the Chrysler Group was firmly on the road to recovery.

The year is 1996. Boasting $6.1 billion in operating profit, Chrysler enjoys its most successful year ever and is named Company of the Year by *Forbes*. Among the Big Three American automakers, Chrysler (which also includes the Jeep and Dodge brands) has a reputation for being a lean-and-mean risk taker and an innovator in automotive design. Its managers feel they can do no wrong.

Fast-forward to 2001. Three years after its merger with Daimler-Benz, the Chrysler Group suffers an operating loss of $2 billion. What happened? First, competitors began muscling into the SUV and minivan markets, splintering them into niche markets that called for whole new strategies. In response, Chrysler adopted a defensive posture, spending more to refine existing designs rather than create irresistible new ones. Second, expanding product lines and favorable exchange rates in the late 1990s enabled imports to steal 10% of U.S. market share from the Big Three.

Already hemorrhaging badly in early 2001, Chrysler knew it must engineer a dramatic turnaround if it hoped to reclaim its place in the fast lane. It also knew it had to act quickly; its disastrous performance cost CG's CEO Jim Holden his job and fueled speculation that DaimlerChrysler might even sell off the struggling business unit.

Although things looked grim, the company did have a history of successful turnarounds. In the early 1980s, it paid off an unprecedented government bailout engineered by then CEO Lee Iacocca — years ahead of schedule. A decade later, it saved itself again after teetering on the brink of bankruptcy.

Now Chrysler prepared for a new race. It created turnaround teams to slash costs and boost revenues, demanding lower prices from suppliers and cutting its workforce. Then it took a new look at the Balanced Scorecard to see what role the performance measurement system might play in the Group's turnaround effort.

Revisiting the BSC

As Bill Russo, CG's director of business strategy, explains, the organization was no stranger to the scorecard concept. Chrysler had been using various scorecard systems as far back as 1993. But the company had never executed high-level strategy from it.

In a November 2000 conversation with CG's newly appointed president and CEO, Dieter Zetsche, Russo suggested creating a corporate scorecard. As he put it, "We needed top managers to own balance-sheet elements that contribute to the Group's financial performance — and to mobilize behind a common set of objectives." The scorecard promised to create the right "pull," balance long-term and short-term goals, and align CG executives behind DaimlerChrysler's four-part strategy

Figure 1. The Chrysler Group's "Vital Few" Goals and Measures

	GOAL	MEASURES
Financial Perspective	Increase shareholder value	Value added; operating profit; free cash flow
Customer Perspective	Delight the customer	Sales and marketing contribution; loyalty; quality image; J.D. Power; warranty expense per unit sold (EPUS)
	Deliver aspirational products	Reach; *Consumer Reports*
Internal Perspective	Achieve lean processes	Fixed cost; program spending; plant cost; material cost
Learning and Growth Perspective	Optimize employee performance	Employee satisfaction index

KEY:
Strategic measures
Turnaround measures

Using strict criteria, executives whittled more than 50 possible performance measures down to 15.

of global presence, strong brands, a broad product range, and technology leadership. Zetsche championed the idea, recognizing that transforming the company would require not just a financial turnaround but also a profound cultural shift — one that would foster entrepreneurship, empowerment, and accountability to achieve business results.

Within two months, Chrysler had formulated its turnaround plan. The scorecard initiative, led by Russo and the executive committee (the top eight senior executives), became a driving force for the plan. The executive committee assumed responsibility for reporting performance against scorecard targets, supported by the leaders of finance, quality, market research, and human resources. The team knew that a turnaround would hinge on five critical success factors:

1. ***Transparency*** — open reporting of progress every month;
2. ***Accountability*** — assigning ownership for each target;
3. ***Comprehensiveness*** — tying actions specifically to each target;
4. ***Clear leadership*** — ensuring the highest level of management attention; and
5. ***Alignment*** — linking Group strategic goals with functional-area and individual performance.

Russo played a unique three-part role in the scorecard initiative: besides business strategist, he served as scorekeeper (of BSC measures) and gatekeeper. (As secretary of the executive committee, he focused top management's attention on any performance shortfalls.) Russo thus faced a tough challenge: balancing short-term turnaround (operational) targets against long-term (strategic) goals.

Building the Scorecard

To begin building a corporate-level scorecard, the Chrysler Group confirmed its long-term vision: "building cars and trucks that people want to buy, enjoy driving, and want to buy again, while leveraging the best of American design and German engineering" (achieving "disciplined pizzazz," for short).

In the winter of 2000–01, CG executives brainstormed potential performance measures. Starting with more than 50, they whittled the list down to 15 "vital few" measures by subjecting each one to strict criteria: Was the data available? How frequently was it updated? Did it show a clear cause-and-effect relationship?

The team also decided to take advantage of the automotive industry's longtime reliance on third-party benchmarks, selecting several such benchmarks to serve as key performance indicators. For example, team members chose the recognition of quality by J.D. Power surveys and positive reviews in the annual *Consumer Reports* issue as two customer-related indicators. But because these are lagging indicators, the team developed internal, "surrogate" metrics for several third-party indicators. It matched the J.D. Power Initial Quality Survey (which appears once a year) to its own Quality Tracking System survey (conducted throughout the year, thus predictive of the J.D. Power findings).

Next the executives translated the four scorecard perspectives into five vivid goals to which they connected their 15 performance metrics. (See *Figure 1,* previous page.) By March 2001, they were ready to roll out the CG scorecard to the organization.

Creating Discipline and Strategic Alignment

Though the Chrysler Group is run as an independent business unit, Zetsche decided to link the Group's scorecard to DaimlerChrysler's business planning process, which addresses the company's long-term strategy as well as its near-term financial and volume commitments. DaimlerChrysler and its five strategic business units also set their own financial commitments and targets. This process produces a three-year *operational* plan that the board of management approves at year-end. The commitments are reflected in DaimlerChrysler's long-term *strategic* plan, which is reviewed and updated annually. In this way, Chrysler translates its "hard" commitments to the company into specific targets for each functional area. Every December, the Group selects revenue, cost, and other targets by examining industry averages and updating its targets accordingly.

In addition, the executive committee meets monthly to review the CG scorecard. It uses the traffic-light system to rate each measure: green ("expected to reach or exceed target"), yellow ("some risk of not achieving target"), and red ("not expected to achieve target"). In Russo's view, these meetings stimulate executives to find ways to turn red measures into green ones. "I can't imagine being without this discipline," he says. "It helps people see how they affect the company's overall performance and aligns functional strategies with company goals."

To further align individual performance with Group goals, Chrysler emphasizes scorecard performance through its performance-appraisal processes: LEAD (Leadership Evaluation and Development), an executive appraisal process launched several years ago; and E/MAP (Employee/Manager Assessment Process), which is used to evaluate the performance of all salaried employees.

The Group cascades the scorecard through the organization via the target-agreement process. (See *Figure 2,* next page.) All executives and senior vice presidents must align their scorecards and goal agreements with the CG scorecard; this process is then repeated throughout the remaining levels of the organization, thereby focusing the whole company on the organization's strategic priorities.

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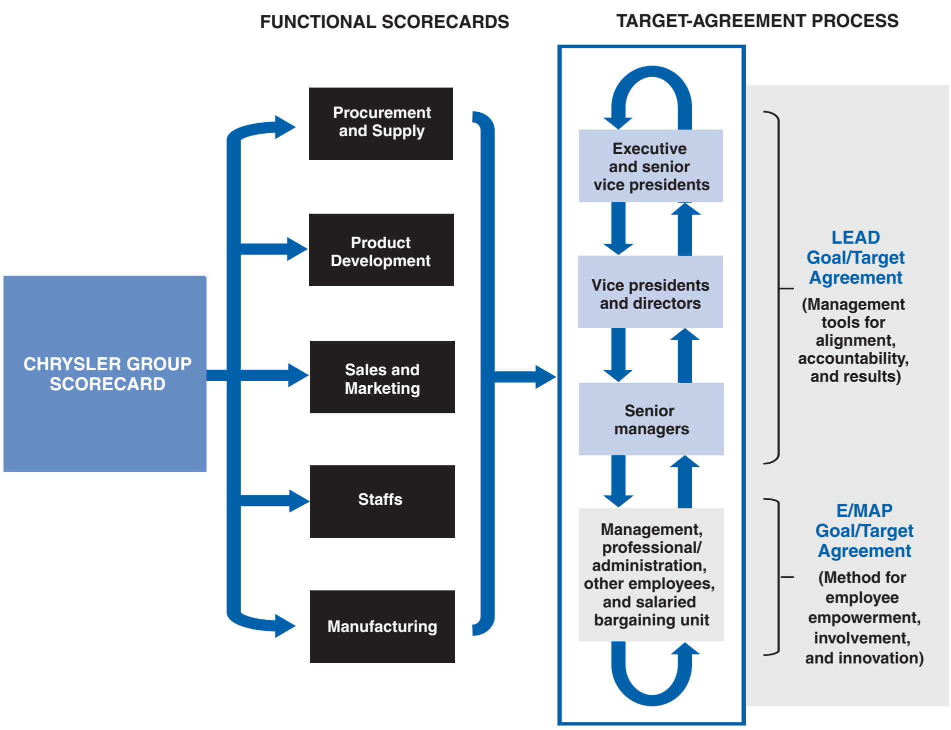
Figure 2. The Target-Agreement Process



Chrysler cascades its BSC throughout the organization using target agreements, part of the performance-appraisal process.

Leveraging Lessons Learned

Russo suggests several principles for fully leveraging a corporate scorecard. To focus managers' attention, he recommends articulating just a "vital few" tangible performance goals. Like pilots, managers should concern themselves with only the most important gauges, examining others more closely only if something seems wrong with the crucial ones.

Russo also believes it's essential to integrate the scorecard with corporate governance. The Chrysler organization reviews its performance against scorecard targets through three channels: the executive committee (the top eight senior executives), which meets monthly, and the officers' council (the top 25 officers) and senior management team (the top 300 senior managers), both of which meet quarterly. Zetsche leads all three meetings, supported by Russo's team. This approach has helped Chrysler streamline its corporate governance process dramatically.

Russo recommends learning by doing rather than waiting until your strategy is perfectly formulated before constructing a scorecard. While many companies fail at strategy execution, Chrysler has found the scorecard to be an effective means of accelerating and ensuring disciplined execution.

Finally, it's important to tie bonuses and other compensation directly to scorecard performance. "There's no faster way to get people's attention than to pay them based on achieving business-plan targets," Russo notes. The performance-appraisal process was linked to the scorecard in 2001, and bonuses and compensation were linked this year.

Early Scorecard Scores

How large a role the Chrysler Group's 18-month-old corporate scorecard initiative will play in the organization's turnaround effort will become clearer only with time. Indeed, the unique challenges automakers face — long product cycles, big-ticket products, and exquisite sensitivity to overall economic conditions — are only heightened in today's uncertain economic climate.

However, the early signs look promising. The Chrysler Group's $2 billion loss in 2001, though painful, was still $3 billion less than the initially forecasted $5 billion loss. Sales picked up in Q1 2002, and by midyear, CG had its second consecutive quarter of profitability, exceeding its goal of breaking even in 2002. The company has also enjoyed higher manufacturing productivity and earned higher rankings in industry surveys of quality and customer service. Internally, the scorecard initiative has stirred interest among strategists and senior managers throughout DaimlerChrysler. By putting the scorecard in the driver's seat, Chrysler Group has apparently turned the corner.

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