PERFORM

Performance Measurement in Action

Volume 2, Issue 2

A Balancing Act

Howard Rohm

About the Author

Howard Rohm is Vice-President of the Balanced Scorecard Institute, president of Howard Rohm Consultants, LLC and an international trainer, consultant, and facilitator. He has over 25 years of government and private industry strategic planning, Balanced Scorecard, Performance Measurement, and information technology experience.

Developing and Using Balanced Scorecard Performance Systems

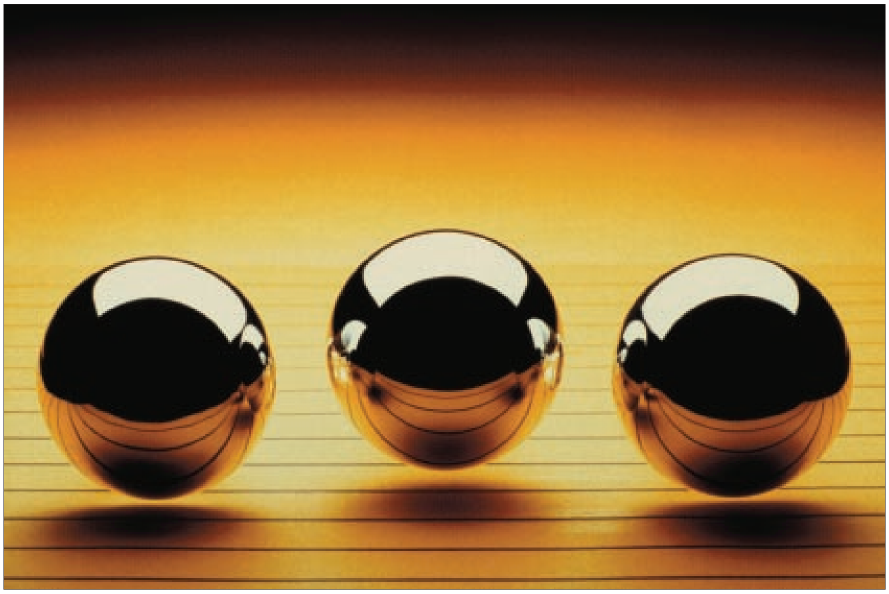
Private and public organizations find themselves continually trying to do more with less. As I visit business and government managers around the world, I am reminded of Stephen Covey's quote: "People and their managers are working so hard to be sure things are done right, that they hardly have time to decide if they are doing the right things."

Doing the right things and doing things right is a balancing act, and requires the development of good business strategies and efficient operations to deliver the products and services required to implement the strategies. Competitive pressures on private businesses, and performance improvement and reform pressures on public sector organizations, mandate that organizations continually worry about executing good strategy well, at the same time that they worry about running business operations efficiently. Today's organizations need to be both strategically and operationally excellent to survive and meet tomorrow's challenges. One framework that helps achieve the required balance between strategy and operations is the Balanced Scorecard.

The Balanced Scorecard is a Performance Management system that can be used in any size organization to align vision and mission with customer requirements and day-to-day work, manage and evaluate business strategy, monitor operation efficiency improvements, build organization capacity, and communicate progress to all employees. The scorecard allows us to measure financial and customer results, operations, and organization capacity.

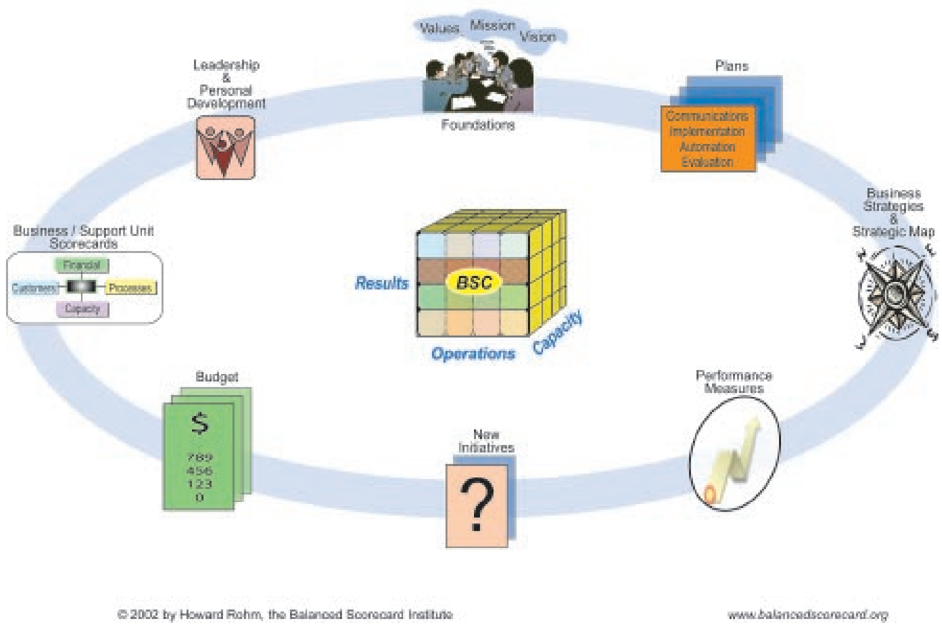
This article discusses how to develop a Balanced Scorecard performance system, explores issues that organizations face in building and implementing scorecard systems, and shares lessons learned from organizations that have taken the Balanced Scorecard journey.

Originally developed as a framework to measure private industry non-financial performance, Balanced Scorecard systems are equally applicable to public sector organizations, but only after changes are made to account for the government mission and mandates, not profitability, that are unique to almost all public sector entities. (Some public organizations generate and use revenues to offset expenses and minimize the need for annual Congressional appropriations; their



Featured in this issue...

Figure 1: Balanced Scorecard Performance Management System

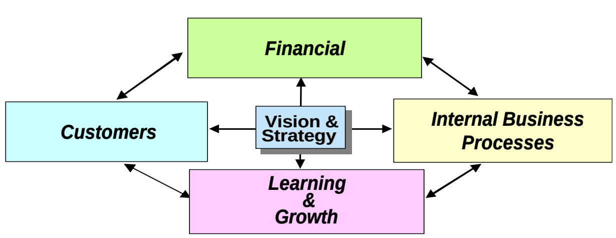


operations are more like a business than a government entity, and they could use the private sector scorecard model).

Originally developed in the early 1990s, the Balanced Scorecard has migrated over time to become a full Performance Management system applicable to both private sector and public (and not-for-profit) organizations.[1] Emphasis has shifted from just the measurement of financial and non-financial performance, to the management (and execution) of business strategy.

Balanced Scorecard systems give us the ability to view three different dimensions of organizational performance: Results (financial and customer), Operations, and Capacity, as shown in Figure 1 above. The figure also shows the components of a fully developed scorecard system: Business Foundations, including vision, mission, and values; Plans, including communications, implementation, automation, and evaluation plans, to build employee buy-in and communicate results; Business Strategies and Strategic Maps, to chart the course and define the logical decomposition of strategies into activities that people work on each day; Performance Measures, to track actual performance against expectations; New Initiatives, to test strategic assumptions; Budgets, including the resources needed for new initiatives and current operations; Business and Support Unit Scorecards, to translate the corporate vision into actionable activities for departments and offices; and Leadership and Individual Development, to ensure that employee knowledge, skills and abilities are enhanced to meet future job requirements and competition. We'll explore each of these components in more depth in this article and a follow-up article, in the next issue of *Perform Magazine*. In this first article, we'll concentrate on how to build a scorecard.

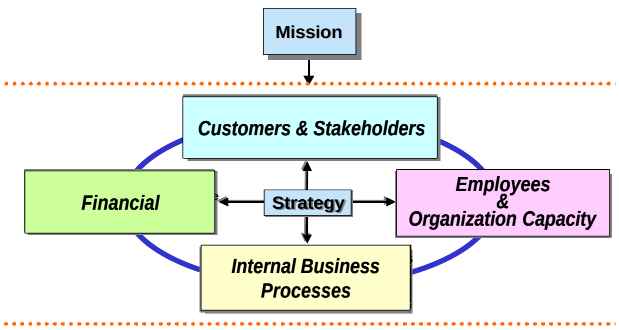
Figure 2: Basic Design of a Balanced Scorecard Performance System



In Balanced Scorecard language, vision, mission, and strategy at the corporate level are decomposed into different views, or perspectives, as seen through the eyes of business owners, customers and other stakeholders, managers and process owners, and employees. The owners of the business are represented by the Financial perspective; customers and stakeholders (customers are a subset of the larger universe of stakeholders) are represented by the Customer perspective; managers and process owners by the Internal Business Processes perspective; and employees and infrastructure (Capacity) by the Learning and Growth perspective.

Figure 2 shows an integrated relationship among the key parts of a scorecard system – Vision, Strategy, and Perspectives. Balance is achieved through the four perspectives, through the decomposition of an organization's vision into business

Figure 3: Public-Sector Balanced Scorecard



strategy and then into operations, and through the translation of strategy into the contribution each member of the organization must make to successfully meet its goals.

Variations in the basic design are common. Typical changes include changes in the categorization of perspectives (Innovation and Learning, or Employees, in place of Learning and Growth, for example) and the number of perspectives (adding Stakeholders as a separate, fifth perspective, for example).

When the Balanced Scorecard framework is applied to a public organization, such as a Federal agency, a military unit, or a state and local government organization, the framework must be changed to capture the mission-driven nature of public organizations (in contrast to the profit-driven motivation of private businesses). Also, government reform initiatives at all levels of government are placing more emphasis on accountability and results to meet citizen expectations for public services and products. The desired outcome for a private organization is a growing, profitable, competitive enterprise; for a public organization, desired outcomes center on the delivery of necessary, cost-effective services for citizens or members (for not-for-profits).

Figure 3 shows the basic design of a public sector scorecard system. Note the changed emphasis on Mission (the key driver of a public sector organization), the change in the Customer perspective to Customers & Stakeholders (mission driven customer requirements, subject to government mandates and limitations), and the changed positions of Financial and Customer perspectives. We like to use the term Employees and Organizational Capacity for the final perspective, to reflect the importance of the human system and of capacity building through trained and knowledgeable employees and efficient information technology systems. Also, sometimes a Budget perspective is used in place of the Financial perspective, to reflect the budget formulation and execution processes associated with public accountability of funds.

For public organizations, the broader universe of all stakeholders becomes important as Balanced Scorecard teams account for the impacts of public programs on directly affected citizens, regulators and other oversight bodies, businesses, and the public at large. These changes are much more than cosmetic – they represent a fundamental shift in the logic of building and implementing a scorecard performance system. But at the heart of the public scorecard system, just like for the private sector, is business strategy.

Strategy is the approach used to accomplish the mission and implement an organization's vision. Strategy exists at different levels within an organization, such as overall organizational strategy to, for example, address certain business markets and eliminate others, or to aggressively pursue research and development internally as a way of developing new products.

Organizations usually have more than one macro business strategy; typically, several common strategic themes or focus areas show up repeatedly across different businesses – Build the Business, Improve Operational Efficiency (or Effectiveness), and Improve Product Competitiveness, for example. The same pattern is true for public sector organizations, where examples include: Meet Citizen Needs, Enhance Technology Applications, Improve Operational Effectiveness, and Enhance Community Safety and Well-Being. Each of the above strategic themes may contain one or more business strategies that determine what people do on a day-to-day basis.

At the next lower level of strategy, sometimes called management (or department) strategy, managers develop the strategies for their business units that support overall organizational strategy and help propel an organization to reach its goals. But before we know which strategies are successful and which are not, they must be treated as hypotheses to be analyzed and tested as data becomes available from the scorecard management system. We need a framework to develop and manage strategy, and align the work we do with the goals of the organization.

The decision to undertake development of a Balanced Scorecard is a decision to undertake a journey, not work on a project. While there are discreet start and stop points along the way, one should not miss the point that the real value of a scorecard system comes from the continuous self-inquiry and in-depth analysis that is at the heart of all successful strategic planning and Performance Management systems. Start your Balanced Scorecard with the idea that you are in it for the long term, and that changing behavior is at least as important as measuring performance.

The scorecard journey has two phases: Building The Scorecard and Implementing The Scorecard.

We use a six-step framework to build an organization's Balanced Scorecard, and an additional three steps to implement the scorecard system throughout all levels of an organization. The steps and their sequence are shown in Figure 4. At the end of the first six steps, the high-level corporate scorecard is developed and it forms the basis for subsequent scorecard development. (Sometimes a scorecard journey begins in a

Figure 4

strategic business unit or support unit, in which case the unit scorecard is built first and becomes the basis for subsequent unit and corporate scorecards.)

Phase One: Building A Balanced Scorecard

Phase One: Building The Scorecard, consists of six steps. *Step One* is an Assessment of the organization's foundations, its core beliefs, market opportunities, competition, financial position, short- and long-term goals, and an understanding of what satisfies customers. Many organizations have completed this basic step, typically as a self-assessment at an off-site workshop for managers and executives. Usually, an organization's strengths, weaknesses, opportunities, and threats are developed, discussed, and documented. There is no need to repeat this "environmental scan" of an organization if the information is available and current, say within the past six months. It is important, however, to ensure that the assumptions that underlie the basis for the organization's existence and its business strategies are still valid and sound.

Other important aspects of the self-assessment step are to choose a champion and the core Balanced Scorecard team, set a schedule for the development steps, secure resource commitments necessary to develop and sustain the scorecard system, and develop a roll-out communications plan to build buy-in and support for the changes that will follow. Communications planning includes internal and external public information activities that will be used to spread the word about the Balanced Scorecard initiative and what it means for managers and all employees.

Step Two is the development of overall Business Strategy. In larger organizations, several overarching strategic themes are developed that contain specific business strategies. Examples of common strategic themes include: Build the Business, Improve Operational Efficiency, and Develop New Products. For public sector organizations, strategic themes might include: Build A Strong Community, Improve Education, Grow the Tax Base, and Meet Citizen Requirements. In addition to describing what the approach is, business strategy, by elimination, identifies what approaches have not been selected. Strategy is a hypothesis of what we think will work and be successful. The remaining steps in the scorecard-building phase provide the basis for testing whether our strategies are working, how efficiently they are being executed, and how effective they are in moving the organization forward toward its goals.

Step Three is a decomposition of business strategy into smaller components, called Objectives. Objectives are the

Figure 5: Strategic Mapping

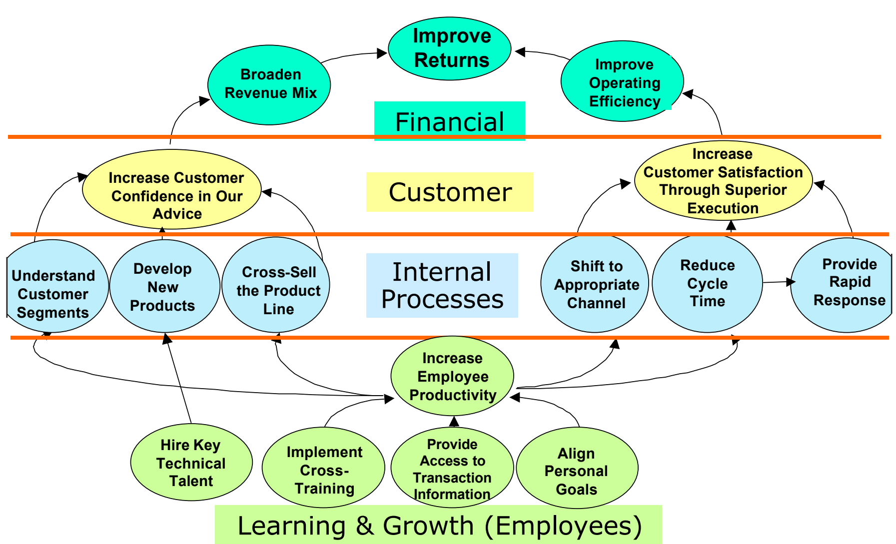
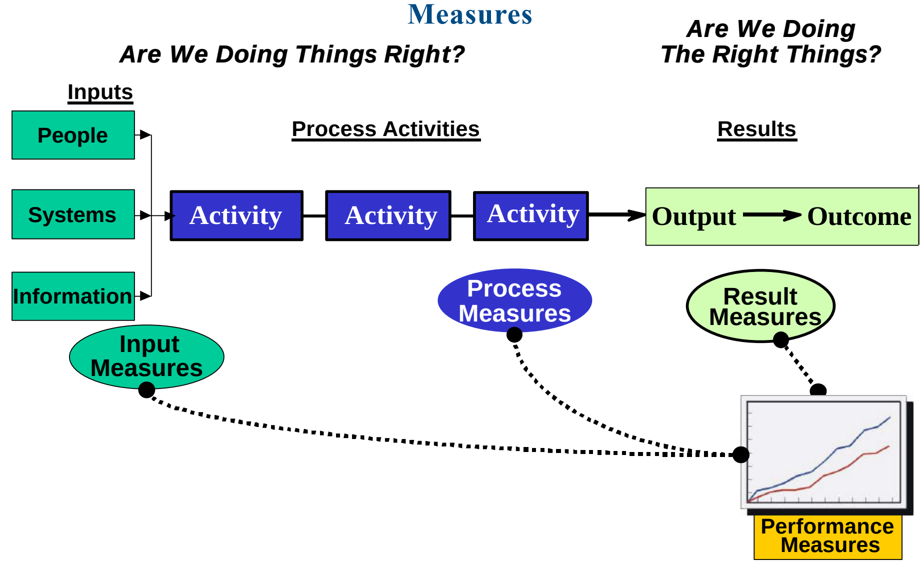


Figure 6: Develop Results and Process Measures



basic building blocks of strategy – the components or activities that make up complete business strategies. Southwest Airlines developed a business strategy to compete successfully in the crowded commercial airline market. The business strategy of Southwest includes the following components: innovation and speed in the redefinition of a marketplace; short-haul, high frequency, point-to-point routing (a significant departure from traditional hub-and-spoke routing); a high proportion of leased aircrafts; a very simple fare structure; and ticketless travel.[2]

Mecklenburg County, North Carolina developed a strategy to implement the Board of County Commissioners vision for 2015. The strategy has the following main themes: Growth Management and Environment, Community Health and Safety, Effective and Efficient Government, and Social, Education and Economic Opportunity. Strategic components include: Increased Employee Motivation and Satisfaction, Increased Employee Knowledge, Skills and Abilities, Improved Technology Capacity, Increased Use of Partnerships, Reduced Reliance on Property Taxes, Improved Service Value, Improved Environment, Reduced Crime and Violence, and Reduced Preventable/Communicable Diseases and other Health Problems, among others. [3]

The Federal Aviation Administration Logistics Center developed two business strategies: Become Customer Driven and Increase Business. These strategies were then decomposed into actionable goals with specific performance measures (metrics) and targets.[4]

One of the military commands has developed the following strategic themes to meet its goal of Equipping The Warfighter To Win: Quality Systems Equipment, Expert Life-Cycle Management, Operational Efficiency, and High-Performance Organization. Each theme decomposes into specific objectives that drive performance and can be measured.[5]

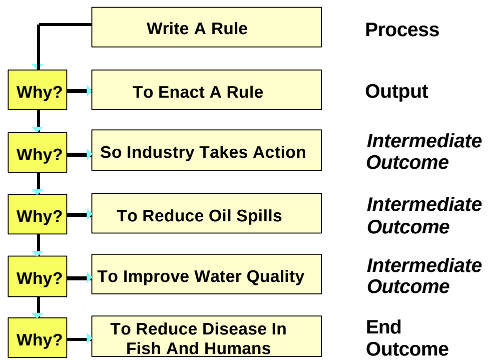
In *Step Four*, a Strategic Map of the organization's overall business strategy is created. Using cause-effect linkages (if-then logic connections), the components (objectives) of strategy are connected and placed in appropriate scorecard perspective categories. The relationship among strategy components is used to identify the key performance drivers of each strategy that, taken together, chart the path to successful end outcomes as seen through the eyes of customers and business owners. Figure 5, a strategic map for a transactions-based company, shows how an objective (effect) is dependent on another objective (cause), and how, taken together, they form a strategic thread from activities to desired end outcomes.

In *Step Five*, Performance Measures are developed to track both strategic and operational progress. To develop meaningful performance measures, one has to understand the desired outcomes and the processes that are used to produce outcomes. Desired outcomes are measured from the perspective of internal and external customers, and processes are measured from the perspective of the process owners and the activities needed to meet customer requirements. Relationships among the results we want to achieve and the processes needed to get the results must be fully understood before we can assign meaningful performance measures.

We use the strategic map developed in Step Four, and specifically the objectives, to develop meaningful performance measures for each objective. Thus, we look for the few measures (key performance drivers) that are critical to overall success.

Figure 6 shows a continuous learning framework for measuring and managing both strategic and operational performance. We put our Performance Measurement stethoscope wherever it is required to get meaningful performance information, whether we want to measure if we are doing the right things, or measure if we are doing things right.

Figure 7: Moving From Outputs and Activities to Outcomes



Developing meaningful performance measures (metrics) and the expected levels of performance (targets) is hard work if done correctly, and the development process is fraught with challenges. One challenge is the tendency to hurry and identify many measures, hoping that a few good ones are in the group and will "stick". The problem with this approach is that the value of information generated is limited, and the burden of data collection and reporting can quickly become overwhelming. (One of the worst mistakes I've seen made is for an organization to take measures that already exist, categorize them into four scorecard perspectives, and then announce that the corporate scorecard had been built! These "metric" scorecards are of little value to an organization, as they bear little relationship to strategy, desired results, and the processes needed to produce desired results.)

Another challenge is a tendency to rush to judgment – not thinking deeply about what measures are important and why. This happens because, usually in response to pressure from a supervisor, we get in a hurry to develop a final set of performance measures ("I need some measures – just get me some measures!!"). In most strategic plans and scorecard systems I have seen and reviewed, the development of performance measures is not taken very seriously, putting into question the value of the whole strategic and operational effort. Remember, measures are a means to an end, not the end themselves.

Figure 8: Balanced Scorecard Logic

We use three different models to get to the measures that matter most. Our goal is to identify the critical business drivers, measure them, and use the information to improve decision-making. ("If it is important to executing good strategy well, and to operating good processes efficiently, measure it – if it isn't, don't".) The three models are:

The Logic Model – This model allows us to explore the relationship among four types of performance measures: inputs (what we use to produce value), processes (how we transform inputs into products and services), outputs (what we produce), and outcomes (what we accomplish). This model reinforces the logic of the strategic map by showing the relationship among the activities that produce good outcomes. For public sector organizations, and sometimes for private sector as well, we add another measure category: intermediate outcomes, to capture the important intermediate transformations that take place between what we produce and what we accomplish. This additional step is especially useful when the end outcome is far removed from the outputs produced, or when little control is exercised over the ultimate achievement of the end outcome.

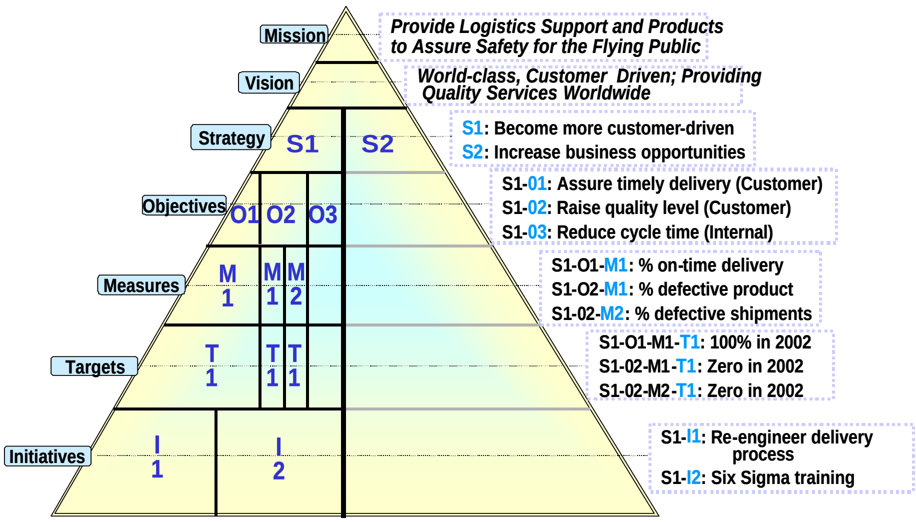
As shown in Figure 7, asking a series of "Why" questions will eventually get one to outcomes. The steps required to secure an end outcome usually include several intermediate outcomes. The process works from outcomes to processes also – just substitute "How" for "Why" in the model above. Start with the outcome and work backwards to the processes that produce the outcome.

Process Flow – Flow-charting has been around for a long time, and has been a favorite tool of systems engineers and process designers, among others. We apply the technique to build a better scorecard performance system, as flow charting processes helps identify the activities (and measures) that matter most to produce good outcomes. An additional benefit of the technique is that it often identifies places where improvements in efficiency in workflow are needed and possible. And we have found that after applying the model, we usually end up identifying several new initiatives (discussed in Step Six) that can be used to test our strategic hypotheses.

Causal Analysis – Causal analysis identifies the causes and effects of good performance. We start with the result (the effect) we want to achieve and then identify all the causes that contribute to the desired result. The causal model is most useful for identifying input and process measures that are leading indicators of future results.

It takes more work to develop a few good measures than it does to develop many poor measures. This was reinforced for me when I was training a Balanced Scorecard team in Europe; one of the team members volunteered that his group had 930 separate performance measures. I asked him if he could

Figure 9: Putting It All Together – Federal Government Logistics Center



identify the strategic measures; after some reflection he said he didn't think that he had any strategic measures. His Performance Measurement report sits on his shelf, unused.

In *Step Six*, new Initiatives are identified that need to be funded and implemented to ensure that our strategies are successful. Initiatives developed at the end of the scorecard building process are more strategic than if they are developed in the abstract. At one organization I worked with, an improvement team, working outside the framework of a Balanced Scorecard system, identified over 100 new initiatives to pursue. Few of the initiatives were strategic in nature, and after going through the logical framework presented here, the scorecard team identified about a dozen new strategic initiatives that were not on the original list of 100. The team was surprised to have identified any new initiatives at all, given the comprehensive nature of the previous exercise. As in the previous step, be careful to avoid a rush to judgment – initiatives are means, not ends.

Figure 8 shows the logic of scorecard development. Customer requirements drive the way an organization responds with products and services to market opportunities; vision, mission, and values shape the culture of the organization, and lead to a set of strategic goals that outline expected performance; business strategies give us the approach chosen to meet customer needs and attain the desired goals; strategies are made up of building blocks that can be mapped and measured with performance measures; targets give us the expected levels of performance that are desired; and new initiatives provide new information to successfully meet challenges and test strategy assumptions. Resource identification and budget setting complete the process of adding the new initiatives to the current operations to get a total proposed budget for the reporting period.

Figure 10: Linking Scorecard Components

What strategy must be achieved and what is critical to its success

How success will be measured and tracked

Performance expectation

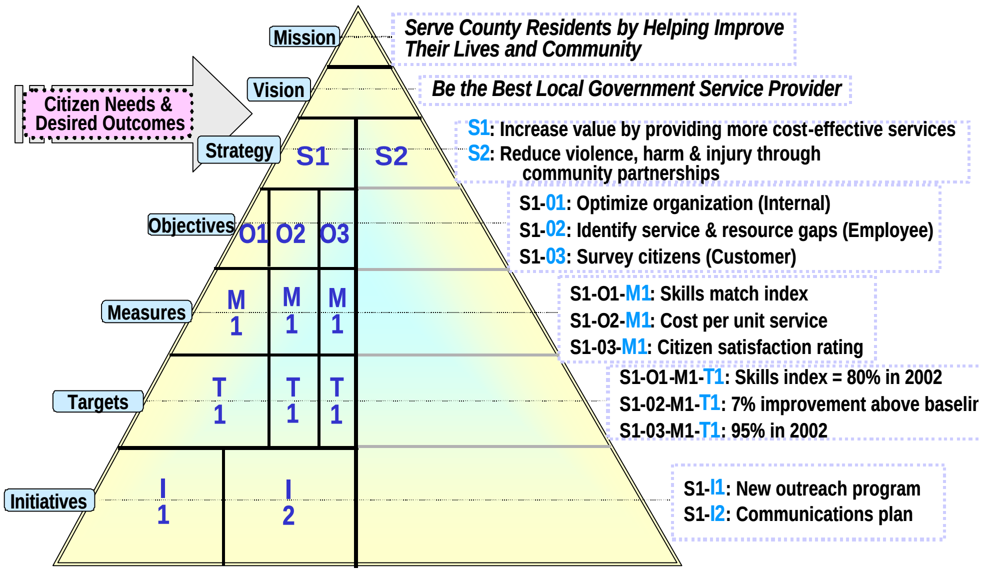
Key action programs required to achieve objectives

	Objective	Measure	Target	Initiatives
Financial	Broaden revenue mix	Revenue mix	10% Product A 40% Product B 50% Product C	• Sales Promotions • New Channel Marketing
Customer	Increase customer satisfaction	Customer retention	95%	• Frequent Buyers' Club
Internal	Develop new products	% Revenue from new products	1999 -- 15% 2000 -- 50% 2001 -- 60%	• R & D Program • Customer Mailing
Learning & Growth	Develop strategic skills	Cross-train	90%	• Custom Training • Knowledge Library

What does a completed scorecard look like? The presentation of final scorecard results takes a number of different unique forms to support each organization's unique communications and management needs. Most organizations want to see different scorecard views, including: an end outcomes view, a performance measures (metrics) view, a new initiatives view, and a strategic map. Figures 9 to 11 show examples of several different presentations. Note how an organization's vision and mission can be decomposed into strategic components that are actionable, specific and measurable.

How long does it take to build a scorecard system? Depending on the size of the organization, two to four months is typical, six weeks is possible. The drivers of "shorter rather than longer" are: senior leadership support and continuous commitment, currency of existing assessment information, size of the organization, availability of scorecard team members, willingness to change and embrace new ideas, level of organization pain that is driving the scorecarding journey, and facilitation support. (At the risk of sounding self-serving, the journey goes faster and smoother when outside expert training and facilitation assistance are used.)

Figure 11: Putting It All Together – Local Government



A Balanced Scorecard system provides a basis for executing good strategy well and managing change successfully. Building a Balanced Scorecard performance system using the framework described here will cause people to think differently (more strategic) about their organization and their work. For many, this is a refreshing change to "strategic planning as usual". But it will also bring change in the way things are done, as new policies and procedures are developed and implemented. For some, these changes can be troubling. The realization is that the Balanced Scorecard journey involves changing hearts and minds at least as much as it involves measuring performance.

"A Balanced Scorecard system provides a basis for executing good strategy well and managing change successfully."

In the second installment of this article, in the next issue of *Perform Magazine*, we will explore the steps involved in implementing a scorecard performance system throughout the organization, and discuss the implications of using and managing with a Balanced Scorecard.

The Balanced Scorecard Institute is a free information clearing house on Balanced Scorecard issues, concepts, and techniques, and provides training, consulting, and facilitation suppor to organizations all over the world. You can reach the Institute at: www.balancedscorecard.org.

Howard Rohm can be contacted at hrohm@mindspring.com.

References:

Building and Implementing A Balanced Scorecard: Nine Steps to Success, Howard Rohm

Performance Scorecard Toolkit, Howard Rohm

Performance Drivers, Niles-Gorman Olve, Jan Roy and Magnus Wetter, Wiley

The Strategy-Focused Organization, Robert Kaplan and David Norton, Harvard Business School Press

The Balanced Scorecard, Robert Kaplan and David Norton, Harvard Business School Press.

Keeping Score, Mark Graham Brown, Quality Resources

Measuring Performance, Bob Frost, Fairway Press

The Business of Government, Thomas G. Kessler and Patricia Kelley, Management Concepts

Outsourcing at Southwest Airlines: How America's Leading Firms Use Outsourcing, Michael F. Corbett & Associates, Ltd.

How To Measure Performance: A Handbook of Techniques and Tools, Performance-Based Management Special Interest Group, U.S. Department of Energy

Various Balanced Scorecard Case Studies, Harvard Business Publishing

End Notes:

[1] See the description of the original study in Kaplan & Norton. The Balanced Scorecard.

[2] See Outsourcing at Southwest Airlines, above.

[3] From Meeklenburg County, North Carolina Managing For Results Balanced Scorecard.

[4] Federal Aviation Administration Logistics Center Strategic Plan.

[5] Preliminary material from the U.S. Marine Corps Systems Command.