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A Balancing Act: Sustaining New Directions



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Creating a High Performance Organization

This article represents Part 2 of Howard Rohm's article "A Balancing Act," published in Volume 2, Issue 2 of Perform Magazine.

"Build it and they will come" works for new cell phones, Internet services, residential home subdivisions, sports arenas, new dog food brands, and for many other new things.

But it doesn't work so well with Balanced Scorecard systems.

"Let them build it and they will use it" works much better. "Them" and "they" refer to the people in an organization who are responsible and accountable for performance and results. In practical terms, this means using cross-functional teams to build the scorecard system rather than giving responsibility to strategic planning, finance, or any other single group or department. Besides using cross-functional teams, here are some other things you can do to increase the chance of a successful Balanced Scorecard implementation: spend at least as much time developing interactive communications, vision, and business strategy as you do developing performance measures; focus on aligning strategy with operations by starting with an organization's strategic components (mission, vision, core values, customer

value proposition, and strategic themes) and working down to operations, projects, activities, and tasks; and plan for and follow through with deploying, managing, and sustaining the scorecard system after it is built. Simply put, we have found that building and implementing a scorecard system is more about changing hearts and minds and sustaining new directions, than it is about selecting performance measures and buying Balanced Scorecard software. If you are the Balanced Scorecard champion, think of your job to implement a Balanced Scorecard as one of helping to create a high-performance organization, and using the Balanced Scorecard as a framework for aligning the organization and human capital pieces needed to get to high performance.

This is the second article dealing with *Building and Implementing A Balanced Scorecard: Nine Steps to Success*™. In the first article we described a framework



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for building a scorecard system using our Nine-Step process. By “building” we mean creating the components of a Balanced Scorecard using the following six steps: Assessment, Strategy, Strategic Objectives, Strategy Mapping, Performance Measures, and Strategic Initiatives. If you would like to receive a “Readiness Assessment Checklist” to prepare you for developing a scorecard system, contact us at: info@balancedscorecard.org.

In this article, we discuss the steps involved in implementing the Balanced Scorecard, and include recommendations for creating a management system and sustaining the system once it is built. We base our recommendations on our experience helping over 2,000 people in 13 countries and 60 organizations build and implement Performance Management scorecard systems, and on being part of the strategic planning and Performance Measurement landscape for 30 years.

Implementing the Balanced Scorecard

By “implementing” we mean turning the scorecard into a true management system and deploying, managing, and sustaining the newly created system. We use three steps to implement the scorecard: Automation, Cascading, and Evaluation. The output from each step links to the input of the next step, as shown in Figure 1.1. The circle of chevrons helps to convey the sense that scorecard building and implementation are a continuous journey, not a project.

Following the completion of the building steps outlined above (Steps One through Six), the critical few performance measures have been developed. For a Tier 1 (enterprise-wide) scorecard, 20 to 30 strategic Tier 1 performance measures and targets (expected results) are typical. It is probably worth repeating a lesson shared in our previous article: avoid the temptation to treat performance measures as an end, rather than a means. We see many attempts at developing scorecards (and other performance frameworks, as

well) where the effort is best characterized as a “rush to judgment” to get to measures. Precious strategic critical thinking is lost if this path is pursued.

Once we have a good set of strategic performance measures, a Performance Measurement information system is needed to collect and report performance data and transform the data into performance information. The distinction between data and information is important, as raw performance data is of little use to most people. Think of information as data with value added. The value comes in the form of context, visualization (reporting formats), trends, and benchmark comparisons to others’ results.

Step Seven involves automating the Balanced Scorecard system, and consists of analyzing software options and user requirements to make the most cost-effective software choice for today and to meet enterprise performance information requirements in the future. Software options fall into the general categories shown in Figure 1.2, which shows relative comparisons of software solutions based on meeting overall enterprise requirements for performance information, and the relative cost and time to implement a software solution. Software options range from spreadsheets and databases, designed to meet very simple enterprise reporting requirements, to full data warehouses, designed to link disparate information (performance and other) together in an integrated management system.

We treat Automation as the seventh step in the nine-step framework, to make sure that the proper emphasis is placed on strategic thinking and strategy development before “software seduction” sets in. Building a scorecard system is a lot like building a house, where the pieces need to come together in the right shape, size and time, and need to be assembled by the right craftsman to make the house structurally and functionally sound. Purchasing software too early limits creative strategic thinking, and purchasing software late makes it difficult to sustain

Figure 1.1: Building and Implementing a Balanced Scorecard

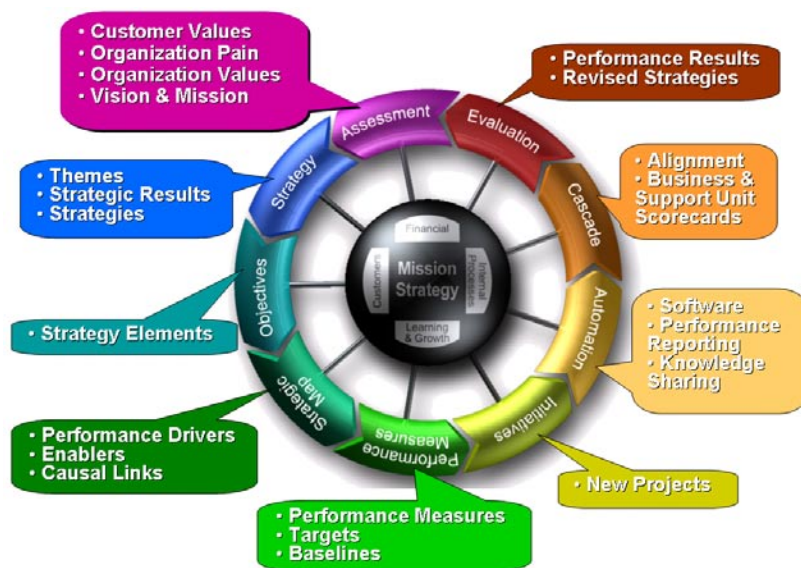
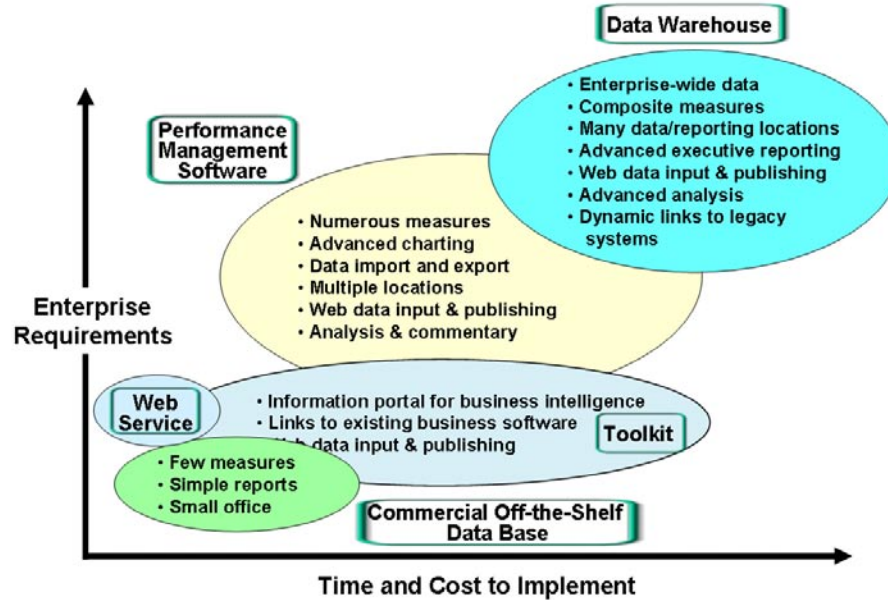


Figure 1.2: Performance Information Software Solution Space



momentum for the new system, as performance information reporting and utilization is clearly an early benefit to be captured from the process of building the scorecard system. Having said this, it is also clear that software can help the critical thinking process (and the project management process at the end of the building steps – Step Six: Strategic Initiatives) by capturing the results of strategy development, objective commentary, and strategy mapping as the process unfolds. Our recommendation is to analyze your software options early in the building process, decide if a software selection early on will add value to the process of building the scorecard, and then timing the software purchase to maximize the value to the Balanced Scorecard team and the managers and other employees who will use the performance information to better inform decision making.

The costs of deploying software information systems (including the price of the software, plus training and support) range from several thousand dollars to several hundred thousand dollars. A software choice should be based on value to the organization. In addition to the price of the software, key selection criteria include: visualization of performance results; ease of setup; training and maintenance; robustness of the underlying database engine; compatibility with existing enterprise IT architecture; vendor product and technical support; product maturity and vendor experience; and ease of use.

Step Eight involves cascading the corporate scorecard throughout the organization to business and support units, and ultimately to teams and individuals. Cascading means translating the corporate scorecard into department and division scorecards that are aligned with corporate strategy. In other words, aligning and translating corporate strategy throughout the organization. We have found that the most effective way of cascading is to start with the objectives and measures from the enterprise-wide (Tier 1) strategy map, and develop supporting objectives (and measures) for business and support units (Tier 2), and again for teams and

individuals (Tier 3). In a typical organization, separate scorecards are developed for each major department and support office, and these scorecards are linked to the corporate scorecard through objectives. Since objectives are the building blocks of strategies, the alignment of objectives aligns strategy. Performance measures align as well, some as roll-ups to higher-tier measures, and sometimes to composite measures where the weighted average of a number of measures is used as a composite index.

“Since objectives are the building blocks of strategies, the alignment of objectives aligns strategy as well.”

Cascading to the objectives, tasks, and activities of Tier 3, aligns corporate and department strategy to teams and individuals. In some (typically large) organizations, an additional cascading level may be used, such as for customer-facing services.

Strategies developed during the corporate scorecard building process are the links that make the mission and vision of the corporate organization operational to operating business and support units, such as IT and human resources. Starting with a corporate scorecard and cascading objectives down to business and support units and then to teams and individuals assures that the work performed in all organization units is relevant and linked to organization mission and strategy. Each business and support unit can “connect the dots” and trace the work that they do back up to the overall “big picture” direction of the organization.

Figure 1.3 shows the concept of cascading, assuming one starts with a corporate scorecard at Tier 1, and then develops Tier 2 scorecards. One could continue the example to Tier 3 scorecards by developing Tier 3 objectives and connecting them to Tier 2 objectives. As a practical matter, objectives are more operational and less strategic as one goes farther down to lower

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tiers. For example, teams and individuals link what they do at Tier 3 (typically tasks and activities) to what the organization must do to be successful (objectives and strategies) at Tier 2.

Some organizations start not with a Tier 1 scorecard, but with a Tier 2 scorecard. This could occur when a support unit scorecard is built first (e.g., IT). In this scenario, other scorecards are developed horizontally (e.g., to Finance or HR) and/or vertically (e.g., to Tier 1 corporate, or to Tier 3 teams and individuals). In these situations, it is important to keep strategic intent of the organization in mind, to avoid sub-optimizing a department's activities at the expense of enterprise goals.

Step Nine involves evaluating the success of chosen business strategies. The key question is: Were the expected results achieved? Remember that strategies developed in Step Two of our *Nine Steps to Success*™ framework were hypotheses of how an organization believes it creates value for customers and stakeholders. Adjustments to strategy (and mission and vision, if necessary) are likely as performance information is analyzed and market competitive forces are considered. Creating an analysis feedback loop to test strategy assumptions is an important step and one that many organizations overlook in their strategic planning implementation. The evaluation step includes the following components:

- ◆ Ensuring that organization learning and knowledge building are incorporated into planning;
- ◆ Making adjustments to existing service programs;
- ◆ Adding new programs if they are more cost-effective;
- ◆ Eliminating programs that are not delivering cost-effective services or meeting customer needs;
- ◆ Linking planning to budgeting.

The *Nine Steps to Success*™ framework is a disciplined way to develop the pieces needed to build a strategic management system. Now it is time to put the pieces together into a strategic management system and start using the system to produce the results you want.

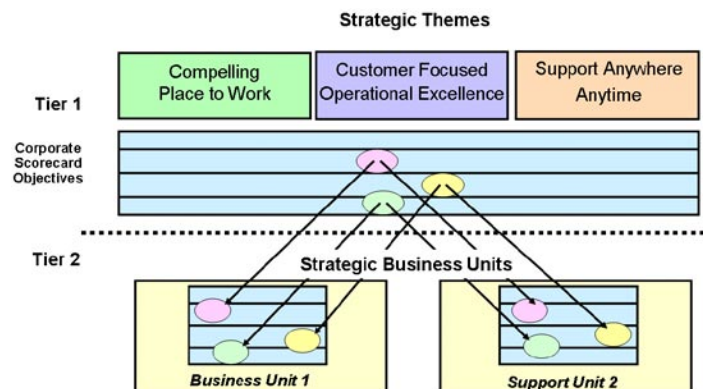
Building the Management System and Managing with the Balanced Scorecard

Building and implementing a scorecard system is one thing; turning the scorecard into a useful and used management system is something else entirely.

The key to transforming a scorecard into a management system is to start at the right level of granularity and “connect the dots” among the components of strategy (mission, vision, values, pains, enablers, strategic results and themes, and strategic objectives) and the components of operations (projects, processes, activities, and tasks), and the budget formulation and cost reporting processes. Performance measures tie the parts together, and give us a way to measure how successful we are at achieving our goals. Figure 1.4 shows the logic for connecting strategy to operations. Strategy is shown as a vertical sequence of steps (equivalent to starting with expectations at a high altitude, such as expected organization-wide strategic results, and deriving aligned lower altitude initiatives, projects, and tasks). Operations is shown as a horizontal sequence of steps, with the activity or project outcomes linked to the outputs, process steps, and inputs required to deliver the activity or project results. The Balanced Scorecard gives us the ability to develop the aligned components of this strategic management system in an ordered, disciplined manner.

We are often asked “How do you effectively manage an organization once you have a Balanced Scorecard in place?” In other words, “What are the key things you should do that differ from your traditional way of managing?” We attempt to answer these questions below and give guidance on how to best

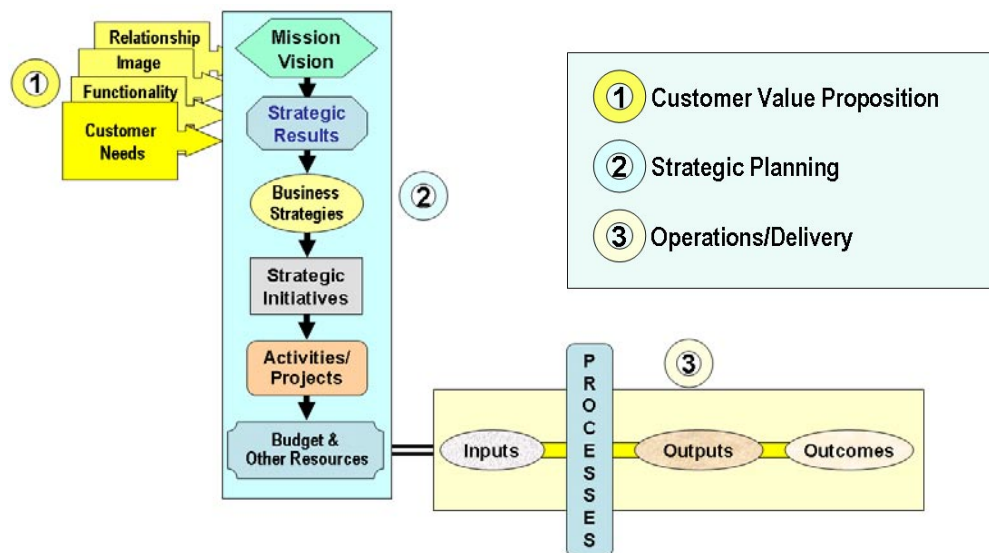
Figure 1.3: Cascading Scorecards Based on Linked Strategic Objectives



Each business unit develops objectives and performance measures relevant to their organization. Alignment is maintained through the linkage of corporate objectives and performance measures to lower-tier supporting strategic objectives and performance measures.

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Figure 1.4: Linking Organization Strategy & Operations



take advantage of the strategic levers the Balanced Scorecard provides. This is a compilation of the experiences and wisdom of the associates of the Balanced Scorecard Institute, based on our collective knowledge from a wide variety of organizations. The following are management practices that we have seen lead to success in imbedding the scorecard philosophy into an organization and enhancing the results achieved from the scorecard system. These practices represent the key elements of using the Balanced Scorecard as a “Strategic Management System.”

“Now that your scorecard is built, be careful not to go back to business as usual. Work hard to cut off attempts to revert to old ways.”

It’s time for a change – avoid “Business As Usual.” Until you have been managing with a scorecard for some time, people will naturally be inclined to manage in the same ways they always have, without regard to the scorecard and the direction it provides. Now that your scorecard is built, be careful not to go back to business as usual. Work hard to cut off attempts to revert to the old ways. The scorecard provides a natural framework for reorganizing (actually revitalizing) discussion around your strategic themes and your scorecard perspectives (and maybe reorganizing the organization as well!). Organize all of your executive, management, and department meetings around the elements of strategy. In this way, attention will be focused on the strategically-important issues and the organization will naturally be led in those directions. People will likely try to structure meeting agendas in the same functional/departmental format that has been used in organizations for decades. Use a different approach after you have built your scorecard system, such as holding meetings around your strategies, your initiatives, or your perspectives (or, ideally, all of them!). Also, ensure that scorecard meetings are strategic, not operational. Focus meeting energy on strategic visioning (“How safe will our streets be in ten years?” not “How many potholes did we fill last

month?”) Avoid executive discussion on detailed, operational strategies, objectives, and measures that are not on the corporate scorecard. Push operational discussions down to the departmental (business or support unit) level, or to teams and individuals.

Assign permanent Balanced Scorecard roles. To continue emphasis on the scorecard and strategic management, it is important to have a number of people assigned to scorecard roles on a permanent basis. You should assign specific scorecard roles and responsibilities to key people throughout the organization. This imbeds strategic thinking in the organization and builds commitment to ongoing strategic management. These roles include the scorecard champion, corporate and departmental performance measure owners, and the assignment of responsibility for individual themes or perspectives to specific owners. Often, client organizations will assign departmental scorecard champions who are responsible for scorecard management and communication in their individual areas. In addition, these champions can be members of a scorecard advisory group that meets regularly to discuss scorecard issues and suggestions.

One client formed *permanent* teams around each of their strategic themes to provide guidance and continual direction that will carry the scorecard efforts forward into the future. Each of these teams is headed by a key manager, but made up of a combination of managers and cross-functional staff members from across the organization. This approach ensures that the strategic themes receive attention throughout the year, and year by year into the future.

Use the scorecard process to develop the strategic plan. Strategic planning is more valuable if you use the development of a Balanced Scorecard as your framework. Instead of using a consultant or the internal strategic planning department to write a plan, use key employees in the organization to build the plan and the management system. *We find that the process of using cross-*

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functional teams to build the strategic plan and management system, with expert facilitation and guidance, is critical to long-term success of the new management system. Those of you who have experience with strategic planning the old way (i.e., giving the assignment to a few internal planners or hiring a consultant to do it for you), know how few times the resulting strategic plan becomes the ‘guiding light’ of the organization’s resourcing, and strategic and operations planning. In the old way, most strategic plans are little more than thinly veiled justifications for favorite programs and projects the organization is already funding. The Balanced Scorecard puts more strategic thinking into the strategic plan development process. When we finish a scorecard system, the resulting strategic plan is under ten pages, and all the important strategic elements of the organization are laid out clearly and concisely, and aligned. The dots do, indeed, connect.

Your planning process will become an annual evaluation and revision of the corporate scorecard. Be sure to fully integrate the Balanced Scorecard into your strategic planning process. Each year you should assess your progress against the strategic goals and determine whether or not your strategic hypotheses (the cause-and-effect linkages of your strategy map) are valid. You should also assess the strategic impact of external events and adjust the scorecard (strategies, objectives, measures, and initiatives) to reflect your experience and the current environment. This is Step Nine of the *Nine Steps to Success*™ framework, and is essential to long-term strategic management success.

Use the Balanced Scorecard strategic plan to drive budgeting and cost control. In Balanced Scorecard organizations, the scorecard should play an active role in the organization’s budgeting process. It is usually difficult to obtain funding for new initiatives, and in many organizations, the budgeting process is driven by funding “favorites,” or day-to-day operations. The Balanced Scorecard improves the budget process because strategic initiatives have

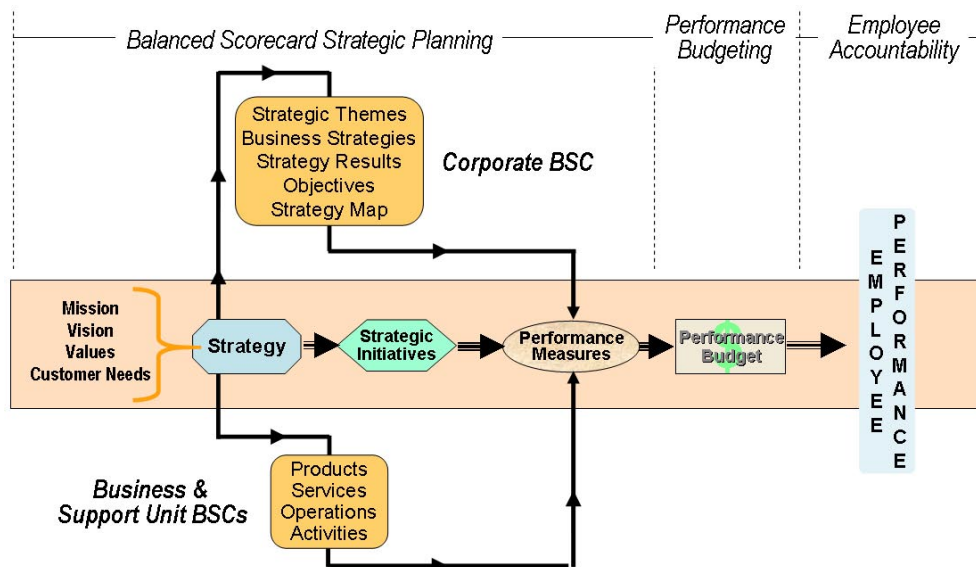
been identified through the scorecard building process, and it is practical and even essential to set aside a portion of the budget for these strategic projects. Using the Balanced Scorecard to drive the budget results in a “strategic,” or “performance budget.” Day-to-day activities can be separately funded, but linked, in an “operating budget.” A *Performance Budget* is a budget formulated by activities and programs, as opposed to organizational units. Results-oriented business planning is combined with planned measurable outcomes to produce a budget where policy decisions can be informed by program performance and cost information. Once those policy decisions are made, the same performance measures guide the day-to-day operational management of programs to ensure that budgeted services are delivered with the intended results. These measures (leading and lagging) provide information on how results are produced, what is working, how well, and where improvements are needed to achieve the strategic goals.

“Your planning process will become an annual evaluation and revision of the corporate scorecard.”

Some organizations have eliminated the formal annual budget “dance,” and instead use a rolling quarterly budget that allows real-time adjustments based on a quarterly strategic assessment. In addition, many organizations use the scorecard to lead them into Activity Based Costing, which can further ensure that the strategic goals of the organization are accomplished cost-effectively.

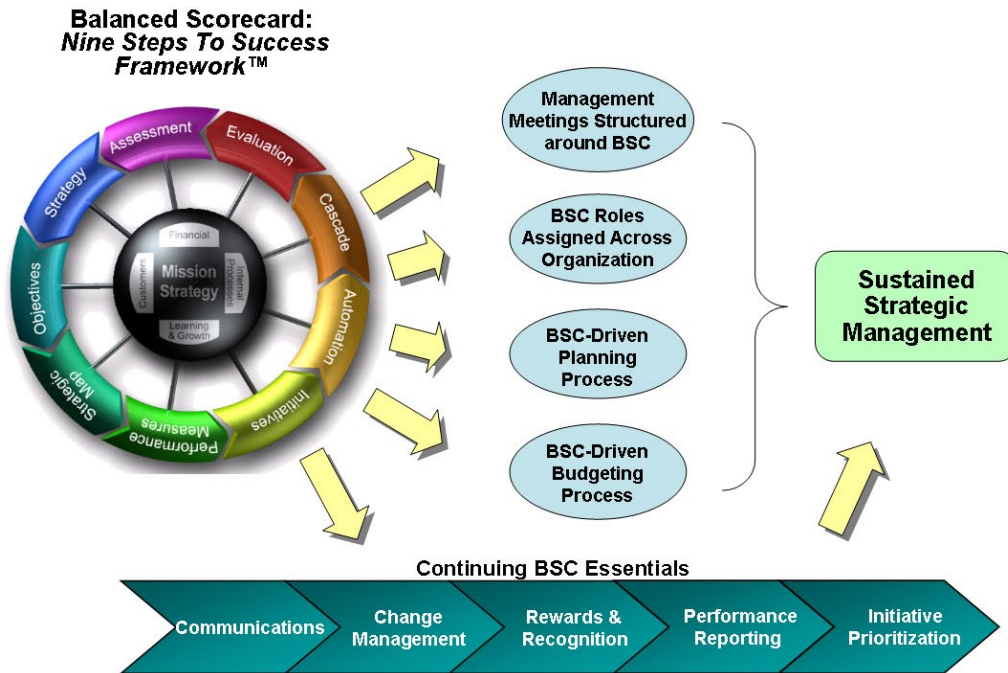
Figure 1.5 shows how the elements of strategy, operations, budgeting, and employee accountability can be combined into an integrated strategy-driven management system. *Employee Performance* can then be aligned with enterprise and department performance to produce an integrated management system where

Figure 1.5: Balanced Scorecard Strategic Management System



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Figure 1.6: Sustained Strategic Management System



what is accomplished is more important than what is produced or how many hours are spent in the production of services.

Continue to work on the strategic enablers. There are a number of the elements of scorecard building and implementing that need to be continued in order to sustain progress made and strategic focus. These enablers include: *communications, change management practices, incentives, reporting results, and prioritizing initiatives.*

“Communications is an outcome, not an activity, and two-way communication is the key to a good outcome.”

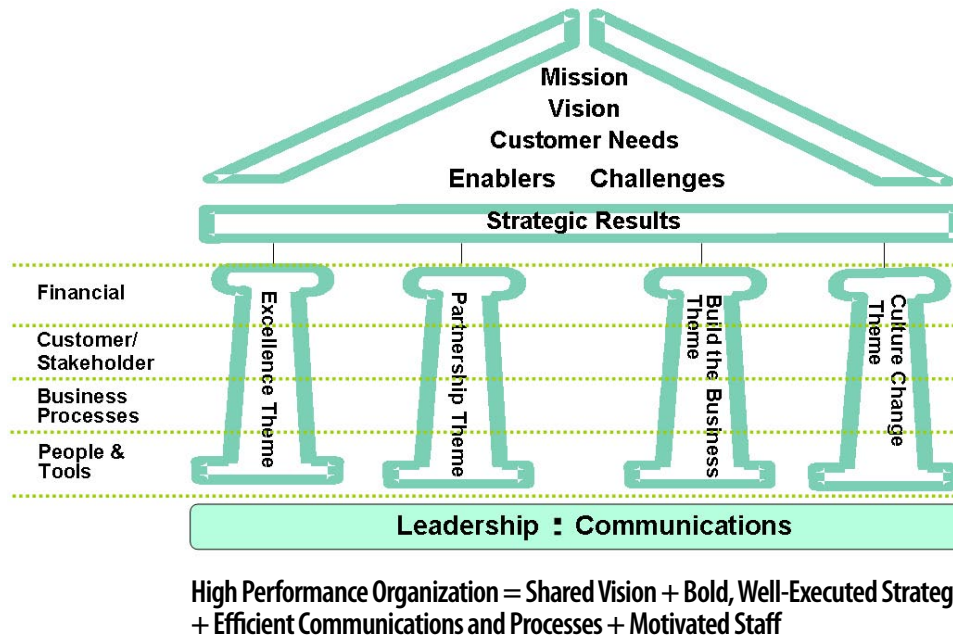
Early in the process of building your scorecard system, the importance of *communicating* organization strategy and desired results will become obvious. So will the importance of communicating why you are building a new management system. In the absence of information on “why” from the leaders of the organization, employees will make up their own answer as to why. Ensure that you maintain and implement a *communications strategy and plan* even after the scorecard has been implemented. Remember that communications is an outcome, not an activity, and two-way communication is the key to a good outcome. The Balanced Scorecard strategic management system is a change initiative, designed to change behaviors, and this can only be accomplished by interactive, two-way communications at all levels of the organization. Regularly communicating results is important, listening to what employees think and feel is more important. Hearts and minds will not be won over with a news article or a web page, so communicate often and well. Also, be sure to highlight successes that resulted from the scorecard process.

Highlighting early success is crucial to maintaining momentum of the new system and building sustainability. Periodically review your communications plan, and make changes as appropriate to reflect organizational or strategic changes.

You should also continue to follow good *change management* practices during and after development of the scorecard. These practices are incorporated in the *Nine Steps for Success™* framework, and should be continued as you go forward to ensure that progress is sustained. Some of the key areas to consider are: continued communication of the vision and rationale behind the scorecard, involvement of people from across the organization in planning and implementing the changes, communication of results to everyone in the organization, ongoing scorecard training especially for new people, employing process teams to improve throughput, and use of rewards and recognition to emphasize and reinforce desired behaviors.

Be sure to continue to link *incentive reward systems* to performance (and scorecard measures). Some organizations decide for a variety of reasons to defer this step and some never do affect this linkage. We strongly recommend that reward systems reflect the scorecard objectives and do so as quickly as is reasonably possible. Of course, it is prudent to take time to ensure that the measures are properly defined, captured, validated, and calibrated before using them to provide significant portions of people’s compensation, but it is *the* most powerful way of getting people’s attention and focusing on the things that matter. Once you have begun rewarding people for performance, continue to do so and make certain this linkage is incorporated into each year’s reward-and-recognition program. Rewards and other incentives can take many forms, both monetary and non-monetary. Many studies have shown the importance of non-monetary incentives to achieving long-term positive impacts on behavior.

Figure 1.7: Building a High-Performance Organization



Continue to *report performance results* often and draw comparisons to expected results. Look for ways to visualize performance that employees will find useful. There are many ways to show data and information, and the usefulness of performance information will be tied to how it is visualized and presented. At different levels of an organization, different visualization techniques should be used to drive the behaviors being sought. People need to see regular feedback, and the frequent communication of results enables quick corrective actions to be taken when problems begin to develop. If people can easily and regularly see whether or not they are on track to reach corporate goals, and if their rewards are dependent on achieving those goals, they will naturally apply the effort required to stay on track. Use the scorecard system to improve organizational performance, not punish lack of individual performance, and to track progress across reporting periods.

Regularly use the Balanced Scorecard to help select and *prioritize initiatives*. The scorecard process enables management to direct resources to those initiatives that have the greatest strategic value. We almost always find that an organization's overcommitted resources are assigned to a number of initiatives that do not have large strategic value. By consciously focusing resources on truly strategic initiatives and canceling projects, transferring resources, or deferring those initiatives that aren't strategic, organizations are much better able to implement changes needed to accomplish strategic goals. This prioritization should be part of the regular management practices and should be reviewed periodically to ensure that resources are being deployed only on the truly strategic initiatives.

Figure 1.6 shows the components of a sustained strategic management system. By continuing the essential elements of the Balanced Scorecard process, you will be able to sustain and continue to achieve progress in strategic management.

When you have completed the steps and taken the actions described in these two articles, you will be on your way to having developed a high-performance organization. Figure 1.7 shows the construction of a high-performance organization using the example of a house we mentioned earlier. The roof and attic represent the strategic elements of your organization, the load-bearing walls are your strategic focus areas (strategic themes), and the floors are performance dimensions (perspectives) that allow you to translate your organization's vision and strategy into operational terms (through strategic objectives). Your performance "house" needs to be built on a strong foundation of engaged leadership and two-way communications.

We hope that these ideas will help you in your efforts to achieve maximum long-term benefit from your investment in a Balanced Scorecard. If you would like a checklist of additional tips and tricks, send us an email to receive a free copy. If you have questions or wish to discuss any of these recommendations, please contact either Howard Rohm (at hhr@balancedscorecard.org) or Larry Halbach (at lah@balancedscorecard.org) at the Balanced Scorecard Institute.*

The Balanced Scorecard Institute provides training and consulting services to private, public, and not-for-profit organizations worldwide. Their expertise is in Balanced Scorecard Systems, Strategic Planning, Performance Management and Measurement, and Performance Measurement Information Systems.

* Several Balanced Scorecard Institute associates contributed to this article, including: Dr. Gerald Turner, Pam Weppler, Kitty McCoy, Kevin Zemetis, Dr. Kathy Fiedler, Dr. Gardner Shaw, Jeff Parks, and Paul Arveson. Marv Weidner of Weidner Consulting contributed ideas on performance-based budgeting.