Scorecard Best Practices

Design, Implementation, and Evaluation

Raef Lawson Toby Hatch Denis Desroches

SCORECARD BEST PRACTICES

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RAEF LAWSON
TOBY HATCH
DENIS DESROCHES

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“I am pleased to find so much practical value throughout this book. Of particular interest to academics is the linkage of empirical evidence to real-company experiences via the case studies. Academics should consider using this book in courses that focus on strategy as well as performance management.”

—William O. Stratton has served on the business faculties of the University of Washington and Pepperdine University and is coauthor of a leading textbook in management accounting.

“There is much confusion in the marketplace about scorecards including what the difference is between a dashboard and scorecard. This book is a significant contribution to clarifying the confusion. It emphasizes that improving an organization’s enterprise performance is not simply about monitoring the dials but *moving* the dials in a positive direction.

Holding managers and employee teams accountable with consequences is now a necessity—not a luxury. This book is a must read to better understand the complex topic of monitoring performance and driving organizations toward achieving strategy.”

—Gary Cokins
SAS, Global Manager of Performance Management Solutions

“*Scorecard Best Practices* provides valuable information on scorecard processes of successful organizations as well as pitfalls others have experienced and how to avoid them. The best practices considerations checklist and case studies alone are worth the price of admission!”

—Paul Sharman
President & CEO, IMA

“In the on-going business conversation between “what do we want to happen (and how)” and “what happened (and why)”—we are hearing that implementing a successful scorecard system facilitates the connection between strategy and execution. As in any Management System, scorecards have received their fair share of hype, but this book grounds us in reality: it’s what *real* people are *really* doing with the process and technology. The style is reminiscent of “The Goal” by Eliyahu Goldratt and “Communication Catalyst” by Connolly and Rianoshek, and reinforces the key findings about scorecard system best practices. *Scorecard Best Practices* is a must-read for anyone involved in or thinking about building and delivering a scorecard system. Learn from others, avoid mistakes, and save time by focusing on what works.”

—Ron Dimon
Chief Operating Officer, The Business Foundation Corporation

“This book captures and reinforces the purpose behind a balanced business scorecard—to link strategy throughout the company. The empirical research and demonstrated examples that the authors have included are compelling and empower those who believe in the value of the scorecard to continue the journey of continual improvement within our companies.''

—John P. Monczewski
Director, Firmwide Planning & Reporting
General Dynamics Information Technology

''Outstanding collection of great ideas for metrics and measurement techniques being used by real organizations. Every reader should find information that will help improve their own performance measures.''

—Mark Graham Brown
MGB Management Consulting
Author of *Beyond the Balanced Scorecard: Improving Business Intelligence with Analytics*

''*Scorecard Best Practices* is an excellent summarization of the results of a comprehensive, world-wide study on scorecard use and adoption. The information included in this guidebook will help managers and consultants understand the key issues and challenges with designing and implementing scorecard systems.

What makes *Scorecard Best Practices* unique is its plural and independent approach. It does not advocate any specific methodology; rather it investigates the many possibilities available to organizations as they strive to enhance their performance.''

—Roberto Campos de Lima, Partner Consultant
3GEN—Gestão Estratégica

''*Scorecard Best Practices* **tells how** organizations can hit their marks, and **shows how** organizations successfully hit them.''

—Steve Player
Program Director, Beyond Budgeting Round Table
Author of Activity-Based Management: *Lessons from the ABM Battlefield*

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Foreword

Businesses in the modern economy are in a constant balancing act. Each day, business leaders are faced with questions for which their response can have a profound impact on overall organizational success. How do we maintain cost-effective operations, while ensuring the appropriate resources to both support customers and maintain the right level of product inventory? How do we protect market share today but also prepare for the impact of evolving tastes and demands? How do we develop or acquire the resources necessary to meet new customer and regulatory requirements?

Determining how to grapple with such questions has resulted in an increased emphasis on performance management. Enterprise Performance Management (also called Business or Corporate Performance Management) is about understanding how you have performed and driving improvement for the future. It combines technology for activities such as planning, budgeting, and what-if analysis, as well as business intelligence data and tools, with processes that support better strategic business decision making.

During my frequent visits to customers and prospects, I see executives faced with similar performance management issues. There is a general appreciation for the traditional performance management activities—budgeting, planning, financial consolidation, and reporting—but organizations sometimes struggle with how to create and align everyone around a corporate strategy. Getting everyone on the same strategic page and moving in the same direction is harder than it appears.

While scorecards are being used more frequently and with more sophistication than ever before, this timely book goes a long way toward satisfying the need for more information and best practices. It offers observations and recommendations based on practical experience and a survey of business users. It includes numerous real-world case studies and a best practice considerations checklist that will help readers flesh out their scorecard plans.

Whether your organization is just beginning to consider the use of scorecards or you would like to get more out of your existing scorecard system, you will benefit from joining Patrick on his journey to scorecard enlightenment.

JOHN KOPCKE
SENIOR VICE PRESIDENT
Business Intelligence and Performance Management Global Business Unit
Oracle Corporation

CHARLES HORNGREN'S REFLECTIONS

Scorecard Best Practices is a timely contribution to the growing research on performance management. Scorecards have been increasingly used during the past 15 years throughout the entire world. This book summarizes extensive studies of several practices covering global regions as well as North America. Comparisons are tabulated of users and nonusers of scorecards. Several classifications ensue. Criteria for best practices are developed, including obtaining organizational alignment and achieving significant benefits.

One of the strengths of this book is its collection of the specific scorecard experiences presented in eight use studies. The writing is lively and marked by many comparative tables and figures. It is not limited to success stories, however. The reader gets straightforward analysis unslanted by sales pitches for scorecard systems.

In summary, *Scorecard Best Practices* provides an informative mix of the concepts underlying scorecard systems and best practices actually found in global organizations.

CHARLES T. HORNGREN
Edmond W. Littlefield Professor of Accountancy, Emeritus
Stanford University

Acknowledgments

This book is the culmination of almost five years of research, collaboration with many organizations, discussions with experts, and a lot of sweat. Obviously, there are many organizations and individuals to be thanked for their valuable contributions.

Many of the book's findings are based on results gathered from the Online Scorecard studies (for North America and International). Thanks to the academic sponsors, Pepperdine University and the State University of New York at Albany, who provided the main Web site for the study and supported the supervisors and authors in volunteering their time to gather the results for the study from hundreds of organizations around the world. Thanks also to the Institute of Management Accountants for providing additional Web site services and support.

We offer our sincerest thanks to the *volunteer* organizational sponsors for their unwavering support throughout the studies. These sponsors played a large part in helping to advertise the study and to encourage participation from their membership. In return, the study team provided them with the opportunity to publish articles containing study results in their magazines and journals. A tremendous amount of value was received, all without monetary compensation. These organizations include:

AICPA (American Institute of Certified Public Accountants)
Balanced Scorecard Netherlands
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CIMA (The Chartered Institute of Management Accountants)
CMA Canada (Society of Management Accountants of Canada)
CompetitiveScotland.com
Deloitte Germany
Hyperion Solutions
IMA (Institute of Management Accountants)
The Institute of Operations Management
Yacsa.com
Van der Leer Consulting

Heartfelt thanks go to Dr. William Stratton, a significant member of the research team from its inception until his recent retirement and a co-writer/presenter of the many presentations and articles created from the results of the study. His never-ending enthusiasm kept the research team going when times got tough.

The eight case studies in the book represent a significant effort. We believe these case studies not only highlight many of the items in the best practices considerations checklist, but they also outline the realities experienced for many implementations. There is no such thing as a perfect implementation—but there are many traps you can and should avoid. Our earnest appreciation goes to those individuals that assisted us in assembling and fine-tuning the case studies, including:

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Last, but *never* least, the authors would like to thank their respective families for enabling us to work through five years of research, and *many* late nights assembling this material. We are grateful for their unending support and hope that the outcome of the exercise will be useful to organizations for design, implementation, and evaluation of their scorecard system.

Chapter 1

Introduction

What if you had a management tool that would give you and all of your executives current information on the health of your organization *and* where you stand with respect to achieving your corporate goals? What if this tool could also be used by other managers to communicate changes in strategy, align the business units with the changes, and ultimately help to align employee behavior with the corporate strategy?

This type of tool, used appropriately, could help give you the competitive edge you need to outrun your competition. Globalization, acquisitions and mergers, commoditization, and many other worldwide opportunities/challenges mean that it is getting tougher and tougher to remain (and for some organizations, become) competitive and profitable. Scorecard systems are an excellent example of a *strategy management* tool that can provide this type of advantage.

SHAPS STUDY OVERVIEW

Many of the conclusions in this book are based upon the results from two studies conducted by a research team consisting of Dr. Raef Lawson, Dr. William Stratton, and Ms. Toby Hatch. The North American On-Line Scorecard Study presented results from an English language survey conducted between 2002 and 2004, and the International On-Line Scorecard Study summarized results from a similar survey conducted in eight languages from 2004 to 2006. Both studies revealed practical insights about the adoption and use of scorecards at the various phases of their implementation. The International Study provides a foundation for comparative analysis in the global arena as well as trend analysis for North America. Throughout the remainder of this book, these two studies are referred to as the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study.

These studies were conducted primarily on a voluntary basis and supported by nonmonetary sponsors.[1] The responsibility of the sponsors was to solicit their members and customers to participate in the study. In return, all respondents and sponsors received access to articles and presentations based on the studies' results.

The International Study received 382 usable responses from 44 countries. Of these, 193 respondents (50 percent) indicated that they use some kind of scorecard system. The North American study received 150 usable responses. Of these, approximately the same percentage indicated that they use a scorecard system. As there are many definitions for scorecard systems, survey respondents were asked to document their own definition of a scorecard system, and then use it when responding to the survey questions.

Exhibit 1.1 International Survey Respondents Using Scorecard Systems by Region

Region	Use Scorecard System	Total Respondents	Percentage Using Scorecard Systems
Africa (primarily South Africa)	13	19	68%
Asia (including the Middle East)	31	62	50%
Europe	53	137	39%
United States and Canada (“North America”)	74	137	54%
South and Central America (“South America”)	22	28	79%
Total	193	383	50%

Respondents from the International Survey were organized into the five geographic regions shown in Exhibit 1.1

Slightly more than half of the respondents use scorecard systems, with the highest usage rate in South America and the lowest rate in Europe.[2]

When reviewing scorecard adoption rates between the two surveys, 46 percent of the respondents of the North American Study used scorecard systems. Two years later, the International Study indicated that this percentage has increased to 54 percent. There has thus been a significant increase in the use of scorecard systems by North American organizations, consistent with the prediction from our original study.[3]

STUDY ANALYSIS GROUPS

Throughout the book, respondents are often presented by group types (see Exhibit 1.2). The two basic groups in each of the studies are those who have adopted the use of a scorecard system (*Adopters*) and those who are not using a scorecard system (*Non-Adopters*). The Adopters group is further divided additional groups: the *“Significant Benefits Group”* (*SBG*) includes those organizations that reported significant benefits from their scorecard implementation, and the *“No Significant Benefits Group”* (*NSBG*) includes those that reported no significant benefits.

Best practice criteria for implementing and using a scorecard system were developed from these studies. Sixteen of the 382 organizations in the International Study met these criteria. This group is referred to as the “Best Practice Organizations” (BP). The criteria stipulate that the organization must have:

- Had a scorecard system in place for more than 1 year (average was 4.5 years)
- A scorecard system that they consider to be a vision driver
- Achieved sustainable alignment facilitated by a scorecard system
- Achieved significant benefits from their scorecard system

These group classifications will be referenced throughout this book.

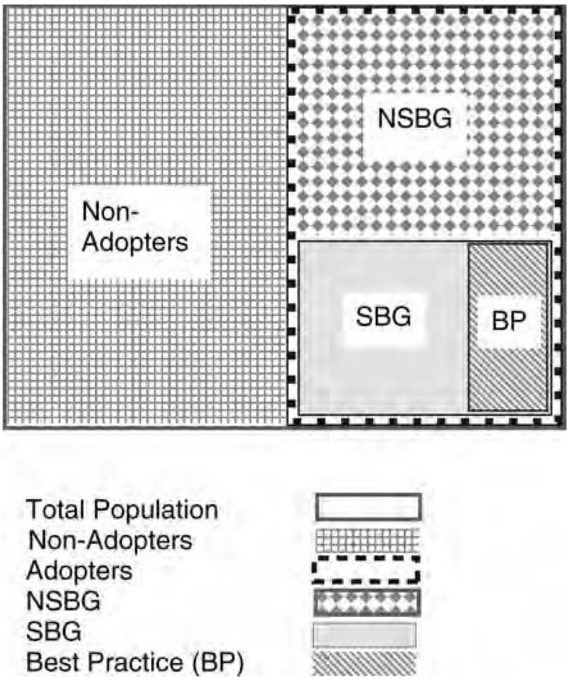


Exhibit 1.2 Study Analysis Groups

CONTENTS OF THIS BOOK

This book is the culmination of the results from both studies, as well as the expertise and professional and academic experiences of the authors and many contributors. Each chapter includes concepts, examples, and best practices from many aspects of scorecard design, implementation, and evaluation, and concludes with a summary of the best practices presented. This book does not provide the history of scorecards. There are a number of available references that provide this type of content.

The final chapter summarizes the most pertinent concepts and best practices from each chapter in one easily referenced checklist. This is followed by eight case studies that illustrate how a number of the presented concepts have been put into practice. These case studies include:

- Suzano Petroquímica
- First National Bank
- City of Boston

- Hospitality Services Company
- Fujitsu Services Oy
- Financial Services Company
- Entertainment Subscription Company
- Pfizer

In addition, you will find references to these case studies interspersed throughout the body of the book.

We are sure you will find this information helpful on your scorecard system journey.

NOTES

1. Available on the Web, the survey was sponsored by professional and consulting organizations from around the world. These included Institute of Management Accountants (IMA®), American Institute of Certified Public Accountants (AICPA), Balanced Scorecard Netherlands, CAM-I, Society of Management Accountants of Canada (CMA Canada), Chartered Institute of Management Accountants (CIMA), Hyperion Solutions, Van der Leer, and Yacsa.com.
2. Care should be taken not to read too much into these percentages, however, as these regional differences may be in part due to differences in the methods used by the various sponsors to solicit survey participation.
3. See "Balanced Scorecards as a Coordination and Control System," W. Stratton, R. Lawson, and T. Hatch, *Cost Management*, May/June 2004: 41–42.

Chapter 2

Scorecard Systems Overview

Scene: Henri's Bistro in a major city.

Two well-dressed businessmen, obviously friends, shake hands at a small, sparsely arranged table. A conversation ensues . . .

> Patrick: "It's nice that we could get together for lunch, Ted. It's been a while. What have you been up to?"
>
> Ted: "Well, Patrick, since I 'retired' from the executive office, I've helped many companies to improve the way they manage and the way they communicate, both internally and externally."
>
> Patrick: "That sounds intriguing–and it sounds like something that might benefit my company. We've been struggling with communicating our strategy to our employees. Tell me more."
>
> Ted: "I've been applying a management methodology that allows all of an organization's executives to get a quick snapshot of the current health of the organization and where they stand with respect to achieving their corporate goals. And, I'm finding that it improves the way that other managers communicate changes in strategy, align the business units with the changes, and it ultimately helps to align employee behavior with the corporate strategy.
>
> Organizations are using this methodology to align their people to their organizational goals, to monitor progress towards theses goals, and to ultimately get everyone working in a unified way to stay ahead of their competition."
>
> Patrick: "What's it called?"
>
> Ted: "It goes by many names, but the most common name is Scorecards."
>
> Patrick: "I've heard of that. Isn't it a method of visualizing important metrics relating to the health and/or strategy of a business unit presented in a report, dashboard, or scorecard format?"
>
> Ted: "Well, that's one way I've heard it described. I'll tell you what; let's not spend our entire lunch discussing this. I've got a lot of reading material that will get you started with some of the introductory definitions and concepts of scorecards. I'll leave some with you and we can arrange to meet again to talk about some of the applications and experiences that I and others have encountered."
>
> Patrick: "Okay, but only if you let me pay for lunch."
>
> Ted: "You drive a hard bargain, but, you're on."

What follows in this chapter is the material that Ted left with Patrick.

WHAT IS A SCORECARD SYSTEM?

The terms scorecard and Balanced Scorecard are often used interchangeably. Popular definitions include:

> *A strategic management tool that helps measure, monitor, and communicate your strategic plan and goals throughout the organization in a way that is understood by everyone (*The Financial Gazette, *July 3, 2003).*

> *A balanced scorecard is a framework for implementing strategy that translates an organization's mission and strategy into a set of performance measures (*Cost Accounting: A Managerial Emphasis. *Horngren, Datar, Foster 2005).*

Some believe that a scorecard system is one that relies solely on the concepts of the Balanced Scorecard introduced in 1992 by Robert Kaplan and David Norton.[1] Originally, these two pioneers combined the notion of explicitly stating and communicating strategy with tracking important metrics through a standard organizing framework. Subsequently, other scorecard practitioners have recognized the need for alternatives to the original Balanced Scorecard framework to reflect differences among organizations in their structure and competitive environment. Even Norton and Kaplan recognized that their original "one-size-fits-all" framework model, although an excellent staring point, often needed to be tailored for specific organizations. Chapter 5 will examine popular organizing frameworks and also the idea of not working within a framework at all.

Although it may be important to consider the use of software, scorecard systems are not simply software applications that, by themselves, cause a major change in the culture of an organization. Usually, much work goes into a scorecard initiative before automation can take place or even make sense. Although a scorecard system can be as automated as needed, many organizations have started with a paper-based system, or by using a combination of spreadsheets and presentation software. As the scorecard process is accepted, organizations realize that automation will help to roll the process out further. Some put considerable effort into developing and/or programming a system in-house; others purchase purpose-built, off-the-shelf software. Scorecard automation is discussed in more detail in Chapter 9.

Irrespective of the frameworks used or the level of automation, both this book and the study from which much of the supporting data has been taken consider these implementations to be scorecard systems.

ATTRIBUTES OF SCORECARD SYSTEMS

To better understand why scorecard systems are being adopted, how they are being used, and why the benefits achieved vary, participants in the online surveys were asked to select those features that they thought a scorecard system *should have* and to identify those attributes that their scorecard systems *currently have*. Exhibit 2.1

Exhibit 2.1 Scorecard System Features

Feature	Percentage of Respondents Who View Feature as Desirable
Actions and objectives supported by measures or Key Performance Indicators (KPIs)	85
Many types of measures (leading, lagging, financial, nonfinancial, mixed)	82
KPI/Measure reports	82
Ability to graph measure data over time (to see trends)	78
Scorecards for different levels of the organization	78
Accountability for actions/initiatives	75
Cause and effect map—link strategic objectives to actions (or like words)	72
Feedback/status on objectives, actions/initiatives, and measures	72
Ability to communicate vision and strategy to employees	72
Ability to link the reward system to the targets and results	70
KPIs/Measures that roll up to aggregate measures	65
Vision	63
Mission	62
Ability to calculate relationships between measures (e.g., correlation analysis)	58
Framework for reporting (groupings or perspectives to report results)	57
Multiple targets for KPIs/Measures (e.g., base, target, and stretch)	57
Ability to collaborate on results (discussions, messaging, emailing)	56

provides a list of scorecard system options and the percentage of Scorecard Adopters of the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) survey who viewed the feature as desirable.

Exhibit 2.2 compares what Adopters and Non-Adopters thought *should be* in a scorecard system.

While many of the results for Adopters and Non-Adopters are reasonably similar, a few of the attributes appear more important to Adopters of scorecard systems. The most significant differences include:

- Many types of measures (leading, lagging, financial, nonfinancial, mixed)
- Key performance indicators (KPIs)/measures that roll up to aggregate measures
- Cause and effect map (link strategic objectives to actions)
- Ability to collaborate on results (discussions, messaging, e-mailing)

Exhibit 2.3 shows an interesting comparison of the attributes that scorecard Adopters think they *should have* in their scorecard systems and those that they *currently have*.

Most Adopters have scorecard systems that have not yet attained all the functionality that they think the systems should have. The implication is that additional

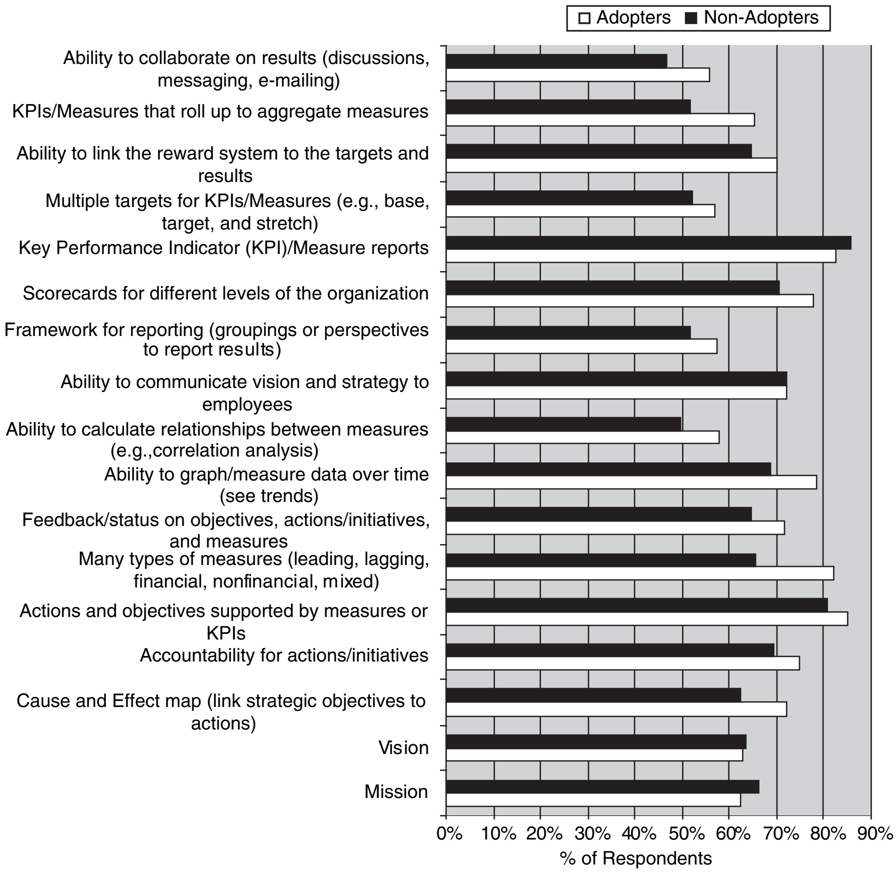


Exhibit 2.2 Desired Attributes of a Scorecard, by Adopters and Non-Adopters

benefits from scorecard systems will be achieved if the systems are enhanced to possess those missing attributes.

Most notably, there is a gap of 30 percentage points or more for the following attributes, each of which is desired but not currently available for many organizations:

- Ability to calculate relationships between measures (e.g., correlation analysis)
- Ability to link the reward system to the targets and results
- Ability to collaborate on results (discussions, messaging, e-mailing)
- Ability to communicate vision and strategy to employees
- Cause and effect map (link strategic objectives to actions)

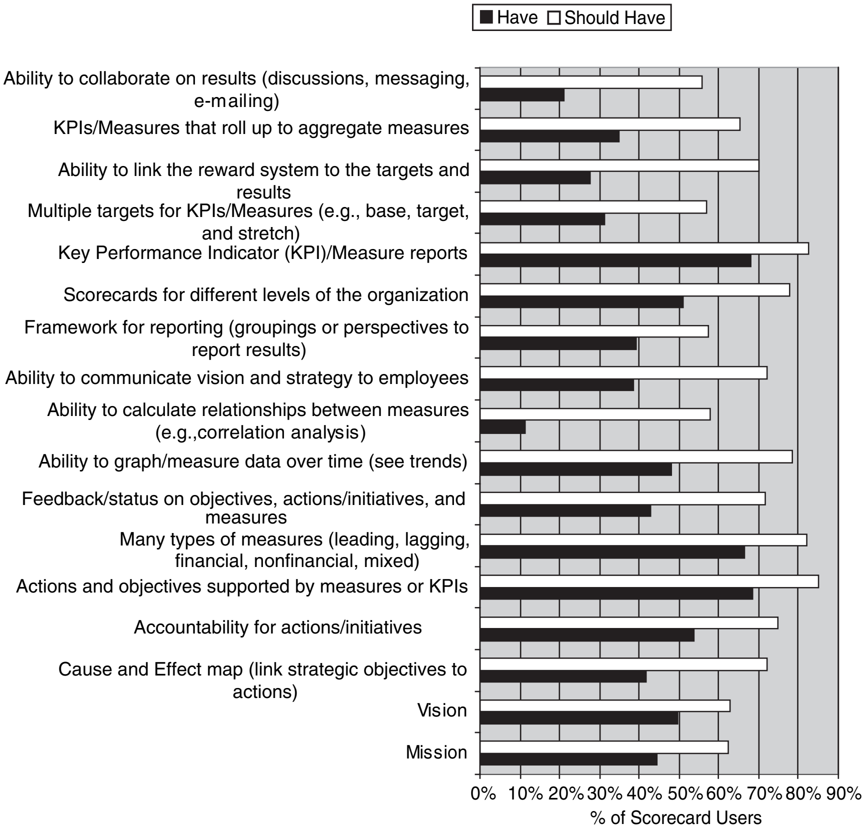


Exhibit 2.3 Adopter Scorecard Attributes: Have versus Should Have

- Ability to graph/measure data over time (to see trends)
- KPIs/measures that roll up to aggregate measures

Even for organizations that have been using scorecards for an extended period (7 to 10 years), gaps remained between desired attributes and existing attributes of the scorecard system. For one feature, *Ability to calculate relationships between measures (e.g., correlation analysis)*, the gap between desired attributes and existing attributes was 73 percentage points. Intuitively, you would think that the longer an organization had been using scorecards, the closer to the desired state they should come. Possible reasons for the widening gap include:

- The requirements of the organization have become even more sophisticated over time and therefore more complex to implement.

- The initial excitement and momentum of the scorecard initiative could not be maintained and therefore additional improvements are delayed.
- The cost-benefit analysis by the organization may have signaled that the features may be desirable, but are too costly to implement based on the investment return.
- The opinions of the respondents do not necessarily reflect the needs of the organization.

REASONS FOR IMPLEMENTING (OPERATIONAL VERSUS STRATEGIC)

Scorecard systems can be used for different purposes, two of which are operational control and strategy management.

As an *operational control tool*, the focus is on KPIs for control and possibly measuring progress toward organizational targets or benchmarks. In this type of operationally focused system, emphasis is more typically on the inputs to operating processes (see Exhibit 2.4).

For example, in a manufacturing organization, the control focus might be on tracking input measures such as materials, labor, and equipment usage required to produce product. Tracking these input measures will assist in providing a predictable and consistent understanding of product cost quality.

For a service organization, the focus might be on tracking input measures such as effort spent by front office, back office, and supervisors in providing services to customers. Tracking these input measures can provide an understanding of cost and efficiency of service.

In both operational control examples, the measure results being tracked are important to control the day-to-day business, but understanding of these operational measures alone may not indicate progress toward a strategic objective or related outcome measures such as providing *excellent quality products* or providing *extraordinary customer care*. If an organization desires to become a major force in its vertical industry, other measures must be tracked to ensure a good, well-rounded picture of outcomes as well as outputs.

As a *strategic management tool,* the scorecard system is integrated into the overall Business Performance Management (BPM) cycle of an organization. In strategy-

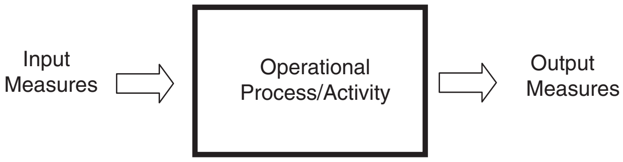


Exhibit 2.4 Input and Output Measures

focused systems, emphasis is placed on setting desired outcomes and targets and encouraging managers to be creative in finding new ways to achieve organizational objectives. In such systems, there are typically many more ties from the scorecard system to an organization's strategy.

Much of the current literature describes the benefits of scorecard systems as arising from their use as a strategic management tool—focusing on the alignment of key management processes, people, and systems to organizational strategy. But the results of the SHAPs study show that scorecard systems are being used for both operational and strategic purposes (see Exhibit 2.5). The most frequently cited reason for implementing a scorecard system is the need to track progress toward achieving organizational goals. Although this reason may appear to be operational in nature, tracking of goals can be considered strategic when it relates to an organizational goal rather than an operational target.

The next two most frequently cited reasons for implementing a scorecard system were strategic: the need to communicate strategy to everyone and the need to align employee behavior with strategic objectives.

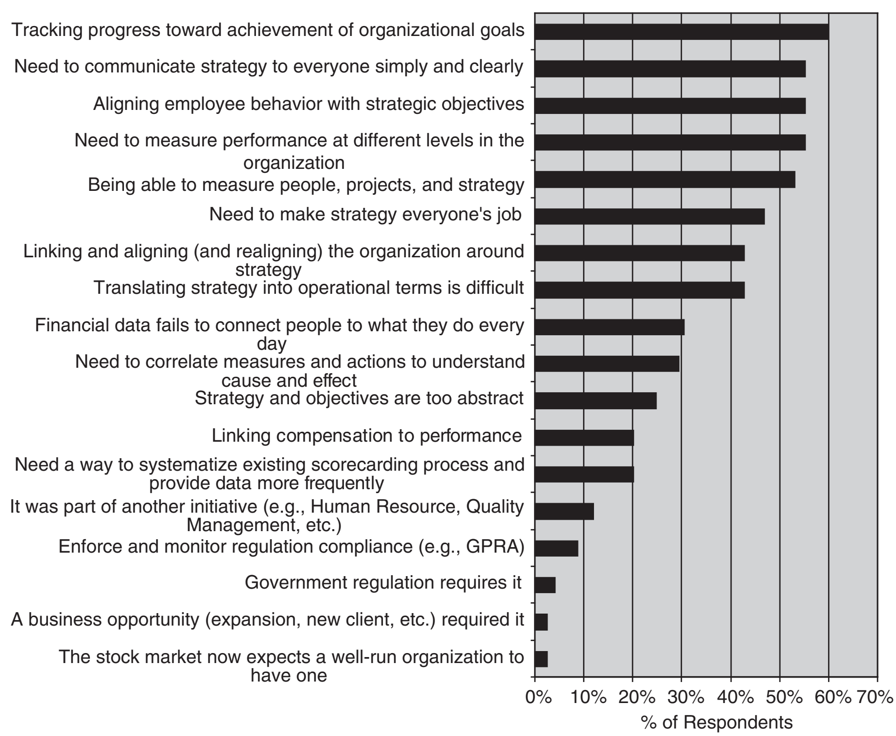


Exhibit 2.5 Reasons for Scorecards: All Responses

Other reasons for scorecard implementation included combined operational and strategic needs: being able to measure people, projects, and strategy; linking and aligning the organization around strategy; and the need to measure performance at various levels.

An important implication of these findings is that organizations need to clearly define and communicate the reasons for implementing a scorecard system (operational, strategic, or both). These reasons will influence both the design of the scorecard system and the resulting benefits that are achieved.

IMPETUS FOR A SCORECARD SYSTEM INITIATIVE

The reason(s) for implementing a scorecard system can often dictate or, at the very least, influence where the impetus for scorecards arises. An overwhelming majority (82 percent) of scorecard system initiatives are driven by top management and/or the Board of Directors. (See Exhibit 2.6.)

Some organizations list specific titles and positions of those providing the impetus for the scorecard initiative. These included: Chief Financial Officer, Chairman of the Board, Chief Operating Officer, and Chief Strategy Officer. In one specific case, the customers of the organization provided the initial thrust to have the initiative undertaken.

Was there a difference between the Significant Benefits Group and the entire Adopter Group with respect to impetus? The answer is no. When the analysis was refined to include only the organizations that had achieved significant benefits, no noteworthy difference was found. When refining the analysis even further to include only the Best Practice Organizations from the study, the scorecard system initiative continues to be driven by top management and/or the board of directors at about 82 percent of these organizations. Therefore, there was no significant difference found among the three groups with respect to impetus.

Having the scorecard system initiative driven by top management or a member of the Board can greatly increase its long-term chances for success. One reason is that the

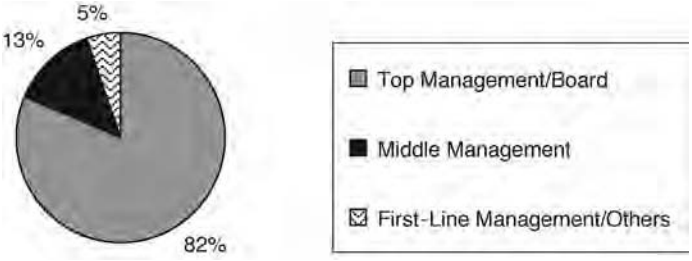


Exhibit 2.6 Impetus for Scorecard System: All Responses

scorecard project must maintain a high enough profile to attract the proper funding and dedicated people. Also, when typical day-to-day business emergencies occur, a high-level sponsor can help to maintain a high priority for the initiative—something that first-line sponsors often cannot do.

BENEFITS OF A SCORECARD SYSTEM

When implementing a scorecard system, you need to be very aware of the benefits you want to achieve and design the system accordingly. Some consultants and software vendors may lead you to believe that a scorecard system can solve all your business problems. While there are many benefits that are directly attributable to a scorecard system, others are more indirect. Some of the indirect benefits include fostering a more open, collaborative culture, and sharing results with other parts of the organization instead of hiding them to retain power.

The Adopters were asked what benefits they felt they had achieved that were directly attributable to their scorecard system. Exhibit 2.7 presents the most common benefits stated.

Although the Adopters were conservative in selecting benefits from the supplied list, they were much more enthusiastic about providing comments on the benefits they had received. Some of them included:

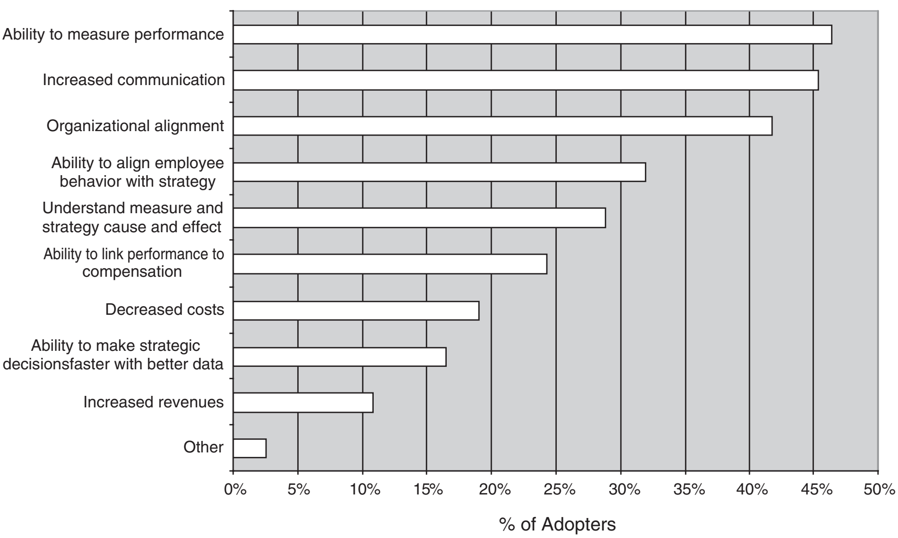


Exhibit 2.7 Benefits to Adopters

Communication and Reporting Benefits

- "The greatest benefit to date has been the breaking down of silos between [Strategic Business Units] and the sharing of information, plans, challenges, etc."
- "Perhaps the best benefits have been a disciplined approach to agreeing on what is most important to the organization and developing consensus on how to measure it."
- "Provides opportunity to functional heads to explain over/under achievement and [to identify] measures to improve."
- "Employees now understand targets."
- "It is much easier to allocate human and capital resources and share these resources across the organization now that everyone actually sees how this positively impacts the organization as a whole."
- "Communicates key performance monthly to all employees—notice boards, briefings, etc."
- "Has facilitated a unified focus on office priorities through easily generated performance reports. It has also highlighted the interrelationships between different functions and how best to coordinate efforts to achieve goals."

Improved Business and Efficiency Benefits

- "Achieved ISO 9000:2000[2] and [we have] more business due to improvements."
- "We had a productivity improvement of over 200 percent and a 75 percent reduction in unit cost."
- "Raised the competency in business management—a great tool that has assisted in marketing our professionalism in service delivery—a benchmark others are following in the company."

Financial Benefits

- "Scorecarding has identified several key cost drivers. Focus on these has resulted in substantial savings."
- "Improvement in manufacturing efficiencies and subsequent reduction in costs."
- "A reduction in overheads of 25 percent in three years" and "significant improvement in employee satisfaction and the highest sales and profit ever."
- "Focusing on scarce investments guaranteed an average annual growth of 36 percent in revenue with the same average margin."
- "Lowered costs and reduced inventory levels."

Multiple Benefits

Notably, one Adopter submitted these four comments in direct response to the benefits question:

- “[There is now the] urge to perform amongst employees (reward is linked with performance).”
- “More clarity in objectives to be achieved.”
- “Focus on teamwork (many targets cannot be achieved without strong teamwork).”
- “Continuous improvement.”

Another Adopter, focused on achieving strategy and improving process, added these comments in response to this question:

- “It ensures annual discussion of company direction.”
- “The measures chosen highlight how the corporation intends to meet the vision.”
- “The targets make it clear what needs to be achieved each year to achieve the vision.”
- “Monthly result reports.”

BEST PRACTICE ORGANIZATION BENEFITS

Best Practice Organizations achieve a greater number of benefits from their scorecard systems and with a higher frequency. All of the Best Practice Organizations claimed that *organizational alignment* was a benefit to the organization from their scorecard system (see Exhibit 2.8). Only 42 percent of the overall Adopters achieved the same benefit.

The *ability to measure performance* was achieved by only 47 percent of the overall Adopter group while 84 percent of the Best Practice Organizations reported achieving this benefit.

Over half of the Best Practice Organizations reported achieving seven of the nine benefits listed in Exhibit 2.8. Do you think this is enough to justify a closer look at scorecard systems and how these organizations did it?

Another benefit often attributed to scorecard systems is to go beyond driving performance improvement in organizations to facilitate sustainable alignment. To truly change employee behavior, the new behavior must be reinforced frequently. Scorecards are very good at continually providing feedback on progress, and even more effective when linked to compensation. Seventy-seven percent of the Adopters in the survey, and 100 percent of the Best Practice Organizations, agreed to some extent that the use of a scorecard system had driven performance improvement in their organization. One Adopter in the study indicated that “[The scorecard system] has forced clear accountabilities and targets for work at high levels in the corporation.”

Exhibit 2.9 shows that 64 percent of the Adopters agreed that their scorecard system facilitated achieving sustainable alignment. Again, 100 percent of the Best Practice Organizations agreed to a great degree with the same statement.

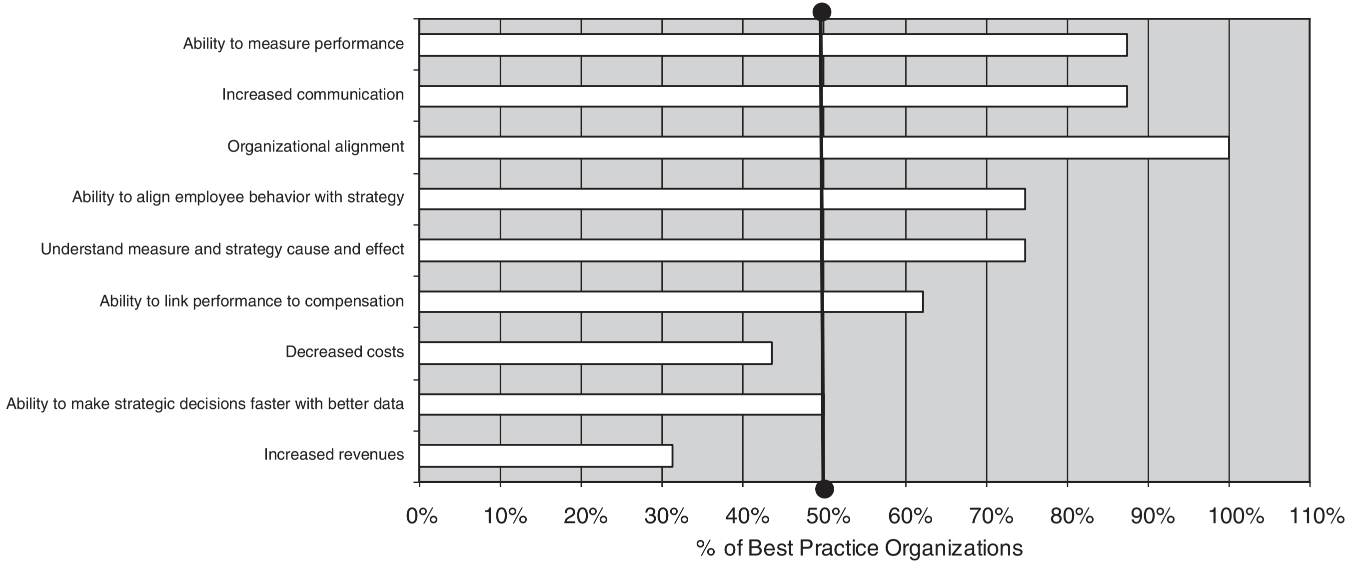


Exhibit 2.8 Benefits to Best Practice Organizations

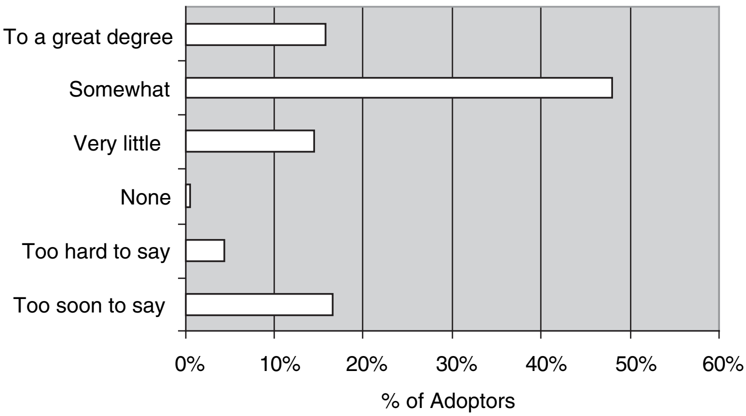


Exhibit 2.9 Provides Sustainable Alignment

ACHIEVING SIGNIFICANT BENEFITS: INTERNATIONAL RESULTS

Scorecard systems in most regions of the world are perceived to be of significant value. Nearly two-thirds of the international scorecard study Adopters indicated that they agreed that their system had yielded significant benefits to their organization (see Exhibit 2.10). This is very similar to the results of the North American survey.

Exhibit 2.10 Significant Benefits by Geography

	Africa	Asia/ Pacific	Europe	North America	South America	All Respondents	Prior North American Survey
Strongly Agree/ Agree	22%	28%	20%	42%	63%	35%	40%
Somewhat Agree	56%	27%	32%	21%	21%	27%	27%
Neither Agree Nor Disagree	22%	27%	43%	27%	16%	30%	n/a[a]
Somewhat Disagree/Disagree/ Strongly Disagree	0%	19%	5%	10%	0%	7%	33%

[a]Responses to the International study could choose from seven options ranging from "Strongly Agree" to "Strongly Disagree." Respondents to the North American study could choose from five options; "Somewhat Agree" and "Neither Agree Nor Disagree" were not options for this study. Results have been combined into four groups for comparison purposes.

South American organizations reported benefits from their scorecard systems more often, while European and Asia/Pacific organizations report such benefits least often.

Among North American organizations, there has been a slight decline in the percentage reporting significant benefits from 2002–2004 to 2004–2006. One possible reason for this is that a greater percentage of these organizations in the latter survey are new to using scorecards and have not had time to realize benefits from these systems (37 percent of the North American respondents had been using their scorecard system for one year or less in 2004–2006, as compared to 22 percent in 2002–2004). The data and our experience indicate a strong positive relationship between the length of time that an organization uses a scorecard system and the likelihood of it realizing significant benefits from the system.

USE OF SCORECARD SYSTEMS BY DEMOGRAPHIC SEGMENT, SIZE, AND INDUSTRY

It appears that size and industry type are not key factors in attaining significant benefits from the scorecard system.

The SHAPs study indicates only slight variability in the successful use of scorecard systems across industries. Organizations in the manufacturing sector reported the greatest benefit, followed by consulting, financial, and energy organizations. On average, however, organizations in all sectors agree that their system provided significant benefits to their organization.

Organization size did not make a major difference in scorecard success. A marginally larger percentage of smaller organizations (whose annual revenue ranges from U.S. $1 million to $100 million) reported significant benefits, but there were many large and medium sized organizations that also reported significant benefits.

WHAT'S NEXT?

In the following chapters, the key findings from the SHAPs study will be presented and analyzed with respect to best practices in implementing a scorecard system to achieve significant benefits. Chapter 10 provides a summary of the best practices to enable you to evaluate your current implementation, or to provide guidance for one you are about to undertake.

NOTES

1. "The Balanced Scorecard: Measures That Drive Performance," Robert S. Kaplan and David P. Norton. *Harvard Business Review,* January-February 1992: 71–80.
2. ISO 9000 is a family of standards for quality management systems. ISO 9000 is maintained by ISO (i.e., International Organization for Standardization).

Chapter 3

Establishing Motivation

Scene: One week later—a brightly lit corner roadhouse.

Patrick and Ted meet for after-work cocktails to continue their earlier conversation . . .

Patrick: ‘‘Hi Ted. I’m glad that we were able to get together so quickly after our meeting last week.’’

Ted: ‘‘Glad that we could find time to get together. Let me get the first round.’’

Patrick: ‘‘OK, I’ll have a beer.’’

Ted gets the server’s attention and orders a couple of pints of beer.

Patrick: ‘‘So I’ve gone through the preliminary documents and I think that I’m starting to understand the terms, attributes, benefits, and uses for a scorecard system.’’

Ted: ‘‘I thought that material might provide a good starting point.’’

Patrick: ‘‘I see that there appears to be no universal definition of a scorecard system. But, my first questions revolve around how to get people on board. Introducing any new style of management is often met with skepticism by employees. How do you foster motivation and enthusiasm for this approach and encourage employees to use the new system?’’

Ted: ‘‘Good question. There are a number of considerations that impact employee acceptance. One that we’ve seen is the level of the organization that starts the initiative.’’

Patrick: ‘‘I guess that starting at the top is best.’’

Ted: ‘‘There are some real advantages to starting at the top, but there appears to be just as much acceptance when the initiative is introduced by middle management.’’

Patrick: ‘‘Really? That’s interesting.’’

Ted: ‘‘And there are a number of other elements that will affect employee motivation for the scorecard system. Obviously, you would expect the specific measures used in the system to impact employee attitudes. But, it’s more than that—do the measures align to the organization’s goals? Are there targets associated with the measures, and, if so, are they realistic? Are the performance measures linked to compensation and rewards?’’

Patrick: ‘‘How do organizations select measures?’’

Ted: ‘‘It varies, but we’re seeing a number of organizations that are achieving success by having a group oversee the selection of measures and targets to apply controls around the quantity and the quality of these measures.’’

> "I should point out the role that communication can play in increasing employee motivation—starting with clearly communicating reasons for scorecard implementation, and continuing to advertise milestones and successes."
>
> "And, the actual features in the software to support the scorecard system may impact employee acceptance. Now you've gotten me started, but I've brought some more material for you to review. Ah, our beers have arrived! Why don't you take this material with you, and let's arrange to discuss it later."
>
> Patrick: "Sounds good."

This material presents specific aspects of a scorecard system, its implementation, and establishing motivation for the use of the system. Finally, it examines the effects these aspects have on benefits achieved by the system.

BACKGROUND

The SHAPs (i.e., SUNY, Hyperion and Pepperdine scorecard) study results indicate that organizations want to use their scorecard systems to motivate employees and most have achieved some success in doing so. The vast majority agree with the idea that their scorecard measures motivate employees to work in congruence with the organization's objectives. One organization commented,

> *Employees throughout the organization have become more aware of our business plan goals and objectives and strive for higher performance.*

An organization in India indicated that they had experienced several motivational benefits that were directly linked to using a scorecard system,

> *There is now:*
>
> - *[An] urge to perform amongst employees (reward is linked with performance)*
> - *More clarity in objectives to be achieved*
> - *[A] focus on teamwork (many targets cannot be achieved without strong teamwork)*

As almost all agree, measures motivate—one way or another. However, this statement also serves as a *caution*. For organizations that have *not* yet been able to use their scorecard systems to motivate their employees to act in congruence with their organization's goals, how can this motivation be achieved? One organization stated, "Some [employees] have embraced it but others view it only as a compliance exercise."

It is clear from anecdotal and empirical evidence that in order for employees to accept and use the scorecard system and ultimately be motivated, it is imperative that they first *understand* the system. If employees and managers participate in the design of their own scorecards, measurements, and evaluation methods, there is much higher chance of buy-in.

IMPETUS FOR IMPLEMENTATION

How the initiative begins can have an impact on motivation. In Chapter 2, it was pointed out that for a majority of respondents (81 percent) the impetus for implementing a scorecard system came from top management. Although this fact did not have a direct impact on the specific benefits attained from the system implementation, it does impact on the motivation of employees to accept and use the system—which in turn will affect the degree to which an organization achieves longer term benefits from the scorecard system.

Exhibit 3.1, which shows data from the SHAPs study, demonstrates that if the impetus for the scorecard system is originally from top or middle management, there is a much greater likelihood that the organization's executives will accept and use the system, and that the employees will accept and use the system. The SHAPs study also revealed that it takes between 6 and 12 months for employees to accept the system. However, our experience shows that it is typically closer to 6 months.

Organizations in which first-line management initiates and champions successful scorecard efforts typically face a greater struggle to convince upper management that it is a good performance management tool and to motivate employees to use the system. People tend to be motivated more to use the scorecard when championed by upper management prior to implementation than when the scorecard initiative is a grass-roots effort.

An interesting result from the SHAPs study (as shown in Exhibit 3.1) is that for scorecard systems inspired by first-line managers, none of the executives accepted

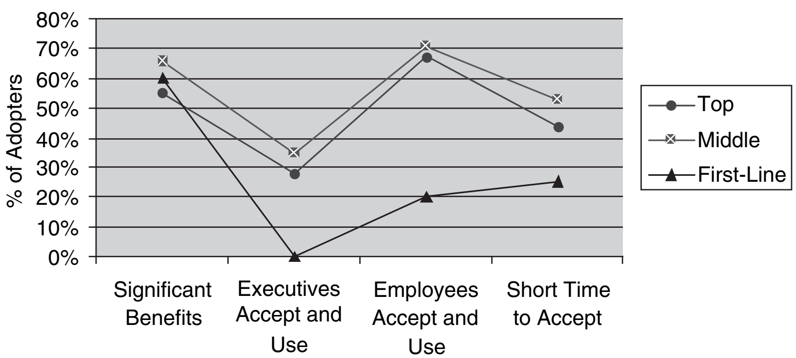


Exhibit 3.1 Impetus and the Impact on Motivation

and used it. A plausible reason for this is that first-line managers are building scorecards to assist their role, which tends to emphasize the reporting of operational results. Often, this has no relevance on top-level management concerns.

USE OF TARGETS

The use of targets in a scorecard system can have a motivating or de-motivating effect on employees and management, depending on how they are created and used. Peter Drucker said: "If you can't measure it, you can't manage it," but without a target it is difficult to know whether results are good or bad. One respondent to the SHAPs study indicated that for them "[use of] targets [is] key for all but the 'softest' of aims." Another organization stated that if measures truly are aligned with the strategy, then "the targets make it clear what needs to be achieved each year to achieve the vision." Exhibit 3.2 illustrates a scorecard for a strategic objective *Acquire New Products*. It contains three measures used as indicators of success for this objective. A measure's result by itself, however, does not motivate the owners of the measures to take action. Unless they can see how the measure is performing against expectations, it is difficult to get excited about the measure's performance.

Exhibit 3.3 shows how the same scorecard can provide a better frame of reference when target values, status indicators, and trend symbols are included. Visual cues enable the owner to quickly evaluate the measure's performance. Well performing measures can be celebrated, and remediation plans for poorly performing measures can be quickly established. Furthermore, it is also now possible to see what is contributing to the objective's status. Having this understanding proves to be very motivating for employees and managers.

Taken from the SHAPs study, Exhibit 3.4 depicts the relationship between having targets for each of the measures on a scorecard and employee motivation. The exhibit shows that, in general, motivation for employees to act in congruence with the strategy and the frequency with which employees like and use the scorecard system increase with the number of measures on scorecards that have targets. Anecdotal evidence also supports the notion that setting clear, simple, and focused targets has a positive impact

Exhibit 3.2 Scorecard Containing Measures and Results

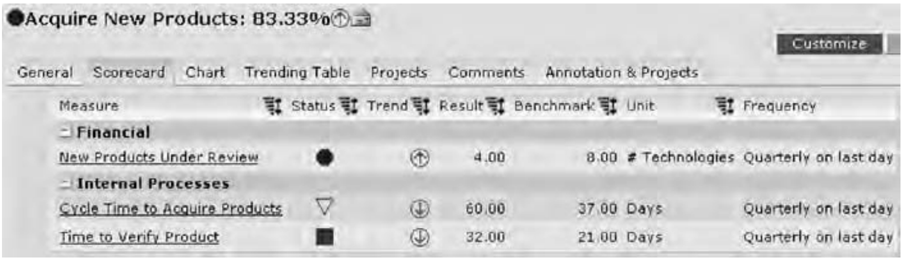


Exhibit 3.3 Scorecard Containing Measures, Results, Targets, and Visual Cues

on generating and maintaining employee motivation to accept and use the scorecard system.

Keep in mind that it is also important to review the targets on a regular basis to ensure the ongoing validity of the targets. When targets are not reviewed regularly, the chances increase that employees and managers will become less motivated. Also, targets that are too easily attained or, conversely, too infrequently attained may have a de-motivating effect. One organization in the study experienced this type of poor employee motivation while using scorecards. To paraphrase their situation: ''since the inception of our scorecard system, our targets have not been reviewed to respond to changes in the market.'' The challenge then is to include the appropriate people from the organization to create targets that will motivate people properly, and perhaps even stretch them a bit, but not so much that employees will give up because they think the target is unattainable. Many organizations in the study indicated that it was important to include the owner of the measure when developing the target, or at the very least get the owner's buy-in on the target value.

Some organizations choose to maintain multiple targets. These might include a baseline, a stretch goal, an internal benchmark (fostering friendly competition and

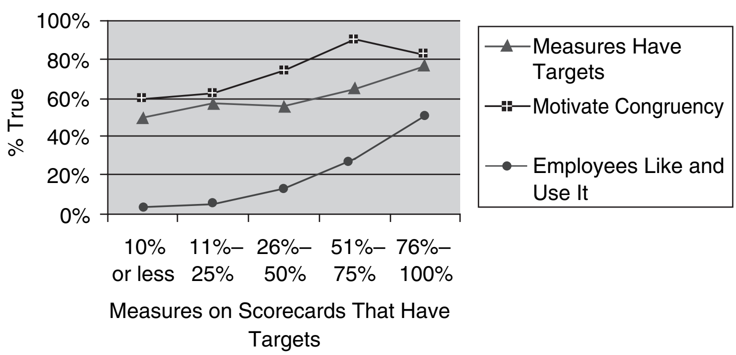


Exhibit 3.4 Relationship of Targets to Employee Motivation

providing additional motivation when combined with incentives), and an external benchmark. Typically, the targets are progressively more difficult to attain and each carries a higher incentive to enhance motivation. For example, reaching the baseline might carry the incentive of a small bonus, while reaching a stretch target or benchmark might carry a larger bonus. Of course, attaining a target may not always carry monetary benefits. In some cases, the incentive simply brought prestige or nonmonetary recognition, which has proven to be motivational.

Over time, use of targets can lead to establishing internal benchmarks or best practices for improving internal processes. One survey respondent commented, "We can very easily see the underperforming stores and the stars. We take best practices from the stars [to] correct the habits of the underperformers." A case can be made to go outside of the organization to find targets that will provide motivation. One survey respondent noted "I believe that for an industry as competitive as ours, greater focus should be placed on regular (monthly) benchmarking of competitors."

LINKING PERFORMANCE MEASURES TO COMPENSATION AND REWARDS

There is debate about the motivational effect of linking performance measures to compensation and rewards. Logically, it makes sense that compensating an employee for attaining a goal—especially monetary compensation—should motivate employees to act in accordance with the targets set. Many of the survey respondents agreed with this motivational technique. For example, one respondent stated: "The annual bonus system for all managers and professionals is calculated on the basis of achieved targets from a scorecard system."

However, there are several caveats surrounding the use of monetary rewards for achieving targets. For example, according to the results of the SHAPs survey and research done by the Faculty of Economics and Business Administration at Ghent University, Belgium[1], employees are motivated when:

- Measures that are used to evaluate their performance are within their control and/or within their influence, and
- Targets set for those measures are attainable.

When measures used to evaluate employees are not within their control or sphere of influence, then a contra-reaction often occurs—it has a very de-motivating effect. The same can be true with targets that are set for the purposes of evaluation. If the targets are too low, employees will not strive to improve. If they are too high, employees may decide not to try to attain them because they feel that they will only fail anyway.

When measures used to evaluate employees are within their control, and the targets are realistic, the effect can be very motivating—especially when linked to compensation. Involving managers in creating targets can also have a very motivating effect. Not only will they have better buy-in to the values they helped to choose, but they will likely also encourage their employees to achieve the target. The managers understand that if the employees reach the targets, everyone gets rewarded. If they do not reach their targets, the manager's choice of target values will be scrutinized.

Results from the SHAPs survey indicate that organizations attempting to link performance measures to their compensation and reward system have achieved some success, but still have a way to go. Eighty-five percent of the adopters agree, to some extent, with the idea that the scorecard measures motivate employees to work in congruence with the organization's objectives.

Almost 70 percent of the respondents indicated that they have linked measures on the scorecard to compensation and rewards, and organizations linking performance measures to compensation and rewards are more likely to agree that the scorecard's measures motivate its employees to work in congruence with the organization's goals. They are also more likely to agree that their scorecard system had yielded significant benefits. A large bank participating in the survey noted the benefits from using a scorecard included the "alignment of employee measures to corporate objectives" and "employee receptivity for balanced measures linked to compensation."

ALIGNING MEASURES AND EMPLOYEES TO ORGANIZATIONAL GOALS

Another great de-motivator for employees is the use of measures unrelated to the strategy of the organization. When measures used to evaluate performance do not relate to strategy, employees have the impression that their efforts are not related to the strategy and, therefore, they are not important to the company– a despondent feeling, to be sure.

Most participants in the SHAPs study have a strong link between their scorecards, performance measures, and the organization's goal-setting process. A large majority of those surveyed stated that the measures on their scorecards are the same ones on which annual and longer-term goals (or objectives) are set during the planning process, while only 8 percent said that they were not. The stronger the agreement with the statement, the more likely the organization was to agree that it had achieved significant benefits from its scorecard system.

One respondent, a government defense agency, added, "To date, the networking between bases and sharing of actions and measurements [on their scorecards] to achieve the vision (most did not even know our mission/vision) has made this effort a huge success already."

A semiconductor manufacturer observed, "Employees use their organization's scorecards to identify their personal job related goals in order to align their goals to the organizational goals." This linkage resulted in the following benefit: "The scorecard system has facilitated the effective communication of our organization's vision, mission, strategy, key business processes, and critical business results, i.e., performance metrics.''

A utility employee credit union participating in the study indicated, ''While very early in the program (9 months), the scorecard has helped to align much of the staff with the organization's vision and strategic goals.''

By linking scorecards and performance measures to organizational goals, these organizations were able to achieve substantial benefits from their scorecard systems.

ADVERTISING SUCCESS

An often overlooked method for motivating employees is advertising and celebrating success! The successful completion of an implementation stage or the attainment of an organizational goal is an ideal time to recognize it and to celebrate it. This can be as elaborate as throwing a party, holding an award presentation, or providing a monetary reward; or as simple as a memo to the organization, or an article in the company newsletter.

These ''celebrations'' can also pique the interest of those that have not yet been part of the process. Success often breeds success and those employees that originally may have had a negative view of the process can often be influenced by an internal story of success. For example, a well recognized, worldwide consulting company announced its scorecard implementation successes in an internal newsletter specifically related to performance measurement and achieving strategy. The newsletter not only advertised the successes of those that had already been part of the roll out, but it also educated the areas of the organization that had not yet been involved and encouraged their future involvement.

Ray Thornton of Gulf States Paper Corporation (one of America's premier forest products companies) states that to be successful at implementing a scorecard system, ''Communicate until it hurts!''

MEASURES USED

Measures used on scorecards need to be carefully selected. Some scorecard implementations have found improvement in motivation when those responsible for an area are active participants in the choice of the measures and the process of setting targets. Involvement in the entire process fosters complete buy-in and, ultimately, more motivated employees.

One organization that suffered because the responsible individuals were not part of the process commented, ''Too many subjective measurables, and the manager was given no input to the measurables.'' In this case, the organization felt it had received no benefits from its scorecard system.

In another example, an organization began to see improvement in employee acceptance of the system. One employee commented that they ''. . . [had] varying degrees of acceptance but as we link to strategic and business plans and performance management systems, acceptance will grow.'' The organization had learned lessons and were moving toward correcting the situation.

Another respondent had gotten the process correct and was enjoying significant benefits. It chose their measures ''based on consensus with the functional areas and final approval from the Managing Director.''

Gulf States Paper Corporation concluded that measures appearing on scorecards must be the same as those used for compensation. When it began implementing a scorecard system, the measures used to monitor its strategic performance was not the same as those being used to compensate the employees it had two distinct sets of measures! It discovered that employees will manage what is measured—for compensation. It was working hard to meet the operational targets, but sometimes at the expense of a strategic initiative. Once discovered, management moved to correct this situation.

SOFTWARE FEATURES MADE AVAILABLE

Participants in the SHAPs study stated that motivation is enhanced when a scorecard system is easy to use and provides useful information for managers and employees to use in their everyday jobs. More specifically, if the collection of measure values is not too painful, the results reported are current, and the presentation of the reports is attractive and automated, employees are encouraged to want to analyze the results and use the information to determine ways to improve.

Software functionality that was most frequently mentioned by the Best Practices (BP) group as being important for successfully measuring and monitoring strategy and planning process improvements were the ability to:

- Roll up or cascade scorecards
- See traffic lighting and trend indicators on reports/scorecards
- Drill down to root cause when an issue is discovered
- Link scorecards and roll them up
- Create strategy maps (the entire organizational strategy on one page)
- Play scenarios
- Customize reports
- Embed notes, attach documents, and include annotations
- See measure trees (to understand the relationship between measures)
- Perform correlation analysis between measures
- Have web-based reporting to provide easy access to a wide audience
- Provide security for viewing reports and entering and changing data

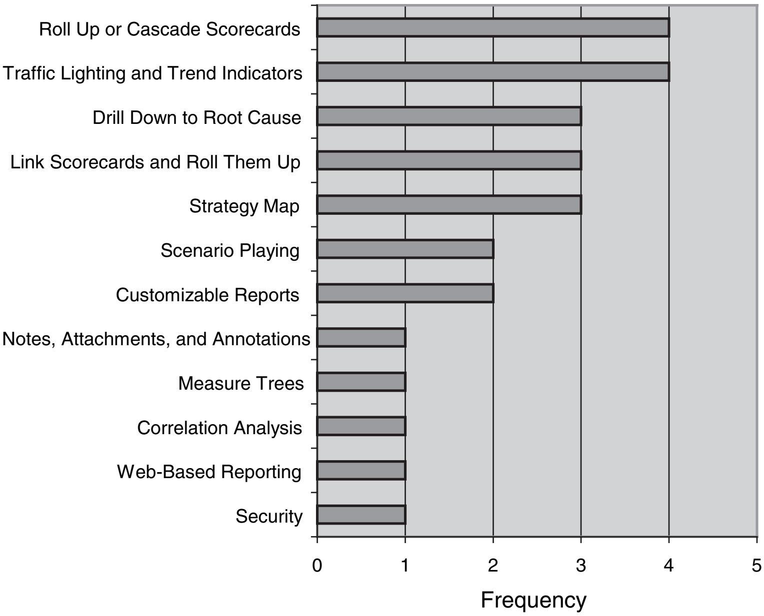


Exhibit 3.5 Best Practice "Must Have" Functionality

Exhibit 3.5 lists the top "must have" functionality as indicated by the BP group. There were also comments made about why they were important and their impact on motivation:

- "Collaboration and communication tools make it easier to be motivated (not in isolation)."
- "Web-based reports make it accessible."
- "[Scorecard systems provide an] open style of reporting, which makes it easier to see results and act upon them."
- "Frequency of reporting results makes it easier to stay motivated and to do something about bad situations."

COMMUNICATING APPROPRIATE REASONS FOR SCORECARD IMPLEMENTATION

While scorecard systems are implemented for a variety of reasons, to foster motivation they must be implemented for appropriate reasons.

Underlying reasons for implementing scorecard systems can be grouped into two general categories: operational and strategic. Operational reasons for using scorecards include:

- Being able to measure people, projects, and strategy
- Need to measure performance at different levels in the organization
- Need a way to systemize existing scorecard process and provide data more frequently
- Need to correlate measures
- Need to enforce and monitor regulation compliance
- Need to track progress toward achievement of organizational goals[2]
- Need to link compensation to performance[3]

Typical strategic reasons for implementing a scorecard system include:

- Need to make strategy everyone's job
- Strategy and objectives are too abstract
- Need to communicate strategy to everyone simply and clearly
- Translating strategy into operational terms is difficult
- Need to align employee behavior with strategic objectives
- Need to link and align (and realign) the organization around strategy
- A new business opportunity (expansion, new client, etc.) requires it

Results from the SHAPs Best Practice Group indicate that scorecard systems achieve greater success when they are implemented for strategic reasons—to support the achievement of strategy. More and more organizations are citing strategic enabling themes when stating why they have decided to implement a scorecard system. Exhibit 3.6 demonstrates the five most commonly selected reasons for implementing a scorecard—and the top four are for the support of strategic achievement.

Which of these reasons is most associated with successful implementations? Key among these is an emphasis on aligning employee behavior with organizational goals and on the need to communicate strategy throughout the organization. The Significant Benefits Group (SBG) unanimously set these reasons as the top priorities, while only 39 percent of the Non-SBG cited these as reasons for implementing a scorecard system.

In a separate study,[4] Bruggeman and Decoene found ten specific aspects of scorecard systems that were related to motivation—many of which were in alignment with the results of the SHAPs study. They found that *motivation is higher if:*

- The quality of the visioning process (articulation of strategy) was high.

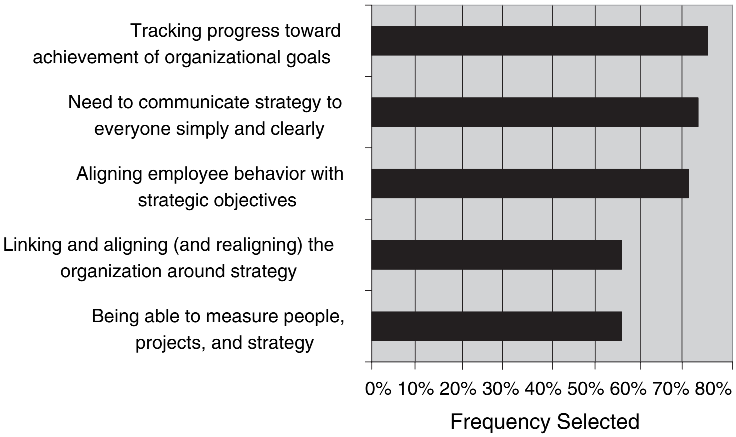


Exhibit 3.6 Top Five Reasons for Implementing a Scorecard System (All Adopters)

- The use of the Balanced Scorecard was of high quality.
- The target setting process was of high quality.
- The leadership style in conjunction with the scorecard was a coaching style.
- The targets set were reasonable due to the performance measures being controllable.
- The variable remuneration percent was higher based on controllable measures and targets.
- Goals and strategies created had a high consensus.
- The performance measures chosen could be measured with a high degree of precision.
- Variable remuneration was set on controllable measures.
- The quality of deployment (and policy) and cascading was high.

SUMMARY

Establishing appropriate motivation for the scorecard system can mean the difference between a successful implementation and a failed implementation. Some of the more motivating aspects of implementation are the visioning process, using a scorecard to track strategy, communication and collaboration, and target and benchmark setting. From this chapter, the following Best Practices were established—in order to establish motivation and achieve successful implementation, you should:

- Have the impetus for implementation come from top-level management.

- Communicate the reasons for scorecard implementation, and the benefits of the implementation.
- Consider the use of targets.
- Consider, where appropriate, linking performance measures to compensation and rewards.
- Align measures and employees to organizational goals.
- Advertise successes when they occur.
- Choose measures carefully and involve those accountable for them in the selection process.
- Provide software features that will enable employees to spend their time analyzing and acting on results.

NOTES

1. An Empirical Study of the Influence of Balanced Scorecard-Based Variable Remuneration on the Performance Motivation. Werner Bruggeman, Valerie Decoene, January 2002, Working Paper from Universiteit Ghent, Faculteit Econonomie en Bedrijfskunde.
2. These reasons can be interpreted as strategic in some cases.
3. Ibid.
4. Adapted from An Empirical Study of the Influence of Balanced Scorecard-Based Variable Remuneration on the Performance Motivation. Werner Bruggeman, Valerie Decoene, January 2002, Working Paper from Universiteit Ghent, Faculteit Econonomie en Bedrijfskunde: 13–15.

Chapter 4

Enabling a Supportive Organizational Environment

Scene: Waiting lounge at a busy airport, a few days later. Patrick and Ted meet before separate flights . . .

Patrick: "Hi Ted. I'm glad that our schedules allowed us to meet here before our flights. I've got about 20 minutes before I have to go to the gate. A lot of work has to be done at one of our customer's in Dallas."

Ted: "Yes, I understand. My trip to Denver is to visit one of my clients, but I'll be spending a few extra days visiting some old friends."

Patrick: "I've reviewed the material that you gave me, but it seems to me that more than just a scorecard system is required to truly transform an organization into one that is aligned with strategy and motivated to achieve it."

Ted: "Funny that you mention that. The company that I am visiting in Denver is struggling with the misconception that systems, by themselves, will foster the appropriate level of buy-in. I'm going to be talking with them about the organizational environment that will support change and enable the employees to accept the system and to make the necessary improvements. I've got some materials and I've brought an extra copy for you to review during your flight."

Patrick: "The last set of materials illustrated the importance of having the project originate from an appropriate level within the organization. But, it seems that having support from top management is essential."

Ted: "I agree and so do the results of studies—top-level management buy-in is important for fostering a supportive organizational environment. Also, a strategy champion to maintain the high-level visibility is valuable.

But I can't overstate the value of communication and a good communication plan to the success of these implementations. It's important to define and communicate the reasons for and benefits of implementing a scorecard system. But you must ensure that two-way communication is set up—establish a feedback loop to understand progress and make changes where required."

Good communication helps to clearly articulate and communicate the organizational strategy to encourage employees to accept and use the system. Also, you must set the appropriate level of expectations—ensure that everyone understands the goals of the project and provide adequate time to implement and realize benefits. It may make sense to implement in phases."

Patrick: "Wouldn't monetary incentives help foster the appropriate environment?"

Ted: "I usually recommend that organizations approach this with a bit of caution—it may be a radical departure from the organization's culture and cause significant issues. I prefer to suggest that an organization encourage its people to seek alignment with its strategy before linking the scorecard project to a compensation and rewards system."

Patrick: "This is all good advice. Is it necessary to bring in external expertise to be successful?"

Ted: "I'd be foolish to say 'no,' but I prefer to recommend an appropriate level of consultant help—depending on the in-house expertise available and the number of internal resources an organization is willing to commit."

Patrick: "How does automation impact this process?"

Ted: "Another good question. There is some good information in this reading material that will provide good background. But, my recommendation to clients is to consider a suitable level of automation. If the environment isn't technologically sophisticated, a high-tech solution may represent such a culture shock as to counter the goals of the scorecard project."

Ted passes the set of reading to Patrick.

Patrick: "Thanks for the new stack of information. I guess I'll be heading off to my flight now; they're about to close the gate. I'll talk to you when you get back. Have a good flight and enjoy your time away."

Ted: "Thanks—safe travels."

This chapter outlines the importance of a supportive organizational environment for a scorecard system and how to enable it.

BACKGROUND

From the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study, about 8 percent of the respondents indicated they had implemented a scorecard system but had not realized significant benefits. Another 10 percent of respondents discontinued use of their implemented scorecard system. Examining each of these sets of organizations yielded very similar reasons for these results. Many were related to not having a supportive organizational environment. Exhibit 4.1 shows the reasons given by organizations for discontinuing use of their scorecard system. The top four reasons are:

1. The system did not have a high enough profile.
2. There was no buy-in from management.
3. The system was too time consuming.
4. There was no buy-in from employees.

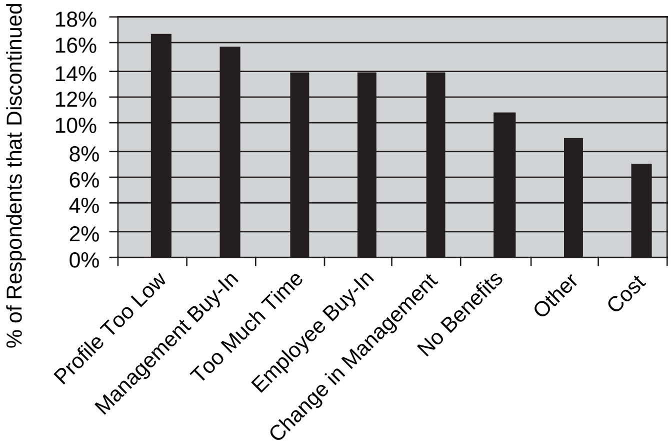


Exhibit 4.1 Reasons for Discontinuing

At least three of the top four reasons point to a nonsupportive organizational environment, further emphasizing the importance of having a culture of strategic awareness and strategic transparency.

By itself, the introduction of any new system is unlikely to drive change throughout the organization. Imagine the introduction of a system that provides up-to-date information on performance measure results for which you believe that you have no responsibility and is not useful for your job function. It is hard to think that you would have more than a passing interest in these results—and your daily routine and goals would remain unchanged. However, if you received a communication outlining the objectives of the system, a description of the measures, how the measures might impact you personally, how they are helping to drive the direction of the organization, and how you could impact them, you might feel differently; *and,* if your bonus was linked to some of these measures, you would definitely feel differently. Odds are, you would start to take notice—you might be inclined to align your daily routine and behavior to support the purpose for the system and you would have a greater interest in measure results and how to improve them.

This is an example of how a supportive organizational environment can help drive benefits for a new system. An environment that *supports* a scorecard initiative—one that commits resources to communicate the purpose and benefits of the system, provides training to those that will use the system, evaluates results from the system, and acts on those evaluations—has an excellent chance of a successful scorecard initiative.

HAVE BUY-IN FROM TOP LEVEL MANAGEMENT

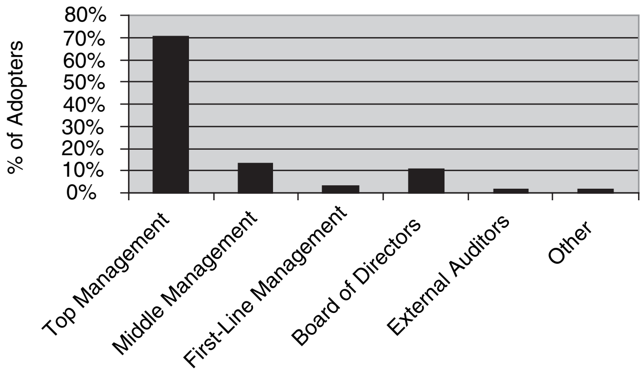
To provide a supportive environment for moving strategy forward, the organization must have buy-in from the top-level management. Management buy-in will also likely increase acceptance of the scorecard system by other employees. Financial support and human resources will likely be diverted to the scorecard initiative only if top-level management is convinced of its benefit. If top management is not convinced, how can they convince others in the organization? One respondent to the SHAPs study confirms: ‘‘It is much easier to allocate human and capital resources and share these resources across the organization now that everyone actually sees how this (scorecard system) positively impacts the organization as a whole.’’

Political battles are avoided or minimized when top-level management sponsors the initiative from the onset, and publicizes its benefits and importance to the rest of the organization.

Fortunately, the impetus for scorecard system initiatives often comes from top executives and the board level (see SHAPs study results in Exhibit 4.2).

Top-level management buy-in is important to the success of a scorecard system. However, it is not instant insurance that the initiative will be immune from failure or termination. Sometimes, a change in top management can mean ‘‘pet projects’’ of the outgoing management team could also be eliminated. From the SHAPs study, 14 percent of the respondents that discontinued their scorecard system did so because of a change in management.

To ensure that a scorecard system initiative is not derailed, it needs to be integrated into the performance management fabric of the organization. Using the results of the system to set the agenda for management meetings or as key input to the management decision process, the system is likely to be viewed as more than a pet project. Generally, management *tools* are not primary targets for termination when there is a change in management.



ARTICULATE AND COMMUNICATE THE ORGANIZATIONAL STRATEGY

There are multiple ways to formally articulate and communicate strategy. One excellent way is through the use of a strategy map—a big-picture look at the organizational strategy. A strategy map depicts a company's strategy pictorially, often on a single page, in a way that everyone in the company can understand. From the SHAPs study, 72 percent of the scorecard Adopters indicated that they wanted strategy maps as part of their scorecard system. A concise strategy map made available to all members of the organization helps to foster a culture of knowledge and partnership. When employees are encouraged to understand the organizational strategy plan, they typically have a greater desire to support the organizational direction and how they can play a part in achieving it. A strategy map is beneficial to employee understanding and ultimate employee acceptance of the scorecard system.

Exhibit 4.3 is a partial strategy map showing the relationship between all the objectives (bubbles) in each perspective and their relationship to the financial objective of ''Profitable Growth.''

Communicating the meaning of the strategy map to the appropriate employees is crucial to the process of alignment. This strategy map, the big picture of

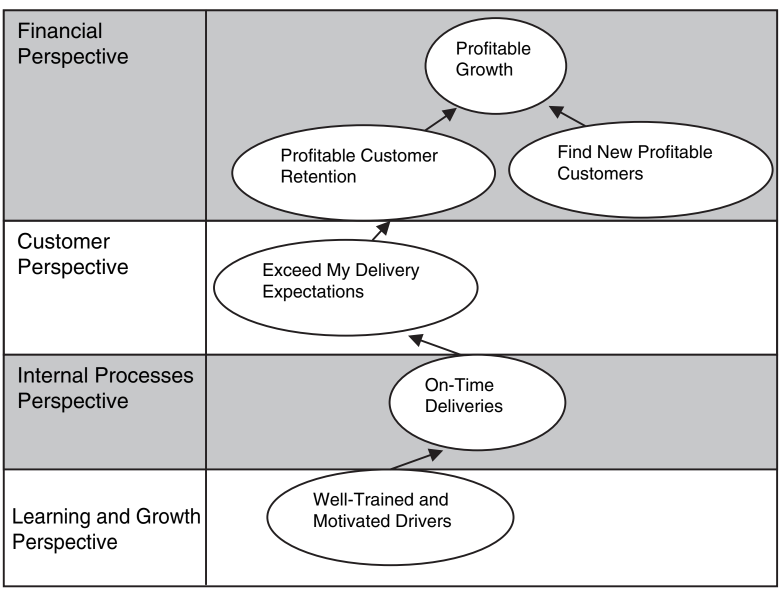


Exhibit 4.3 Partial Scorecard Strategy Map: Each Bubble Reflects a Strategic Objective
Source: Adapted from *Hyperion Performance Scorecard and Six Sigma*. A whitepaper by Toby Hatch and Denis Desroches, 2004

organizational strategy, needs to be understood by anyone who may be assigned accountability for any part of it, and by those who can impact progress. This can be done through formal or informal meetings, through newsletters, online training, or any other method that will get the information across to those who need it.

DEFINE AND COMMUNICATE THE REASONS FOR AND BENEFITS OF IMPLEMENTING A SCORECARD SYSTEM

In addition to the communication of the organizational strategy, it is important to communicate the reasons for implementing a scorecard system. Most people are naturally wary of the unknown, and that is true of a new measurement or management system. Unless fully explained, employees are likely to take a negative view of how the results might be used—is it a stick or a carrot (is it used to punish or reward)?

When employees understand the purpose for the scorecard system, they have a better understanding of how they are expected to interact with it. If the reason it is implemented is to track strategy and to lead upper-level executives in strategy review meetings, then the first-line managers and employees will likely seldom see it or need to interact with it. If the purpose is to help monitor operations critical to strategy (where data is updated frequently), and the organization plans to reward employees based on achievement of targets, then the operational managers and employees will take more interest in monitoring it. The scorecard should never be perceived as a punitive methodology, but one that encourages the best for the organization and its employees. One organization that did not have significant benefits from its scorecard system said, ‘‘Objectives [of the system] have not been well communicated and many people view it as a punishment method.’’

Employees and managers want to understand the benefits of the new system and how it will impact them. By not making these items clear, the organization runs the risk that employees will resist giving up any current non-value added routines and attitudes.

Benefits of a scorecard system to employees include:

- Better insight to the organizational strategy and its status
- More accurate and timely operational information to help with their jobs
- More visibility to the people accountable for each part of the strategy and/or operations
- A way to view the current status of their pay-for-performance metrics
- Transparency into results for the organization—if the organization chooses to be open with respect to reporting
- A way to see how employees can personally impact the strategy (which often gives employees and managers a sense of pride and ownership in what they do)

Careful communication of benefits is crucial, as they can be perceived as being positive or negative. For some employees, more information and transparency is exciting and empowering, but others may fear exposing their weaknesses.

A respondent from an organization that was successful in communicating the reasons and benefits to its employees provided this comment to the SHAPs study: "Employees throughout the organization have become more aware of business plan goals and objectives, and strive for higher performance."

ALIGN HUMAN CAPITAL TO THE STRATEGY

Strategy is usually set by the top-level executives, yet it is executed by the first-line managers and workers. To achieve strategy, it makes sense that the organization should foster a culture in which employees understand what the strategy is and how they personally can impact it, a culture that motivates them to want to impact it.

Tracey G. Schmidt of FedEx Express notes:

> *The bottom line on great execution lies with people. You can have the best strategy and tactics, the best go-to-market and implementation plans, the most perfect cascade of measurements, but ultimately it comes down to this: Do people understand what we are trying to do? Do they understand why we are doing it? How we are going to do it? What's in it for them if we succeed? At FedEx Express, we believed that if our front-line managers couldn't answer those four questions, then the tactical execution would probably fail.*[1]

To foster an environment of support for the scorecard system, often the culture must include accountability for strategy. The organization needs to align its people with the strategy and communicate that alignment. This means communicating *who* is accountable for parts of the strategy and the supporting measures. This step often serves as a wake-up call to management and employees as the strategy is no longer a slogan on the wall or pages in a binder, but an actionable plan with names of real people associated with success or failure of each part of the plan.

Comments from the SHAPs study that support this concept include the following:

> *Now we all know which projects are key.*

and

> *New [employee] orientation is done using our Balanced Scorecard and they immediately start to understand the focus and strategy of the company.*

Aligning people with strategy and communicating accountability may be new practices for organizations that previously thrived on secrecy and control. Employees may greet this new culture with trepidation, or with wild acceptance! It is up to the organization to gently introduce the ideas of alignment and accountability; and if it chooses to become more open with its reporting, it needs to introduce the idea and benefits of transparency. When placed on the scorecards of managers and employees, measures clearly linked to supporting the organizational strategy will emphasize the organization's desire to align its people with the strategy—and hold them accountable.

One organization observed, ‘‘Communication during the implementation process has fostered greater understanding of strategic direction and has helped achieve focus and alignment with that strategy at the individual level.’’

For alignment to work well, an assessment of the skills of the people being held accountable for various parts of the strategy is also strongly suggested. In order to be successful, you need the right people with the right skills doing the right things.

HAVE A STRATEGY CHAMPION TO MAINTAIN THE VISIBILITY REQUIRED TO BE SUCCESSFUL

Part of providing a supportive organizational environment is having people in place to help to drive manager and employee acceptance of the system. The strategy champion will seek ways to continually advertise successes, to encourage communication, and to keep the scorecard initiative visible to the organization. This individual must be respected by top management and be visible at any important meeting or gathering. Organizations have applied titles such as Strategic Management Officer or Director of Strategic Management to this person. This officer should report to the CEO or another top ranking officer, and should focus on ensuring that strategy remains high on everyone's day-to-day agenda.

The following functions have been identified by the Balanced Scorecard Collaborative as functions of the Strategic Management Office:[2]

- Strategy formulation and strategic planning
- Alignment (among individuals, organizations, and strategy)
- Strategic communications
- Balanced Scorecard coordination
- Initiative management (cross-functional oversight)
- Governance coordination (integration among functional groups and links to strategy)
- Performance review administration (facilitating monthly management meetings)
- Change management

At Suzano Petroquímica, this person, who has the title of Performance Manager, was instrumental in keeping the scorecard initiative visible and played a large part in rolling it out to all parts of the organization. Suzano has held fast to its vision of using the scorecard system to change the culture of the organization and to align all employees with the strategy. The Performance Manager indicated that the system "*isn't just a KPI* [key performance indicator] set but a genuine agent of change. [It is used to] manage strategic initiatives . . . not only indicators."

At Pfizer, this role carries the title of Senior Director for Enterprise Performance Management. This individual makes it clear that Pfizer is using its scorecard system to foster a new culture of performance improvement. This represented a big shift for an organization that historically rewarded the achievement productions target, but today also recognizes initiatives in finding areas that need improvement. Instead of hiding inefficient processes, employees are encouraged to expose them and work together to improve them.

HAVE EMPLOYEES THAT ACCEPT AND USE THE SYSTEM

Employee buy-in is extremely important to the success of the scorecard system. According to the SHAPs study and the experience of the study team, there are several factors that typically ensure a high level of buy-in from employees:

- Communication of benefits (to the employee and to the company)
- Communication of the reasons for implementing the scorecard system
- Communication of strategy
- Communication of how the employees personally can impact the strategy
- Providing an intuitive, easy-to-use system with the appropriate level of training
- Including input from accountable managers and employees about measures
- Having measures on their scorecards over which they have control or influence
- Linking compensation and/or rewards to their scorecards using the measures on their scorecards (optional)

Communication factors have been discussed already; we will now focus on the final few factors.

For employees to accept and use the scorecard system, it is important that the system be easy to use, not too time consuming, and that employees have received training and feel comfortable using it. If the system provides employees with information valuable to their job function, there is a much higher chance they will accept the system and use it going forward.

Including managers and employees in the selection of measures and creation of scorecards and supporting initiatives also eases acceptance by the employees. When the scorecards for employees and managers have measures for which they have no control or influence, it will deter their buy-in; they are reduced to bystanders of their own performance evaluation. From the SHAPs study, several respondents that had discontinued the use of their scorecard systems emphasized the need for input and training:

- Too many subjective measurables and the manager were given no input as to the measurables
- Very little manager input into criteria and still have subjective portions of the scorecard
- [Originally] introduced to our branches in the 1990s, but without any guidance on usage

Depending on the type of culture to be fostered, organizations may choose to directly link compensation, rewards, and/or recognition to the scorecards and measures.[3]

USE A FEEDBACK LOOP TO UNDERSTAND PROGRESS AND MAKE CHANGES WHERE REQUIRED

Simply reporting the results of a measure in a given time frame is not enough to enable change. The ability to easily identify when a measure is underperforming (or excelling), the ability communicate when an organization's strategy or its implementation need attention, or where the organization is exceeding expectations are all important to enable change. These details can be enhanced through the use of targets, traffic lighting, and (in some cases) scores to help managers and employees easily see which measure or strategic objective is in need of attention at any given time.

Indicators of the progress toward achieving organizational goals and the ability to collaborate on initiatives to improve performance provide powerful feedback to keep employees aligned with an organization's strategy and to promote day-to-day activity that will support the strategy. Linking organizational initiatives to affected measures and objectives provides links between each initiative and the strategy. This functionality can be enhanced with the ability to add textual explanations on progress and corrective actions completed or required. These opportunities for communication and collaboration are a valuable component of the feedback loop.

Tying initiatives to strategy represents a good way to rationalize effort. An initiative without a clear link to improving a strategic objective or a performance measure should be heavily scrutinized by the organization. When an organization can tie objectives, actions, initiatives, and measures together and identify the parties accountable for each, it creates a very effective feedback loop for supporting the organization's strategic goals. Managers and executives are better equipped to determine where to best expend their efforts when the scorecard system informs them which areas of their organization are performing well and which need help.

Many organizations use the results of their scorecard system to set the agenda for executive, management, and operational meetings. Results on strategy maps and scorecards provide focus on areas that may require immediate attention. Presentation of this type of information and feedback may be new to upper management (who, until fairly recently focused mainly on financial metrics) and their willingness to accept and act on this information helps to foster the supportive environment for the scorecard system.

Suzano Petroquímica, one of the best practice organizations from the SHAPs study, uses its scorecard system to set the agenda for its quarterly Strategic Analysis meetings. As well, the City of Boston uses results from its scorecard system to guide its regular city government performance meetings attended by cabinet officers and department heads.

SUITABLE AUTOMATION

Organizations strive to minimize the time spent gathering data and to maximize time available to analyze and act on results. An automated scorecard system can help toward this goal. Automating the feedback loop will increase efficiency and provide a single place for everyone to collaborate on progress.

A typical automated scorecard system makes it easy to access historical data and for the organization to review and learn from it. More importantly, it enables the organization to proactively discover weak areas and to quickly respond to undesirable situations.

AN EVENTUAL LINK TO COMPENSATION AND REWARD SYSTEMS

The SHAPs study found that organizations with a strong link between the measures appearing on their scorecards and those used to set employee compensation and rewards achieve greater benefits from their scorecard system. Often, this causes a shift in behavior—previously the rewards may not have been based on *measurable* strategy supporting goals. Too often rewards and compensation were based on operational measures that may not directly support the organization’s strategic goals (or worse, be based on a subjective assessment by a manager).

Aligning the strategic performance measures that appear on scorecards of managers and employees with those used to set compensation and rewards helps to foster a supportive environment. However, this is not without risk. The downside of doing so is that employees may focus on those measures that impact compensation and rewards, which may not be the ones that will help move strategy forward.

Take care in executing this step. Organizations should monitor compensation measures for a sufficient period of time to ensure that they truly motivate employees to act in line with the organization’s strategy. In some cases, acting too hastily to link compensation to the scorecard system has resulted in outcomes counter to the organization’s strategic goals.

USE CONSULTANTS APPROPRIATELY

Use of consultants[4] varies widely. Some organizations extensively use consultants' expertise to get the scorecard system up and running quickly. Others use technical consultants to help with software implementation, integration and, if needed, the creation of a data warehouse. Consultants can also supplement already busy in-house staff, who sometimes simply don't have the capacity to devote sufficient time to a scorecard system project.

For organizations with little scorecard familiarity, experienced consultants often add great value when defining strategy, creating a strategy map, educating and training, and communicating the purpose and benefits of the scorecard initiative to employees. The use of consultants for these phases can help to foster employee acceptance. In many cases, consultants have been instrumental in enabling a supportive environment by guiding executive and management buy-in.

Consultants have also been useful in back-filling key roles in the organization while staff focuses on the scorecard system project. For instance, if a senior financial planning manager is ''borrowed'' for the scorecard project, a consulting professional can fill in the financial planning role temporarily.

Take care that scorecard knowledge and skills are transferred to in-house employees if you want to take ownership of ongoing maintenance of the system. This will reduce your reliance on the consultants (who may have moved on to other projects).

PROVIDE ADEQUATE TIME TO IMPLEMENT AND REALIZE BENEFITS

On average, the Best Practices Group from the SHAPs study took about six months to implement their scorecard systems—from the time the decision was made to adopt a scorecard system to the time reporting with the system began. Expect that some time will elapse from when you kick off the scorecard system project to when you begin seeing significant benefits.

Once the system is in place, managers and other employees need to be trained to use it and to get comfortable with it. The more communication and training you have completed to enable the use of the system, the better your chances of success (and the sooner you will see benefits)!

Exhibit 4.4 shows that a small percentage of the Best Practices Group accepted and used the system immediately upon implementation. Adding the time to implement the system to the time it takes for managers and employees to orient themselves to the system, it is more common for it to take between six months and two years to experience significant benefits. For this reason, it is important to appropriately manage expectations of executives and board members—in order to avoid the expectations of a ''quick fix.'' Employees and managers may experience some

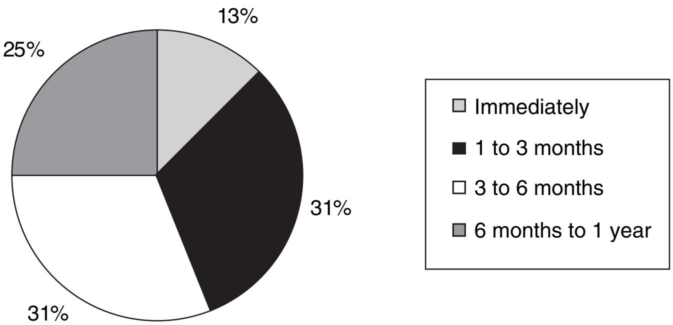


Exhibit 4.4 Best Practices Group: Time to Accept and Use the System

benefits once they are able to access reports and begin to analyze results, but significant benefits often take a little more time.

HAVE A SYSTEM THAT IS PERVASIVE, BUT IMPLEMENTED IN PHASES

In order for the organization to truly adopt strategy management using scorecards, the scorecard system must become part of the fabric of the company. It cannot be seen as a special project or initiative that will eventually be completed and go away. The system will continue to evolve and change as the organization grows and the strategy changes. The system needs to be pervasive and processes must be integrated into everyday routines for maintaining the system.

If scorecards are created and used only at the executive level of the organization, this is unlikely to create an organizational culture of strategic performance. The further down in the organization that scorecards are used, and the more they are used for evaluation (of objectives, people, initiatives, departments, products, etc.), the better the chances management and staff will align with strategy.

Care must be taken when rolling the system out. What starts out as a simple system with just a few measures on a few scorecards can quickly grow to thousands of measures on hundreds of scorecards. To prevent this situation, organizations often create special committees or leadership councils that initially oversee the design of scorecard hierarchies, the selection of measures, and the definition of strategy maps. The committee continues to evaluate proposed changes to determine if they are in line with the purpose and use of the system. To be effective, the committee must have the authority and the willingness to act autonomously.

Ray Thornton of Gulf States Paper Corporation reported receiving significant benefits from its scorecard system by developing a leadership council and a measurements and rewards (M&R) team. The mission of the M&R team was to "facilitate the definition of process metrics that will result in improved economic value added (EVA) through the measurement and improvement of all core and enabling processes." Guidelines for the M&R team included:

- Create the right balance of operational performance versus customer results.
- Start with desired enterprise/customer outcomes (strategic framework).
- Define metrics for measuring outcomes (clear cause-and-effect).
- Facilitate daylong sessions for core and enabling processes.[5]

This leadership council was very important to the success of Gulf States' implementation, and was held in high esteem by the entire organization.

When rolling out scorecards to the entire organization, it is also important to practice prudence. Attempting to implement too far, too quickly before showing benefits to the organization can have a detrimental effect. The SHAPs study revealed that of the several implementation methods studied, all recommended that implementation be conducted in phases rather than doing the entire company all at once. Implementing in phases provides an extra benefit: each area waiting for its turn will benefit from the experience of the areas that already have been implemented. The organization can promote this process by openly communicating the successes and challenges experienced to those areas waiting for roll out.

SUMMARY

Simply having access to a scorecard system will not guarantee a change in organizational culture or modify the day-to-day behavior of management and staff. The organization must provide a supportive environment in which the system can exist to ensure the desired benefits. Aspects to be considered for creating a supportive environment include:

- Better articulation and communication of organizational strategy
- Alignment of human capital to the strategy
- A feedback loop to understand progress and make changes where required
- A strategy champion to maintain the visibility required to be successful
- Buy-in from top level management
- Definition and communication of the reasons for and the benefits of implementing a scorecard system
- Employees that accept and use the system
- Suitable automation

- A link to the compensation and reward systems, eventually
- Appropriate use of consultants
- Adequate time allotted to implement and realize benefits
- A system that is pervasive, but implemented in phases

NOTES

1. Schmidt, T.G., *On the Up and Up: Achieving Breakthrough Performance Through Insight* (Santa Clara, CA: Hyperion Solutions Corporation, 2004): 34–35.
2. Kaplan, R.S. and Norton, D.P. (May-June 2004). *Balanced Scorecard Report* (Boston, MA: Harvard Business Publishing): 6(3): 4–5.
3. For more on this topic see Chapter 3.
4. More information on the use of consultants and the impact of using them is presented in Chapter 8.
5. Thornton, R., Gulf States Paper Corporation. Best Practices and Gulf States Paper Corporation Scorecard Implementation Presentation, 2004, Session #3062a. Hyperion Solutions Conference.

Chapter 5

Design of a Scorecard System I: The Organizing Framework

Scene: Patrick's office. His phone rings. The receptionist announces that Ted has arrived. Patrick leaves his office to greet his old friend . . .

Patrick: "Glad you could find the time to meet me at my office. It's been a hectic week around here, and I just couldn't leave the office for any extended amount of time. Follow me to our lunch room, and I'll get us coffee."

Ted: "I was in the neighborhood, anyway. So, it wasn't really a problem for me. Coffee does sound good—just cream if you have it."

Together, they walk to the lunchroom, where Patrick requests a coffee from a sophisticated coffee maker.

Ted: "These machines are so good, today. They brew the cup fresh for you—no stale coffee sitting around for hours."

Patrick: "Yes, I love the convenience. They make the staff here a bit happier. It's almost like the last batch of reading materials you gave me—creating a receptive and supportive environment!"

Ted: "I guess the coffee may encourage receptivity, but I'm not sure it will help employees understand how and why they, and the organization, benefit from a scorecard system."

Both men laugh, as Patrick hands the first coffee to Ted and appeals to the machine for a second.

Patrick: "No, it's obvious from those documents that without a good deal of careful thought, this type of new management tool might be greeted with a great deal of push back."

Ted: "Yes. Employees want to do a good job, but if they can't understand the importance of a scorecard, they will be inclined to turn their attention to other, often less strategic, issues that they do understand."

The second coffee has been dispensed and, together, the men continue their dialogue as they take a tour of the office.

Patrick: "Once you've planned the appropriate environment for a scorecard system, is there a generally accepted methodology for designing it?"

Ted: "Yes. There are approaches that many organizations follow as they tackle this endeavor. This usually involves determining what's referred to as the *organizing framework*."

Patrick: "I think I've seen something about that. That's addressed by Kaplan and Norton in their material about the Balanced Scorecard, isn't it?"

Ted: "Yes. And studies show that a large number of practitioners utilize Kaplan and Norton's organizing framework. However, contrary to what some believe, one size—or in this case, one framework—does not fit all! Each organization has unique needs that must be studied, understood, and incorporated into its framework.

There is a wealth of material describing the various frameworks, and I've taken the liberty to assemble some for you in this next set of documents. This material considers what an organizing framework is and why we need one. It describes several popular frameworks and discusses those that are commonly used. It also includes an actual example."

Patrick: "Terrific, thanks! I can't wait to get into it. But let's continue with our tour of the office."

Ted: "All right. We can pick up the framework discussion after you've had a chance to review this literature."

ORGANIZING FRAMEWORK

Aspects of the organizing framework discussed in this chapter include:

- What is an organizing framework and why do we need one?
- Popular frameworks
- Frameworks typically chosen
- Industry example
- Can an organization have multiple frameworks?
- Multiple frameworks or management initiatives?

The framework of a scorecard system highlights the important characteristics that you wish to emphasize when evaluating the performance of your business model. The framework helps organizations to operationalize their strategy. The framework is then used to organize or categorize reporting on measures and strategy. Although choosing an organizing framework seems like it should be a relatively simple task, choosing wisely can be difficult. A framework that accurately reflects the business model of an organization contributes to reporting that is well organized, easy for the organization to understand, and can be used to drive excellence throughout the organization. A poor choice of framework can contribute to confusing reports that few can understand, interpret, or use—and we all know what happens to systems that are not useful!

WHAT IS AN ORGANIZING FRAMEWORK AND WHY DO WE NEED ONE?

Historically, most organizations used primarily financial indicators to understand where they stood with respect to the overall success of their business. Financial indicators certainly provide useful information about an organization's financial position and past performance; however, they provide little indication about the performance of nonfinancial strategic objectives and initiatives (which tend to help predict future performance). Consequently, organizations have introduced other categories of indicators to provide a more balanced view of the results for the long and short term. These categories of indicators, frequently referred to as perspectives, may include those related to customers, stakeholders, employees, safety, efficiency, waste, learning, growth, processes, and operations. Each organization must determine which perspectives best define how it wishes to represent its business model, and to provide the best view for current and future performance. This group of perspectives forms the foundation of the organizing framework.

The framework highlights the fundamentally important aspects of the business model. Strategic objectives, goals, initiatives, and measures are defined according to the framework's perspectives. Reporting on results and targets of the objectives, goals, initiatives, and measures can be organized according to the framework's perspectives. This type of categorization makes it easy to see, at a glance, where an organization is doing well, and where it needs to focus effort.

Some organizations choose to assign a weight to each perspective to highlight the relative importance of each perspective to the organization. If a given perspective is more important to achieving the organizational strategy, it should be assigned a larger weighting. Also, a perspective might be assigned a higher weighting to encourage additional effort to reach a goal by a certain date. An organization may be particularly weak in one of the business areas; raising awareness to that weakness and to the importance of the perspective can help modify behavior by focusing on and strengthening that area.

Exhibit 5.1 illustrates a scorecard for a hypothetical organization. Each perspective has the same weighting (25 percent) which means that the organization views each of these perspectives as equally important in supporting its strategy. Quickly, the report makes two things clear. First, the Financial perspective, although doing reasonably well, has the lowest score of the four perspectives. Second, the environmental costs measure is in immediate need of attention (its red status symbol indicates poor performance) and the operating margin measure is experiencing difficulty (although its trend symbol indicates improvement, its yellow status symbol means that it is still not performing in the acceptable range).

Another purpose for the framework is to enforce a balanced cause-and-effect hypothesis for gaining and maintaining a competitive edge. Typically, strategy is developed and objectives are associated with one or more perspectives. If a perspective is either omitted or inappropriately represented for the organization's strategic business model, this often reflects a deficiency in the strategic plan.

Corporate Departments: 92.09%

Customize

General Scorecard Chart Trending Table Projects Comments Annotation & Projects

Measure	Status	Trend	Result	Target	Unit	Frequency	Score(%)	Weight(%)
Financial							**84.26**	**25.00**
Earnings per Share			0.82	0.87	Dollars ($)	Quarterly on last day	94.25	6.25
Operating Margin			10.28	12.50	Percent (%)	Quarterly on last day	82.22	6.25
EVA			3,496,448.53	3,702,121.97	Dollars ($)	Quarterly on last day	94.44	6.25
Environmental Costs			643,108.26	550,000.00	Dollars ($)	Quarterly on last day	66.14	6.25
Customer							**96.00**	**25.00**
Current Consumer Satisfaction Level Index			4.80	5.00	# Points	Quarterly on last day	96.00	25.00
Learning & Growth							**97.19**	**25.00**
Employee Satisfaction - Total			92.33	95.00	Percent (%)	Quarterly on last day	97.19	25.00
Internal Processes							**90.91**	**25.00**
Acoption Rate of Six Sigma			30.00	33.00	#Projects	Quarterly on last day	90.91	25.00

Exhibit 5.1 Corporate Scorecard with Four Perspectives

Exhibit 5.2 shows that the organization wants to foster financial change. In stating its objectives, the organization has focused on both Financial revenues and costs and has also expressed interest in increasing its customer base. But the Process perspective and Learning and Growth perspective do not seem to provide the necessary balance to attain these goals long term. For example, there are no Process objectives outlining how the organization will continue to provide high quality products (new or otherwise) to their customers or how they will attain the best after-purchase services. Finally, there are no stated objectives at all for the Learning and Growth perspective. Do they believe that it's not important to invest in their employees? Are they not concerned about retention? How will they continue to foster the creativity they need to achieve the overall strategy?

Measures may also be associated with one or more perspectives. If you find that perspectives on your scorecard do not contain measures, you need to determine if this makes sense to your long- and short-term objectives.

Exhibit 5.2 Deficient Strategy According to Chosen Perspectives

Perspectives	Objectives			
Financial	Profitable Growth	Increase Revenues	Increase Customer Base	Decrease Production and Administrative Costs
Customer	High Quality Products, Reasonably Priced	Best After-Purchase Services		
Process	Processes That Minimize Operational Costs			
Learning and Growth				

POPULAR FRAMEWORKS

There are many popular organizing frameworks being used throughout the world and each has variations. In the survey for the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study, respondents who had implemented scorecards were asked to indicate which framework[1] they used.

Respondents could choose from a list of frameworks:

- Kaplan and Norton's Balanced Scorecard
- Accenture's Value Dynamics
- Malcolm Baldrige Award Criteria
- EFQM (European Foundation for Quality Management)
- Six Sigma
- Stern Stewart's EVA

Alternatively, respondents could identify the framework or method used if not on the list. Other frameworks identified included:

- APIC (Army Performance Improvement Criteria)
- Cranfield University's Performance Prism
- PricewaterhouseCoopers' (PwC) Corporate Reporting
- Logic Model (alternative to a framework)

Respondents could also indicate that they did not use an organizing framework.

BALANCED SCORECARD

Drs. Robert Kaplan and David Norton developed the framework for and coined the expression *The Balanced Scorecard* around 1992.[2] The Balanced Scorecard is a performance management system that enables an organization to translate its vision and strategy into objectives and measurements. It enables the monitoring of current performance, but also attempts to capture information about how well the organization will perform in the future.

The Balanced Scorecard's standard framework uses four perspectives (see Exhibit 5.3): Financial, Customer, Internal Process, Learning and Growth. The hypothesis, or business model, is, "If you have a group of employees that are learning and expanding their skill sets, your internal processes will continue to improve. In turn, this will produce happy customers and help you maintain a good reputation, which will generate sales and keep you financially stable."

This method also includes the visual mapping of strategic objectives and their relationships to one another. Exhibit 5.4 illustrates a strategy map for a hypothetical organization showing the strategic objectives within the four perspectives and the relationship between each of the objectives.

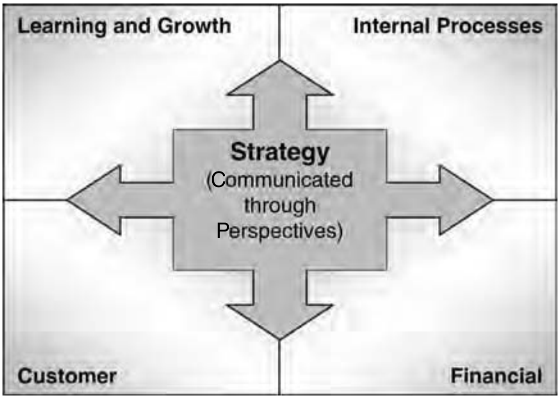


Exhibit 5.3 Norton and Kaplan's Balanced Scorecard Framework

VALUE DYNAMICS

Arthur Andersen (now Accenture) created a framework called Value Dynamics (see Exhibit 5.5) and outlined how to implement it in *Cracking the Value Code*.[3] This framework consists of five perspectives: Physical, Customer, Financial, Employees and Supplier, and Organization.

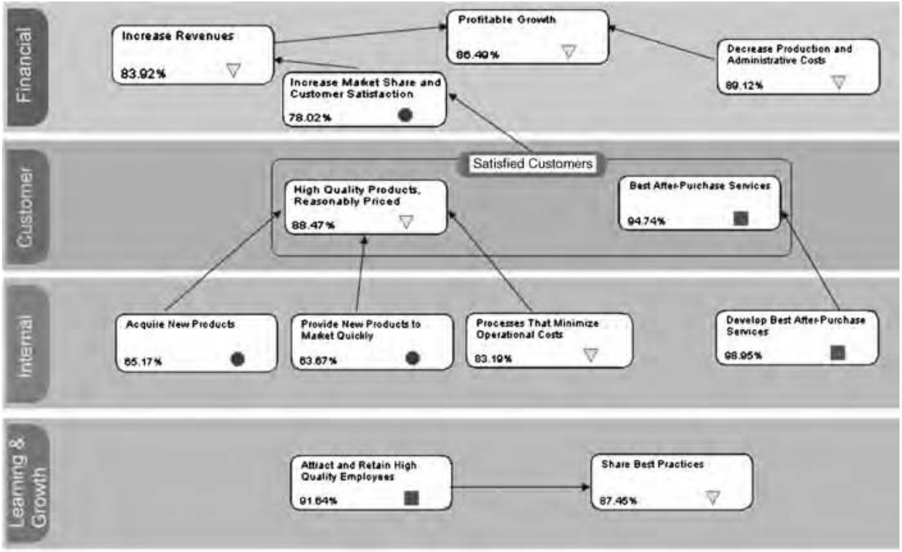


Exhibit 5.4 Strategy Map Example

Exhibit 5.5 Accenture's Value Dynamics Framework

MALCOLM BALDRIGE AWARD

The National Institute of Standards and Technology (NIST) created the Baldrige National Quality Program in 1987 to enhance the competitiveness, quality, and productivity of U.S. organizations for the benefit of all residents. The Baldrige Award Criteria consists of seven perspectives: Leadership, Strategic Planning, Customer, Information and Analysis, Human Resources Focus, Process Management, and Business Results.

EUROPEAN FOUNDATION FOR QUALITY MANAGEMENT

The European Foundation for Quality Management (EFQM) framework was developed based on the concepts of total quality management (TQM) and sustainable excellence. It consists of nine perspectives (see Exhibit 5.6). Five of the perspectives are enablers: Leadership, People, Policy and Strategy, Partnerships and Resources, and Processes. Four of the perspectives are results oriented: People Results, Customer Results, Society Results, and Key Performance Results. The enablers identify objectives about what an organization does while the results cover objectives about what the organization can achieve.

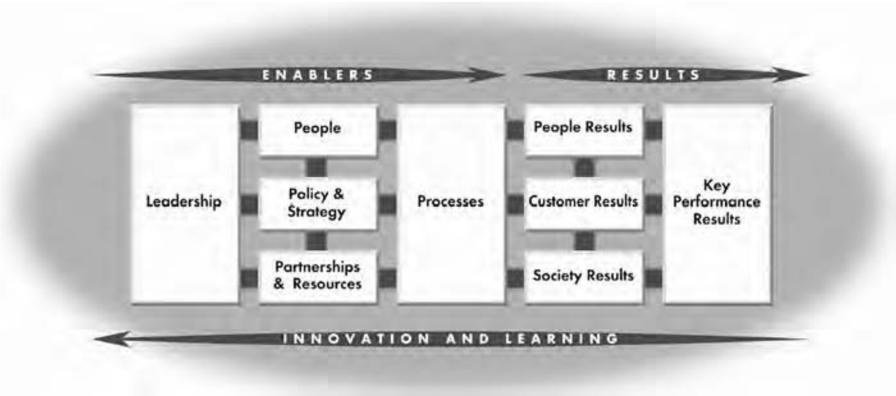


Exhibit 5.6 EFQM Framework
Source: From www.valuebasedmanagement.net/methods_efqm.html on October 12, 2006.

SIX SIGMA

Six Sigma is a management philosophy and a discipline to achieve strategic business results through business process improvements. This methodology is often referred to as "DMAIC" (Define, Measure, Analyze, Improve, and Control). Six Sigma does not have a prescribed set of perspectives for a scorecard or reporting framework, but often includes perspectives such as: Customer, Eliminate Waste, and Increase Profits (or similar wording).

In the book *Six Sigma Business Scorecard*,[4] Praveen Gupta alludes to an alternate set of seven perspectives including Leadership and Profitability, Management and Improvement, Employees and Innovation, Purchasing and Supplier Management, Operational Execution, Sales and Distribution, and Service and Growth.

ECONOMIC VALUE ADDED

Economic Value Added (EVA), developed by Joel Stern and Bennett Stewart, is a method of calculating the economic profit of an organization. EVA is calculated as net operating profit after taxes minus a charge for the opportunity cost of the capital invested. This method can also be used as a framework for scorecard and typically consists of four perspectives: EVA and EVA Drivers, Customer, Cost, and Capabilities.

ARMY PERFORMANCE IMPROVEMENT CRITERIA

Army Performance Improvement Criteria (APIC) is a framework created to support the U.S. Army's vision for providing in-depth organizational assessment and measurement of their continuous improvement efforts. This framework is based

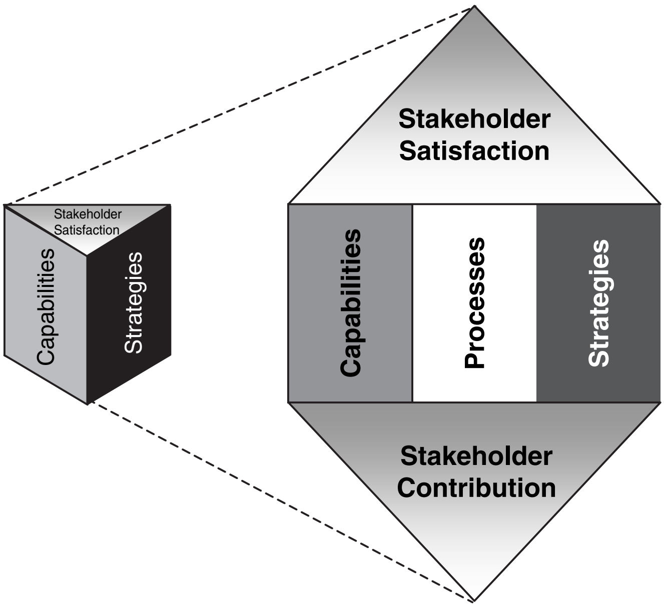


Exhibit 5.7 Performance Prism Perspectives
Source: From www.som.cranfield.ac.uk/som/research/centres/cbp/products/prism.asp on October 12, 2006.

on the Baldrige criteria and has seven perspectives: Leadership, Strategic Planning, Customer Focus, Information and Analysis, Human Resource Focus, Process Management, and Business Results.

PERFORMANCE PRISM

Cranfield University's Performance Prism framework[5] (see Exhibit 5.7) consists of five perspectives: Stakeholder Satisfaction, Stakeholder Contribution, Strategies, Processes, and Capabilities. The biggest differentiator between this framework and others is that it addresses all stakeholders of an organization and considers what the wants and needs of the stakeholders are as well as what the organization needs from its stakeholders. Finally, this framework suggests that rather than organizational strategy starting the performance management process, the process starts with what the stakeholders want.

CORPORATE REPORTING

PricewaterhouseCoopers' Corporate Reporting Framework is designed to meet the investors' needs for information about the quality and sustainability of

Exhibit 5.8 PricewaterhouseCoopers Corporate Reporting
Source: http://www.corporatereporting.com/framework_overview.html on May 03, 2007.

corporate performance. It is the result of years of research of the informational needs of investors, analysts, and management. This framework consists of four categories: Market Overview, Strategy & Structure, Managing for Value, and Performance. Exhibit 5.8 shows these categories and the areas of organizational concern for each.

LOGIC MODEL

Another option is to use a *logic model* rather than a known strategy scorecard framework. A logic model illustrates the inputs, processes, outputs, and outcomes of an organization (which can be used as the perspective labels). Logic models show the flow of materials and processes to produce the desired outcomes of an organization. They are useful when describing and reporting on existing organizations and how they are organized, or for designing organizations and analyzing their organizational structure.

CUSTOMIZED FRAMEWORKS AND NO FRAMEWORK

Customized frameworks are often modifications of one of the standard frameworks; however, a significant number of respondents to the SHAPs survey indicated that they did not use a framework at all. Some organizations have developed perspectives that are specific to their historic cultures.

If an organization indicated the use of no framework, it often indicated that the scorecard system was being used for managing operations rather than for managing strategy. It is also likely that these organizations were measuring performance with no explicit ties to strategy.

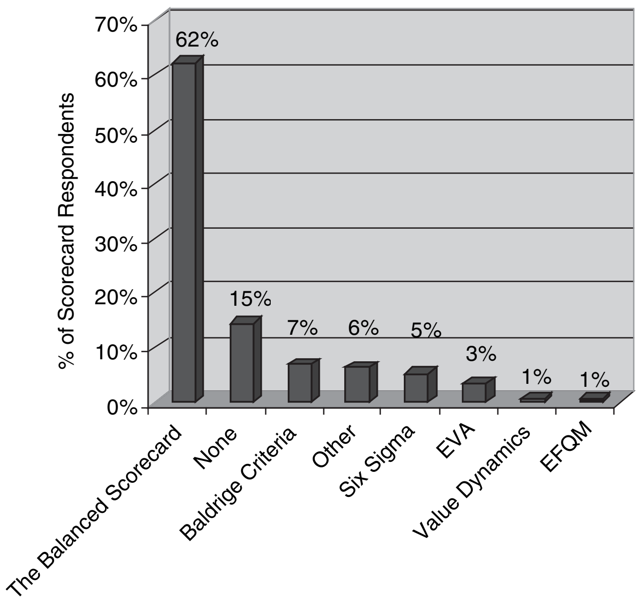


Exhibit 5.9 Frameworks Chosen by Total Population of Scorecard Respondents

FRAMEWORKS TYPICALLY CHOSEN

Exhibit 5.9 illustrates the framework selection by the SHAPs study respondents that used scorecards. The most common framework used is the Balanced Scorecard. The next most significant group used no framework at all.

Of those that chose ''Other,'' most had used a customized set of perspectives that had been developed specifically as part of the organizational strategy. For example, one respondent to the survey said that their scorecard was, ''Organized according to the eight priorities of the college strategic plan.''

A consulting organization responding to the survey had developed its own set of perspectives, which included: Delivery, Value, New Capabilities, People Development, and Outreach.

A chosen framework is not always used in its purest form. It is not unusual to see a framework chosen from the offered list with commentary indicating they also made use of some aspects from another framework. For example, a bank indicated that its chosen framework was Kaplan and Norton's Balanced Scorecard, but also included aspects of EVA.

Exhibit 5.10 illustrates the choice of framework from the Best Practice Organizations responding to the survey. The most commonly used framework is the

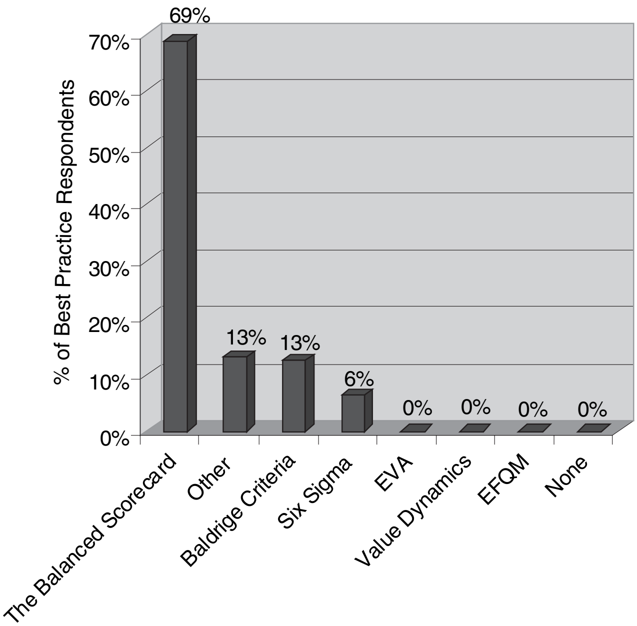


Exhibit 5.10 Best Practice Group Framework Choice

Balanced Scorecard, followed by the Baldrige Award Criteria, and a customized framework (other).

All organizations identified as Best Practice Organizations used an organizing framework, most of which were either one of the popular frameworks or based on one.

Can a generic framework really fit each unique organization? In a separate question, respondents were asked if the framework that they chose accurately reflects their organization's strategy and provides a balance between financial and nonfinancial measures. For the entire scorecard population, 92 percent agreed, to some extent, that this was in fact the case. The other 8 percent neither agreed nor disagreed.

INDUSTRY EXAMPLE

Suzano Petroquímica, the largest producer of polypropylene in Latin America and one of the Best Practice Group respondents, chose to use the Balanced Scorecard framework with minor modifications. They manufacture a commodity item and sell to the polypropylene market as a whole. For this reason their perspectives are: Financial, Market, Internal Process, and Learning and Growth (see Exhibit 5.11—perspectives are circled on the left).

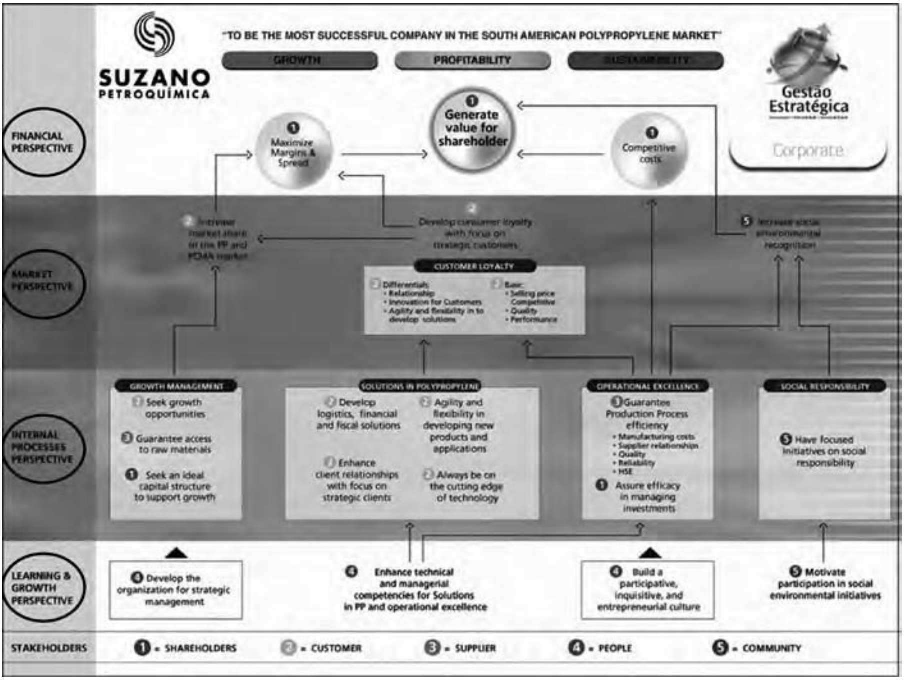


Exhibit 5.11 Suzano Petroquímica Framework
Source: "How Suzano Petroquímica – Polibrasil Links Strategic Management with Variable Remuneration" presentation by Suzano Petroquímica at the Hyperion Solutions 2006 Conference. Presentation given by Edilson G. Teixeira, Performance Manager.

In addition, Suzano Petroquímica also chose to use a secondary categorization of the strategic objectives (in this case, by stakeholders). Secondary categorizations are called themes and Suzano's themes include Shareholders, Customer, Supplier, People, and Community. In Exhibit 5.11, Suzano's themes are identified by the numbers in the shaded circles at the bottom of the exhibit. Each objective of the strategy falls into one of the perspectives, and is also categorized by a stakeholder theme.

For example, the objective *Develop consumer loyalty with focus on strategic customers* is in the *Market* perspective. It also is categorized by the *Customer* stakeholder theme (indicated with the number 2 in Exhibit 5.12). Other objectives categorized by the Customer theme may not be in the Market perspective. This means that the objectives are all directly related to the Customer theme, but are not necessarily also related to the Market perspective.

Being able to categorize results based on perspectives and themes provides an extra level of focus when analyzing how well the organization is doing with respect to their goals.

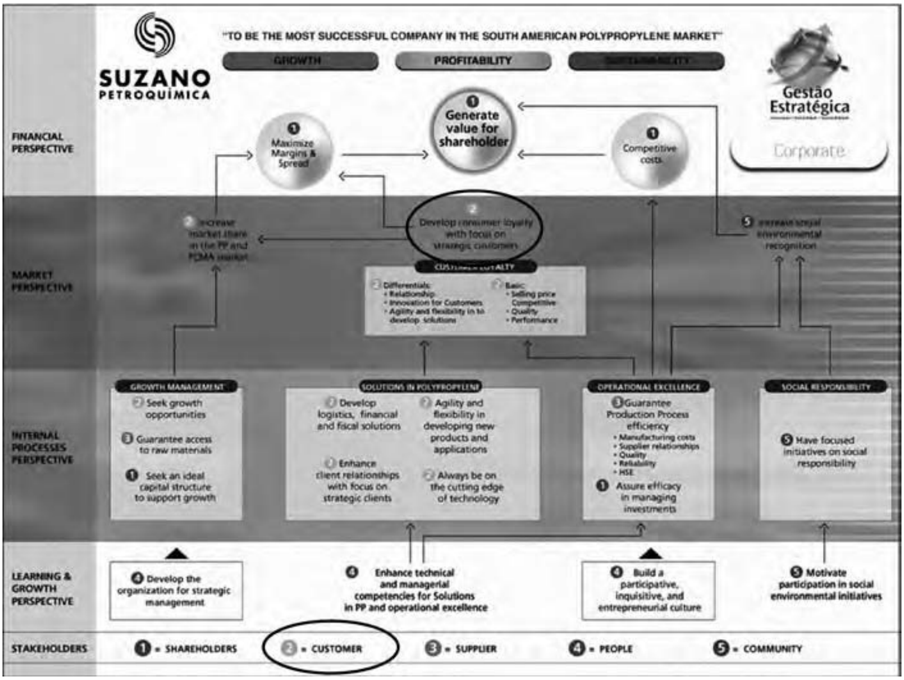


Exhibit 5.12 Suzano Petroquímica Stakeholder Themes
Source: "How Suzano Petroquímica – Polibrasil Links Strategic Management with Variable Remuneration" presentation by Suzano Petroquímica at the Hyperion Solutions 2006 Conference. Presentation given by Edilson G. Teixeira, Performance Manager.

CAN AN ORGANIZATION HAVE MULTIPLE FRAMEWORKS?

Some organizations may wish to employ more than one framework. This is often due to multiple, disconnected scorecard initiatives happening at once. Can more than one framework exist in a single scorecard system? There are a number of ways to accomplish this, but it is important that they are designed to not impair your ability to conduct analysis on the performance of the whole organization.

Exhibit 5.13 illustrates an example of how an organization might combine two frameworks in a single scorecard system.

In this organization, the corporate office wishes to use the Balanced Scorecard's perspectives, while the manufacturing organization has adopted a framework based around Six Sigma. Considerations around *Increasing Profit* are typically included in

Exhibit 5.13 Two Frameworks Coexisting

Plants—Six Sigma	Corporate—Balanced Scorecard	Organization-Wide—Customized Framework
Increase Profit →	Financial	Financial
Customer →	Customer	Customer
Eliminate Waste →	Internal Process	Internal Process
Safety	Learning and Growth	Learning and Growth
		Safety

the Financial perspective and therefore measures, strategic objectives, and so forth for the Plants' *Increase Profit* perspective can be included in the organization's Financial perspective. Although there may be variations in definition, the respective *Customer* measures and objectives can be combined into the organization's *Customer* perspective. Measures and objectives related to *Eliminate Waste* would likely be considered part of the combined *Internal Process* perspective. *Safety* might be considered to be part of improving the *Internal Processes*, or to be supporting the *Learning and Growth* perspective. If, however, this aspect of the business was crucial to the growth of the company and to its reputation, it may indeed stand as a distinct perspective.

In total, this organization may choose to adopt five perspectives to appropriately capture their business model. Ultimately, we have found that it is preferable, in the long run, to have one framework that the organization as a whole can embrace.

MULTIPLE FRAMEWORKS OR MANAGEMENT INITIATIVES?

Another common issue is how to juggle other management initiatives while implementing a scorecard system. This can manifest itself as having multiple frameworks (EVA, Six Sigma, Balanced Scorecard, etc.) within an organization, or as having many initiatives, each with a separate monitoring and reporting system. If each is viewed as individual and unrelated initiatives or projects, it could certainly be perceived as overwhelming.

The scorecard can actually help to tie all the separate initiatives together. For example, top management may be trying to articulate a new corporate strategy to the organization and monitor its progress. At the same time, a Six Sigma initiative is undertaken to improve some of the processes critical to move forward on the corporate strategy. The scorecards might contain measures and targets to monitor the progress of the Six Sigma initiatives in addition to that of the corporate strategy. Reporting at a management level can be published from a single system rather than multiple systems. Here is how it might work.

Once the objectives required to achieve strategy have been defined, measures are assigned to evaluate progress toward the objectives. Where gaps exist between a measure's result and its target, supporting initiatives are defined to resolve the gap. These initiatives may be headed up by a Six Sigma team and be focused on improving the business processes. Scorecards can monitor progress of the initiatives and help to ensure that the improvements are sustained.

Are there specific Six Sigma measures on scorecards? Typically, there are leading indicators and outcome (lagging) indicators on a well-balanced scorecard. Leading indicators of the objective On-Time Deliveries (from the Internal Processes perspective in Exhibit 5.14) might include Percent of SKUs in Stock, and Percent of Orders Picked and Packed Correctly. The outcome indicator then is Percent of On-Time Deliveries. If a Six Sigma project was created to improve the process of on-time deliveries, you may choose to flag these indicators as Six Sigma related for specific reporting purposes.

Should you have a separate Six Sigma scorecard? There is no wrong answer to this question. If you wish to keep track of Six Sigma initiatives and their progress, you might have a separate scorecard with indicators for each. You might even choose to have an overall Six Sigma effectiveness measure (composite). Some companies

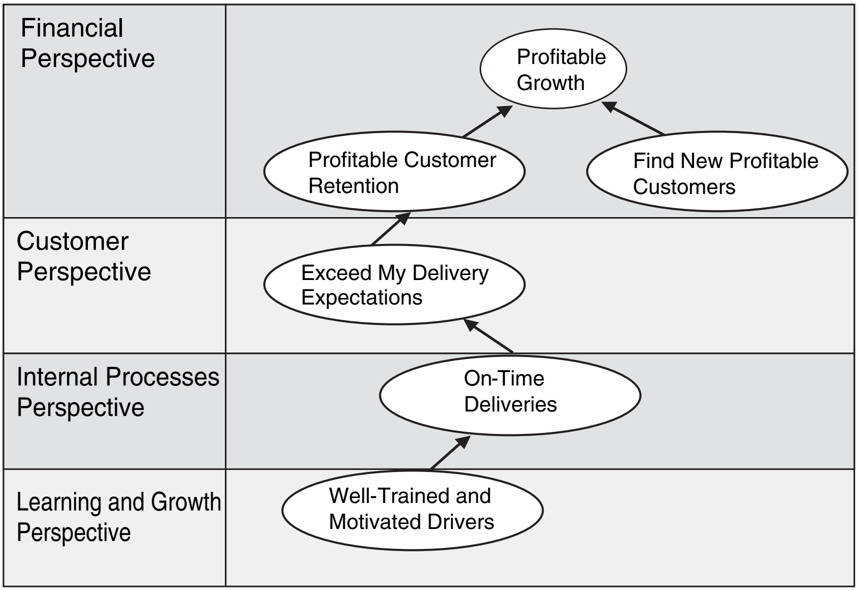


Exhibit 5.14 Partial Scorecard Strategy Map: Each Bubble Reflects a Strategic Objective
Source: Adapted from *Hyperion Performance Scorecard and Six Sigma*. A whitepaper by Toby Hatch and Denis Desroches, 2004.

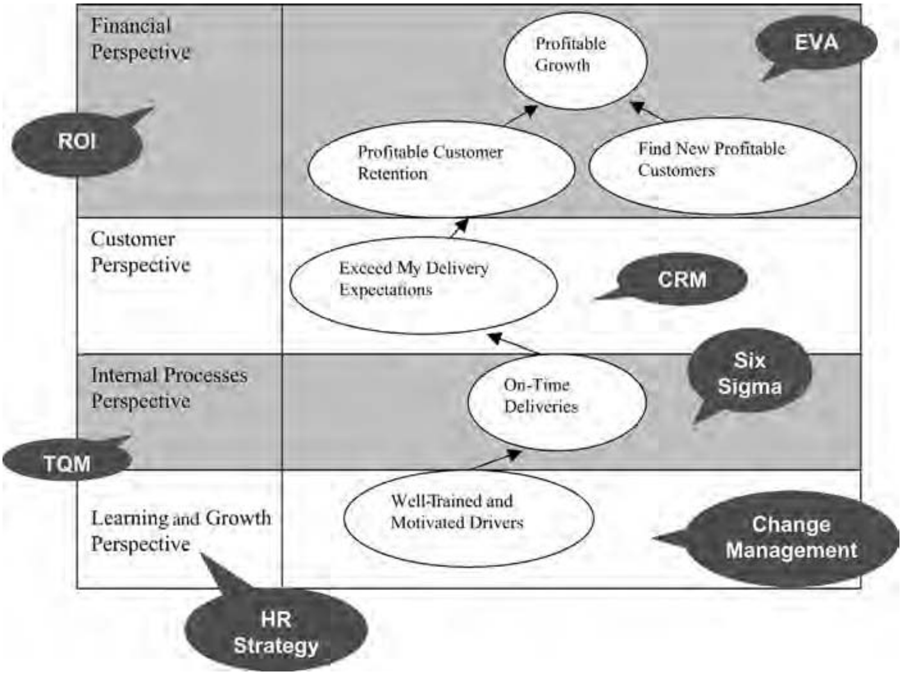


Exhibit 5.15 Tying Scorecards to Other Management Initiatives

measure the amount of money spent on and saved because of Six Sigma projects. Other organizations simply report on the progress of the initiatives, and note that there was a Six Sigma project related to improving it.

Similar comparisons can be drawn for many other management initiatives such as EVA, TQM, and Change Management (see Exhibit 5.15).

The scorecard system can be used to tie together multiple management initiatives, enabling them to work together harmoniously and enhancing each other's effectiveness.

SUMMARY

The framework is crucial to the success of the scorecard system initiative, but there is no universal framework. We strongly believe that all organizations should use the one that best fits their business model. It must:

- Reflect the business model of the organization accurately to be accepted by the employees and be useful for analysis
- Be adaptable enough to work for both short- and long-term strategic objectives
- Work with reporting on other management initiatives

NOTES

1. Note that frameworks used by the respondents were often chosen based on a framework from the list provided, but comments were provided on how these frameworks had been modified with aspects from other frameworks, or aspects they had developed themselves.
2. The Balanced Scorecard: Measures That Drive Performance, Robert S. Kaplan and David P. Norton. *Harvard Business Review,* January-February 1992: 71–80.
3. *Cracking the Value Code* by Richard E.S. Boulton, 2000, HarperCollins: 29.
4. *Six Sigma Business Scorecard,* Praveen Gupta, McGraw-Hill Professional Publishing, 2004: 70.
5. Information from www.som.cranfield.ac.uk/som/research/centres/cbp/products/prism.asp on October 12, 2006.

Chapter 6

Design of a Scorecard System II: Other Issues

Scene: Baseball stadium. While taking in the local game, Patrick and Ted continue their discussion about scorecard systems . . .

Ted: "Thanks for the invitation to the game. It's been a couple of years since I've been down to see them play. These are great seats."

Patrick: "It's my pleasure. I'm happy that you were able to make it to the game. We've had these seats in my family for over 40 years, so I try to make a game whenever I can. And I understand not coming down for a couple of years—those weren't particularly good seasons."

Ted: "But the recent free agent signings have seemed to rekindle interest in the team. It looks like a good crowd tonight."

Patrick: "Let's hope that we're on the rebound. By the way, I was able to go through the latest documents that you gave me. I see that the organizing framework is important for the design of a scorecard system—it provides a structure for the collection of the measures used by the scorecard system."

Ted: "I was hoping that you might want to continue this conversation tonight. I've got more material for you in my car. I'll give it to you after the game."

Patrick: "Thanks. What's this set about?"

Ted: "We'll get into that, but I just want to make one more observation about the organizing framework. You've identified one key element of the framework—the perspectives provide a good means for categorizing measures. But don't forget that the scorecard system is often used to articulate the organization's strategy. The organizing framework also provides a profile of how the organization wants to analyze and communicate its strategy and strategic objectives. For some organizations, this is the most important part of scorecard system."

Patrick catches the attention of the vendor to order a couple of Stadium Dogs.

Patrick: "Good point. What would you like on your hot dog?"

Ted: "Just mustard, thanks. The new reading material discusses some of the other important design considerations for a successful implementation, for example, how to tie those measures to the organization's strategy."

Patrick: "That would seem to me to be an important consideration."

Ted: "It is, but so are ties among the scorecard system, the organization's performance evaluation system, and compensation."

The hot dogs arrive.

Patrick: "That definitely makes sense."

Ted: "Organizations also must consider the performance measures that they choose to include. They also must be concerned about how pervasive the scorecard system is to be and they should take into account the current systems—are they capable of supporting the needs of the scorecard system?"

Patrick: "Is all of this planning really necessary?"

Ted: "Recently, I was talking with an individual whose scorecard implementation had failed. His comment was that the initiative was 'very basic—no real buy-in as the items in the scorecard were not thought through particularly well.' So, although adequate planning may not necessarily guarantee success, I believe it will reduce the risk of failure."

Patrick: "OK, I'm sold. I can't wait to get into this set of materials after the game. . . . Holy cow, was that a triple play?"

BACKGROUND

This chapter looks at other important factors in designing a scorecard system, including:

- Having ties between the measures on the scorecards and the organization's strategy
- Linking compensation with performance
- Having a pervasive scorecard system
- Tracking the "right" measures
- Having a costing system that supports the scorecard system

Failure to consider these factors may result in your organization being among the 8 percent of organizations in the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study that implement but do not receive significant benefits from their scorecard system, or among the over 10 percent of organizations that have discontinued use of their scorecard system.

Considering these factors in the design of a system has been proven to lead to a successful implementation.

TIES BETWEEN MEASURES AND ORGANIZATIONAL STRATEGY

A typical observation of managers who report achieving significant benefits from their scorecard system is that it "has helped to better align operational improvements with the overall strategy of the organization."

The SHAPs study determined that to better align operational improvements with the overall strategy, the scorecards and their measures should have ties to strategy. Although ties to strategy can be formal or informal, results from the study indicate that a majority of the organizations reporting significant benefits from their scorecard system have some formal tie to strategy, while nearly half of those that do not report significant benefits make no ties.

The SHAPs study revealed three prevalent formal techniques used to tie measures to strategy:

1. Responsibility Method
2. Rollup Method
3. Weighting Method

RESPONSIBILITY METHOD

The most commonly used formal means for obtaining a tie to strategy is assigning responsibility for strategic actions (goals, initiatives, etc.) to people (teams, departments, etc.) and placing measures that track the success of the actions on appropriate scorecards. For example, suppose management, in an effort to satisfy the objective *Increase Customer Satisfaction,* has set the subobjective of "*Develop the Best After-Purchase Support Services*." Responsibility might be assigned to marketing and production managers. Performance measures to track progress toward the subobjective might include:

- Consumer satisfaction of after-purchase sales
- Number of qualified, proposed new Marketing ideas for improved services
- Number of qualified, proposed new Production ideas for improved services

Exhibit 6.1 shows the scorecard for the objective *"Develop the Best After-Purchase Support Services"* including the three measures. Scores denoting progress for each measure are calculated based on actual results compared to targets (or to

Exhibit 6.1 Responsibility Method Example

Scorecard: Develop the Best After-Purchase Support Services				Score: 94%
Measure	Result	Target	Score	Owners
Consumer satisfaction of after-purchase support services	89%	100%	89%	Marketing and Production
Number of qualified, proposed new ideas for improved services	56	60	93%	Marketing
Number of qualified, proposed new ideas for improved services	30	30	100%	Production

benchmarks). A weighted average of these scores is used to indicate the performance of the subobjective. In this case, the subobjective's scorecard score of 94 percent is obtained by applying an equal weighting to the scores of the three measures. The same measures could also be applied to the scorecards for Marketing and Production departments.

The measure owners are identified on the scorecard. Those with overall responsibility for the objective know with whom to discuss issues for the measures supporting the objective, and measure owners can see how their measures are influencing strategic objectives.

In this scorecard example, responsibility has been assigned to the department. If desired, team names, titles, or names of individuals could be used. A more focused assignment of responsibility generally leads to better results.

THE ROLLUP METHOD

With this method, measures associated with a strategic objective's scorecard are computed from other measures. These measures could be *composite* (non-like measures that are combined to form an index), or *multidimensional* (like measures that roll up through different dimensions, e.g., a geographic or departmental hierarchy).

Exhibit 6.2 illustrates an example of a multidimensional rollup. The organization has a corporate strategic objective of having "*World-Class After-Purchase Support*

Exhibit 6.2 Rollup Method Using Multidimensional Measures

World-Class After-Purchase Support Services: Corporate			Total Score: 72%
Measure Name	Result	Target	Score
Number of qualified, proposed new ideas for improved services	8	20	40%
Number of proposed new ideas implemented	5	5	100%
Improvements adopted from Services recommendations	7	10	70%
Percent of warranty cards returned	76%	100%	76%
Days between warranty cards received and customer survey sent to customer	3	2	75%

Number of Qualified, Proposed New Ideas for Improved Services

Location	Result	Target	Score
Europe	2	6	33.3%
North America	4	8	50.0%
Asia Pacific	2	6	33.3%
Corporate	**8**	**20**	**40%**

Services." The scorecard for this objective has five measures that are being used to evaluate progress toward this objective. Result and target values for these measures are initially gathered at the geographic level (and each geographic region has a different individual responsible for the performance of the measure). The measure's score for each location is calculated using a relationship between these two values.

On the scorecard, the result for "*Number of Qualified, Proposed New Ideas for Improved Services*" is the sum of new ideas for all locations, and the target value is the sum for the target number of ideas of each location. The end result is a series of measures on the Corporate strategic objective scorecard that has been rolled up from different locations.

Those with overall responsibility for the objective can identify the measure(s) not performing as expected. They can drill down to the measure's geographic detail to learn which specific location(s) may be underperforming and with whom to discuss issues for the measures. Similarly, geographical measure owners can see how their measures are impacting the strategic objectives.

When using composite measure rollups, an index derived by a computation of non-like measures is used as a measure on the scorecard. For example, the organization designs a measure called *After-Purchase Support Services Index* computed using results from the measures:

- Number of qualified, proposed new ideas for improved services
- Number of proposed new ideas implemented
- Improvements adopted from Services recommendations
- Percent of warranty cards returned
- Days between warranty cards received and customer survey sent to customer

Each submeasure will have its own target, result, responsible party, and so on. When an index does not perform as expected, those with overall responsibility for the objective will be able to drill down to its detail to learn which specific submeasure(s) are underperforming and with whom to discuss issues for the measures. Similarly, submeasure owners can see how their measures are impacting the strategic objectives.

Results from the SHAPs study indicate that approximately one quarter of the organizations using the *Responsibility Method* also use the *Rollup Method* for establishing strategic links to scorecards and measures. Organizations that use the *Rollup Method* also tend to use combinations of indexes and multidimensional measures on their scorecards.

WEIGHTING METHOD

To emphasize its relative importance to a strategic objective, a specific measure can be given a heavier weighting on the strategic objective's scorecard. One-fifth of the organizations in the SHAPs study used the Weighting Method for establishing links to organizational strategy.

Exhibit 6.3 Scorecard with Weights

World-Class After-Purchase Support Services: Corporate				64.1%
Measure Name	Result	Target	Score	Weighting
Number of qualified, proposed new ideas for improved services	8	20	40%	0.40
Number of proposed new ideas implemented	5	5	100%	0.15
Improvements adopted from Services recommendations	7	10	70%	0.15
Percent of warranty cards returned	76%	100%	76%	0.15
Days between warranty cards received and customer survey sent to customer	3	2	75%	0.15

In Exhibit 6.2, each measure on the scorecard for the strategic objective ''*World-Class After-Purchase Support Services*'' was considered of equal importance in achieving the best after-purchase support. Each measure was assigned an equal weighting on the scorecard.

In an effort to foster a learning culture, the organization may want to encourage new ideas from its management and employees. It, therefore, might give the measure ''Number of qualified, proposed new ideas for improved services'' a higher weighting. By increasing the visibility of this measure's importance, behavioral changes are more likely to occur. In Exhibit 6.3, ''Number of qualified, proposed new ideas for improved services'' has been assigned a higher weighting to produce an overall score of 64.1 percent for the strategic objective.

The organization may use perspectives to categorize measures, and one or more of the perspectives on the scorecard may be weighted more heavily to encourage behavioral changes.

Exhibit 6.4 shows the use of perspective weights. Each measure within a perspective carries an equal weighting, but the Learning and Growth perspective is assigned a scorecard weighting of 50 percent. This shows an increase in the importance of this perspective, and its one measure. The overall score on the scorecard is now calculated at 60.1 percent.

Many organizations use a combination of these methods to ensure strong strategic ties to their scorecard system. Pfizer, by appropriately applying all three methods to encourage a strong tie to their strategy, has fostered a culture that rewards employees who find efficiency issues and who have the courage to bring them forward for resolution. In this culture, green indicators are good, but exposing red indicators and proposing resolutions for them is even more important to the organization, and to moving its strategy forward.

According to the SHAPs study, users of each of the three formal methods achieved greater benefits from their scorecard systems than either of those who made no ties between scorecards and strategy, or who attempted to achieve it in some other way. Regardless of the method or methods chosen, in order to achieve significant benefits there should be a strong formal tie to strategy.

Exhibit 6.4 Scorecard with Perspective and Measure Weights

After-Purchase Support Services Location: World					Score: 60.1%
Measure Name	Result	Target	Score	Perspective Weighting	Measure Weighting
Perspective: Internal Processes				**25**	
Number of proposed new ideas implemented	5	5	100%		0.5
Improvements adopted from Services recommendations	7	10	70%		0.5
Perspective: Learning and Growth				**50**	
Number of qualified, proposed new ideas for improved services	8	20	40%		1.0
Perspective: Customer				**25**	
Percent of warranty cards returned	76%	100%	76%		0.5
Days between warranty cards received and customer survey sent to customer	3	2	75%		0.5

Informal ties occur when organizations do not make an overt link between strategy and scorecards. Often this occurs when upper management has a strategy in mind, but does not communicate it, especially to the responsible parties. For example, consider an organization that has a strategic objective of creating ''*Fanatical Customer Satisfaction,*'' but the objective has never been communicated to the group that is responsible for responding to customer support calls. This group *is* told, however, that their performance is being evaluated through follow-up customer interviews. Knowing how their performance is being evaluated, their behavior is likely to support the strategic objective even though they have never been explicitly told what the strategic objective is.

LINKING COMPENSATION WITH PERFORMANCE

All organizations interviewed had strong, and often extreme, opinions on the subject of pay-for-performance. There appears to be no one ''right'' decision, but an organization does need to decide whether or not to link compensation to performance. The choice appears to be correlated with the type of culture desired by the organization. Compensating employees based on attaining goals—''green lights''—is vastly different from encouraging employees to highlight inefficiencies, and draw attention to targets in ''red light'' status.

There are two main points to ensure for organizations considering whether to link compensation to performance:

1. The scorecard system is motivating the employees appropriately to act in congruence with the organizational strategy.
2. The compensation and reward system is appropriately linked to the scorecard system.

MOTIVATING EMPLOYEES

As discussed in Chapter 3, scorecard systems should help align employee behavior with the strategic direction of the organization.

While employees value what is measured (because it is being reviewed and makes their performance visible), a common challenge is that what is being measured is not of value to the organization. It is important to ensure that measures used to motivate and reward employees are tied to strategy—preferably using a formal method. Results from the SHAPs study indicate that organizations with formal ties between strategy and measures agree that measures on their scorecards motivate employees to work in congruence with the organizational goals. Typically, these organizations also achieved significant benefits.

One respondent to the study noted: "In some cases performance itself has improved without any 'preaching' from management. In every case, awareness of the impact individual performance has on organizational and team results has improved drastically."

Another consideration is to ensure consistency between the measures used on scorecards and the measures used to evaluate employee performance and compensation. When an organization that has a system for reporting important operational metrics (often referred to as a key performance indicator [KPI] system) decides to roll out a scorecard system to help manage its strategy, the two systems must necessarily be tied together. Otherwise, employees will question why there are two systems of evaluation and will be conflicted as to where they should expend their effort.

After a recent scorecard system implementation, a large manufacturer of machine parts received considerable pushback from its employees due to a failure to link the employee evaluation system and the compensation system. Employee performance was *evaluated* using strategy-focused scorecard measures, but employees were *compensated* based on the operational reports from the KPI system (which used throughput-focused measures such as utilization rates and efficiency rates). As a result, employees focused on mass production of parts to ensure they received compensation. In many cases, however, the parts were unprofitable for the company. Instead employees should have been encouraged to work on efficiently and profitably making parts, which would have been more profitable for the organization. Ultimately, to motivate the employees properly through pay-for-performance, the scorecard system, the KPI reporting system, and the reward basis must be linked together appropriately.

In the SHAPs studies, organizations receiving significant benefits from their scorecard systems demonstrate a strong link between measures appearing on their scorecards and their compensation and reward system. One respondent noted, "We have been able to link strategic goals to every day shop floor activity across all departments and linked this to a universal performance bonus system including measures at the top of the organization, departmental, and individual levels."

Slightly less than half of organizations with a scorecard system agreed that the performance measures on their scorecards were *already* linked to compensation. For some organizations, motivation is by means other than monetary compensation. Public recognition, visibility in the organization, and fostering a rich culture of continuous improvement in the workplace went a long way to reward motivated employees. Rewarding employees that have the courage to point out inefficiencies and challenges of the organization and helping them find creative ways to deal with them can, in some organizations, have a more beneficial effect than providing monetary rewards for attaining a periodic target. Each organization must determine the most appropriate method of rewarding employees.

Exercise caution when deciding to link scorecard measures to compensation. Evaluate the validity and reliability of the measures used by the scorecard system to ensure they are motivating the employees appropriately before initiating a link to compensation. One successful financial organization commented that their scorecard system provided the benefit of "alignment of employee measures to corporate objectives" and "employee receptivity for balanced measures linked to compensation." Another organization that also achieved significant benefits noted that: "Everyone knows what is expected of them and what their performance rating will be at the end of the year."

A PERVASIVE SCORECARD SYSTEM

It is unlikely that a scorecard system will be implemented throughout an entire organization all at once. It is usually more desirable for an organization to implement a system in phases. A common approach is to implement at the top level of the organization and then roll out the system to lower levels, becoming more pervasive over time.

Comparing the pervasiveness of scorecards between the Best Practice Group and all Adopters (see Exhibit 6.5) shows that the Best Practice Group is more likely to have created scorecards to report on more levels within the organization; and this group therefore had scorecard information available more pervasively throughout the organization.

This makes sense since organizational alignment is enhanced when there is clear communication about the goals of the organization and accessible monitoring reports to review.

But how pervasive was the *use* of the scorecard information throughout the organization? Exhibit 6.6 compares the current level of use of scorecards by Adopters to that of the Best Practice Group. It shows that the Best Practice Group is more likely to have more users at every level of the organization.

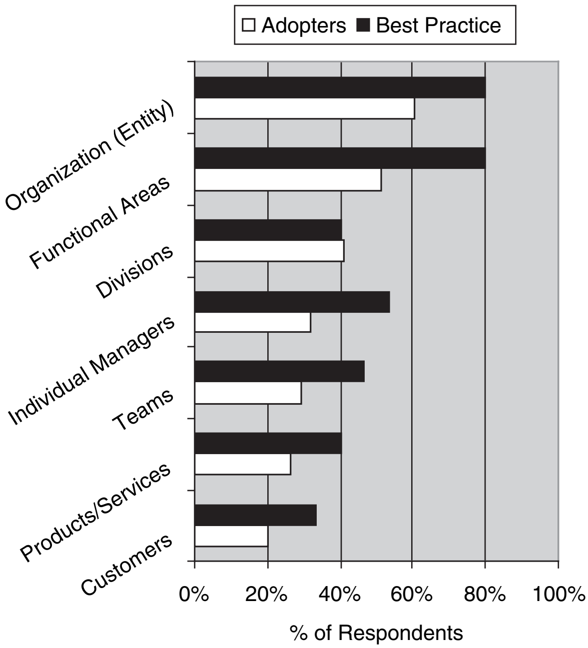


Exhibit 6.5 Current Scorecard Reporting

It is also interesting to note that, on average, the Best Practice Group had been using scorecards longer than the Adopters; 25 percent of the Best Practice Group had been using scorecards for four to six years, whereas only 13 percent of the Adopters had been using them that long. Time, therefore, may be a factor in the pervasive use of scorecards.

Over 80 percent of the organizations examined indicated that they are planning to implement their scorecard system deeper within the organization. But how far should an organization go in rolling out its scorecard system? The most frequently mentioned future level of implementation in the SHAPs study is to the *Department* level, but there are a good number of organizations that pushed scorecards deeper than this.

Does the approach to implementing the system dictate to what level of use the scorecard system should be designed? The different approaches will be discussed in Chapter 7, however, it was clear from our findings that the approach is only one factor in the decision of how pervasive the scorecard system should be. Organizational culture and a good return of information for the investment of time spent seem to be important factors that play a larger role in planning pervasiveness of the scorecard system in an organization.

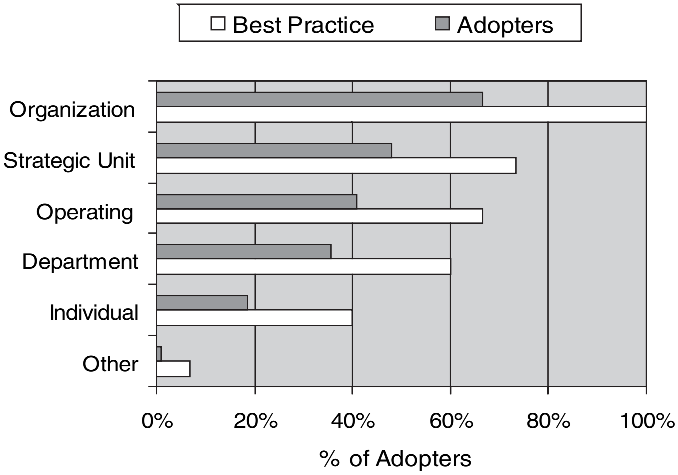


Exhibit 6.6 Current Level of Scorecard Use

TRACKING THE "RIGHT" MEASURES

We have already discussed the advantages of having a tie from measures to strategy. Here we will consider the number of metrics to track, the balance of measures, the role of financial measures, and CEO-related measures.

How many measures to track: Obviously, a scorecard system will need enough measures to monitor the performance of all organizational objectives and key operational indicators. However, according to the SHAPs study, tracking more than this is a waste of time and effort. Results show a wide variation in the number of measures tracked by the organizations—both those that appear on their scorecards and those that are tracked in other systems. More than half of all organizations surveyed track 50 or fewer measures (see Exhibit 6.7), but there are those that track 500 and more.

The type of business industry classification seemed to influence the number of measures tracked, with entities in the governmental sector tending to track fewer measures than those in the manufacturing and service sectors. Two patterns appeared to be repeated in numerous organizations:

1. Continue to measure everything that we have measured in the past, plus add more as needed.
2. As the thirst for information increases, so does the number of measures being tracked.

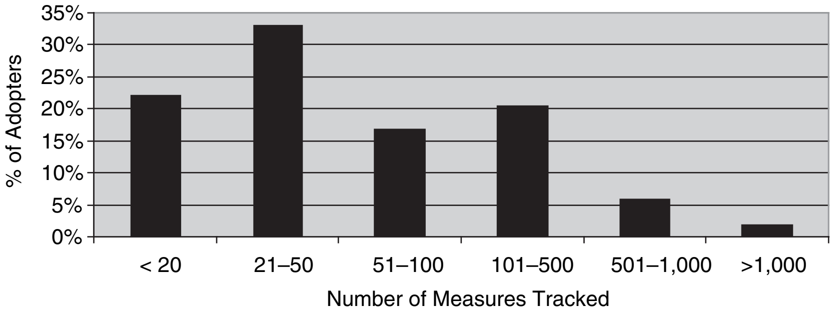


Exhibit 6.7 Number of Measures Tracked

On one hand, organizations that had tracked measures historically had a very difficult time letting go of old measures—even when they were not useful. On the other hand, organizations that had never had the benefit of reporting on important measures before were now demanding that more and more be measured, and the results gathered more frequently.

Gulf States Paper Company fell into the second group. Eventually, they identified the measurement trap and introduced a committee that would scrutinize the measures to determine whether the value of the measure would outweigh the cost to track it and analyze it each time data was refreshed (see Chapter 4). Pfizer found itself more a member of the first group. In their case, instead of creating a higher authority to rule on using or not using measures, Pfizer pushed the responsibility to the area managers. They were typically the ones that had to gather and use the measure data, so it was felt that they should judge the measure's usefulness.

Do all tracked measures appear on organizational scorecards? According to the study, many organizations put all or almost all of the tracked performance measures on their scorecards. As might be expected, the more measures an organization tracks overall, the smaller the percentage of those measures that appear on the scorecards. In the extreme case, organizations that track more than 500 measures generally use less than 10 percent of the measures on their scorecards. The City of Boston is an example of an organization that tracks measures useful to help them organize their strategy, but the measure results are not necessarily indicative of the outcomes of an objective and these measures do not appear on scorecards. For example, census data is tracked by the city in order to understand the effort and cost required to target a group of citizens for a new program. This measure does not have a target, it is simply a measure used to provide a value from time period to time period.

In general, the SHAPs study results suggest that neither the number of measures tracked nor the percentage of the measures put on scorecards are directly related to the degree of benefit achieved by organizations from the use of scorecards. It is therefore important, when designing a scorecard system, to carefully consider the *value* of each performance measure tracked. Often when an organization launches a scorecard system, they initially try to track hundreds or thousands of measures on scorecards. This generally leads to a painful period of fine-tuning. It is painful because data must be collected for the numerous measures and often, in the initial phases of an implementation, data is collected manually. During this period it is often discovered that some of the measures are consistently highly correlated. If this is the case, it no longer makes sense to continue tracking all the highly correlated measures as they are all providing similar analytic ability.

From the interviews conducted, we observed that as time goes on more measures are dropped from the scorecard system until eventually the number becomes meaningful and manageable. Chapter 4 provides more information about formalizing the measure culling process.

In our experience, it is better to err on the side of having too few measures initially than to have too many, as more performance measures can always be added if needed. Too many metrics initially can make the system difficult to implement and cumbersome to maintain. If the system is initially considered by the general population of the organization to be too difficult or cumbersome, it lowers the chances of successful adoption and employee buy-in.

A GOOD BALANCE OF MEASURES

There has been much publicity regarding the framework called the "Balanced Scorecard."[1] How important is it to have balance and do organizations indeed follow this method to the letter? In Chapter 5, some of the more common organizing frameworks were introduced; now we will dig a little deeper.

Most organizations in the studies believe that their scorecards have a well-balanced set of measures with about an equal number of measures in each category (or perspective) represented in their chosen framework. This is a welcome change from previous years when many organizations were evaluated and managed solely by financial measures. This balance is not inevitable or accidental. Achieving this balance must be an objective of the scorecard system design. A significant number of organizations, especially no significant benefits group (NSBG) organizations, have not yet achieved this balance.

What constitutes a Balanced Scorecard? It depends on the organizing framework chosen by an organization. Typically a scorecard that is balanced includes perspectives that represent each of the important aspects of the business, and relatively equal numbers of measures being tracked in each of those perspectives. Also, to be truly balanced, having a good number of leading KPIs (as opposed to lagging ones) and financial versus nonfinancial measures is important.

One SHAPs study question asked each respondent to indicate the percentage of financial, nonfinancial, and mixed measures that are used in their scorecards. These categories were defined as:

- Purely financial (e.g., operating income, total cost)
- Purely nonfinancial (e.g., defect rate, turnover, satisfaction scores)
- Mixed (e.g., cost per order, cost per setup, cost per transaction)

While results indicate that most organizations do indeed think they have ''balanced'' scorecards, most organizations in the studies define a balanced scorecard as simply meaning that fewer than half of the measures on their scorecards are financial indicators (either purely financial or mixed). Results show that organizations whose scorecards consisted of only one-quarter to one-half financial measures reported the greatest benefit from scorecard use.

Often, operational measures are leading indicators of what will happen financially down the road. This is one of the reasons that financial measures alone do not enable you to monitor the progress of strategy in time to make adjustments. Efficiency and effectiveness in delivering goods and services can have a big impact on future financial outcomes.

A large manufacturer of batteries and related products for nonmedical use stated that scorecards with balanced measures ''Have helped drive improvements in the nonfinancial measures related to safety, scrap reduction, and customer satisfaction.''

A large medical center indicated that it realized the following group of benefits using a balanced set of measures:

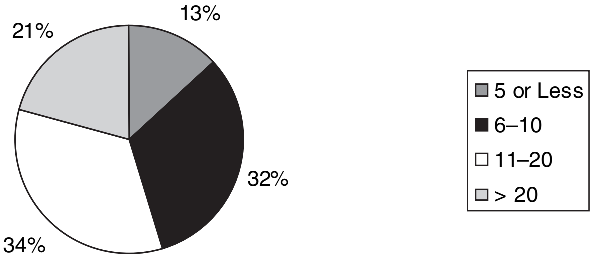
- Length of stay reduction
- Customer satisfaction improvements
- Cost reduction
- Volume increases
- A proven method of linking general objectives to goals and processes

In general, a good balance of financial and nonfinancial, leading and lagging indicators can produce better and more efficient performance from your scorecard system.

ROLE OF FINANCIAL MEASURES

According to results of the SHAPs study, to achieve significant scorecard benefits, it is important to have a balance of measures on scorecards and identify the key measures of overall financial performance. Nearly one-fifth of the Adopters indicated that they have not identified the key financial measures.

While both scorecard balance and identification of key financial measures are important to scorecard success, each can be achieved without the other. Data from the SHAPs study show that most organizations that do not have a well-balanced set of measures indicated that they have identified their key measures of financial performance. Conversely, of those organizations that have not identified their key financial measures, most believe they have a well-balanced set of measures.



CEO-RELATED MEASURES

Scorecards can be implemented at various levels in an organization. When designing the CEO's scorecard, a concern is the number of measures to put on it. Some CEOs are detail oriented and demand a high number of measures to report progress toward strategy; others rely on only a few key measures (or indices). The SHAPs study showed a wide range of the number of measures on CEO scorecards, but more than two-thirds tracked between 6 and 20 measures (see Exhibit 6.8).

Interestingly, there is no apparent relationship between the number of measures on the CEO's scorecard and the organization achieving significant benefits from its scorecard system. Clearly, quantity of measures is not important; it is the management style of the CEO and the relevance of the measures on this scorecard that is important.

Implementing scorecards at the most senior management level can enhance the strategic focus of your organization. A large insurance carrier participating in the SHAPs study indicated that its "Board of Directors is now more focused on key performance indicators presented on scorecards than presentation of purely financial data." In the city of Boston, where they have been measuring performance for many years, the mayor's cabinet members were recently provided access to objective scorecards for the first time. Now, their monthly meetings with the mayor focus on performance; no longer are these meetings centered on departmental budgets and variances. Given the importance of scorecards in motivating employees, and their use as a strategic and operational monitoring and management tool, design of the most senior officer's scorecard is especially important.

DOES YOUR COSTING SYSTEM SUPPORT YOUR SCORECARD SYSTEM?

One role of the scorecard system is to monitor and report strategy execution. The overall strategy is articulated, appropriate KPIs are selected, and targets are set before results can be measured and scores used for control purposes. The resulting values for many measures (including all financial and many mixed measures) and targets often rely upon the organization's cost accounting system. Inaccurate cost data (including poor cost allocations) can have a debilitating effect on the entire scorecard system as trust in the results will be in jeopardy. Matthew J. Liberatore, Villanova University and Tan Miller, Warner-Lambert Company noted that "The more accurate assessment of costs (and resources consumed) yielded by an ABC (i.e., activity-based costing) system also can improve the accuracy of the performance measures of a balanced scorecard,"[2] implying that activity-based costing is a key element of their scorecard implementation.

The SHAPs study presents solid evidence that the use of an ABC system in concert with a scorecard system can yield significant benefits. Sixty-seven percent of the significant benefits group (SBG) use an ABC system and its value, on average, is considered very high by the organization. Only 20 percent of organizations with ineffective scorecard systems use an ABC system and it is not highly valued.

It is important to evaluate the overall cost accounting system before making the decision to deploy a scorecard system. The benefits achieved will be greater if the costing system is highly accurate. It may not make much sense to deploy a scorecard system that relies on inaccurate cost data. It would be wise to consider deploying both systems simultaneously, if resources permit.

What should an organization do to deploy both better cost accounting and better performance measurement systems when it can not do both at once? The organization must carefully consider its immediate needs. ABC is known to support improvements in operational efficiencies, whereas a scorecard system better supports a change in strategy and/or a change in culture. However, an ABC system can also have strategic benefits.

Questionnaire: Are You Realizing Significant Benefits from your Scorecard System?

Extent of Agreement (1= Strongly Agree, 7= Strongly Disagree)

	1	2	3	4	5	6	7
☑ Activity-based costing is in place with recognized value to the organization.							
☑ A primary impetus for deploying the system is to communicate strategy and align employees with strategy.							
☑ Formal ties exist between strategy and the scorecard system.							
☑ The system is comprehensive, utilizing scorecards at many levels.							
☑ Compensation and reward systems are linked to measures used in the scorecard system.							
☑ Employees accept and use the scorecard system.							

Exhibit 6.9 Key Factors Affecting a Successful Implementation

SELF-EVALUATION QUESTIONNAIRE

Based on the factors to consider for a successful scorecard system, we have developed a short, preliminary questionnaire (see Exhibit 6.9) that can be used as an assessment tool for an *existing* scorecard implementation. When you complete this questionnaire, if you have any check marks in the shaded boxes or if the total score is greater than 15, it is highly recommended that you perform a careful review of the checkmarks or scores in question. While there are other factors that also play a role in the successful deployment of a scorecard system, these are the most significant according to the SHAPs study. Not addressing these factors in your implementation may impact the level of benefits from your scorecard system implementation.

SUMMARY

The guidelines given in this chapter are based on our analysis of the scorecard experiences of hundreds of organizations. To summarize the best practices presented in this chapter:

- Ensure that there is a tie between the scorecard system and the overall strategy of the organization.
- Align employee performance evaluation measures with scorecard measures.
- Link the compensation and reward systems (eventually) to the scorecard system, if it is appropriate to your organizational culture.
- Implement the system pervasively, but in phases.
- Make sure your cost management system can adequately support the scorecard system.
- Err on the side of tracking fewer measures (you can always add more as needed).
- Balance the scorecard's measures (financial versus nonfinancial, leading versus lagging).
- Choose financial measures wisely; they are still very important.

NOTES

1. The Balanced Scorecard: Measures That Drive Performance, Robert S. Kaplan and David P. Norton. *Harvard Business Review,* January-February 1992: 71–80.
2. Journal of Business Logistics "A Framework for Integrating Activity-Based Costing and The Balanced Scorecard into the Logistics Strategy Development and Monitoring Process." Matthew J. Liberatore, Villanova University and Tan Miller, Warner-Lambert Company, 1998. Downloaded from http://findarticles.com/p/articles/mi_qa3705/is_199801/ai_ n877 7352/print on May 30, 2007.

Chapter 7

Implementation Strategies

Scene: It is early morning in a coffee shop near Patrick's office. Patrick is sitting at a small table on which there are two cups of coffee. Ted enters the coffee shop and sits at the same table . . .

Patrick: "Good morning, Ted. Glad that you could arrange to meet me here. I've taken the liberty of getting you a cup of coffee, with cream. Would you like a bagel or something?"

Ted: "Thanks for the coffee, but I'll have to pass on anything to eat—got to watch those extra carbs."

Patrick: "I know what you mean. I've finished going through the last set of reading material that you gave me. There sure are a lot of things you need to consider when designing a scorecard system."

Ted: "Like what?"

Patrick: "Aside from categorizing performance measures for your scorecards, an organizing framework is helpful when taking strategy statements, such as the organization's vision and mission, and developing and organizing strategic objectives from them."

Ted: "Good. What else?"

Patrick: "The scorecard system does not live in isolation. It's important to recognize how the scorecard ties into a number of other management initiatives—how is it tied to strategy, performance evaluation, and compensation programs. Also, it's important to consider how your existing systems and initiatives will support the scorecard system."

Ted takes a sip of his coffee.

Ted: "This is good coffee—I'll have to remember this place. Those are definitely good points to keep in mind when beginning the design of the scorecard requirements. Are there other important design considerations?"

Patrick: "Carefully consider the measures. Carefully selected financial measures are important, but tend to be lagging. Leading measures supporting other perspectives are often just as important—how you are supporting customers, employees, processes, and so on. But don't get carried away trying to track too many measures."

Ted: "That's a good point. And along the same lines—don't try to boil the ocean. You want a pervasive scorecard system, but most find that it's best to implement in phases."

Patrick: "How can an organization limit the scope of its implementation? Do they just select an area for a pilot implementation?"

Ted: "That's one way. I think you're ready to look at the next group of documents, which addresses important aspects in implementing scorecard systems. Among other things, this reading material discusses for which levels of the organization scorecards should be considered—immediately and for the future. I think this will give you some ideas for managing the scope of the implementation."

Patrick: "So, an organization that plans well and manages its scope is on the right track to creating a strategy-focused organization?"

Ted: "Right. But the failure of organizations to achieve their strategy is more often due to poor execution of the strategy rather than the fault of the strategy itself. This newest batch of reading materials presents other considerations for the implementation. You've already gotten some exposure to a few of its communications topics, but this material goes into more detail about communication around the scorecard implementation. It also presents some findings on differences based on industry and considerations for periodic updating of the scorecard system."

Patrick: "That sounds timely. I look forward to going through these documents . . ."

Ted: "Good. Here they are. I hope you'll forgive me, but I have to run to another meeting."

Patrick: "No problem. Here's a lid for your coffee cup. Thanks very much for the new material."

Ted packs up his belongings, covers the coffee cup, and stands to leave.

Ted: "No problem. Hey, by the way, do you still golf?"

Patrick: "Yes, not as often as I should, though."

Ted: "I've got a tee time this Friday at 7:30 am. Would you like to join me?"

Patrick: "Sure, thanks. I'll have this reading material finished by then."

Ted: "Great. I'll see you on Friday at the Executive Golf Club."

COMMUNICATING SCORECARD CONCEPTS

Chapter 2 introduced two main purposes for implementing a scorecard system: operational control and strategy management. In either case, when implemented correctly, the system can help to change the culture of the organization and better align it with the strategy. In Chapter 4 we observed that having an agent of change (a Strategic Management Officer, a Director of Enterprise Performance Management, or the like) to spearhead the change management program helps facilitate widespread adoption of the system. Another contributor to a successful program is strong communication.

For a scorecard system, communication should start before implementing begins and continue through the project and beyond. When properly implemented, a scorecard system surpasses a performance evaluation system to become a holistic methodology for aligning an organization around its strategy. This alignment of strategic initiatives and operational goals may result in breaking down old functional silos and create a new strategy orientation for the organization. Communication is instrumental in facilitating this change in behavior.

This communication needs to be done well and must be done frequently, but it starts with conveying the need for the scorecard initiative. Does your organization have a "burning platform" that is driving the initiative? Is your organization losing market share to its competitors, failing to bring new products to the market in a timely manner, having trouble integrating newly acquired companies or products, trying to change its cultural focus, or not meeting its profitability targets? These are a few of the signs that "business as usual" will no longer work. Sharing these business issues can help employees align around the scorecard initiative. This alignment is considered by some to be the most important implementation imperative for a successful scorecard system.

SELLING THE SCORECARD

Nearly one-third of the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study respondents did not agree that employees accepted the scorecard system and were using it in their work. This result is often due to poor communication.

Ongoing communication will continue to hold employee attention throughout the implementation and must include an elaboration of the scorecard concepts. Employees must understand that a scorecard system is more than a new set of performance metrics or a repackaging of your existing metrics. Communication will help employees recognize that the old way of doing business—focusing on optimizing performance on the basis of metrics that may not be aligned with overall goals—is *gone*; replaced by a *strategy-focused* organization.

Ongoing and frequent communication will ensure that employees understand:

- The overall strategy of your organization
- The initiatives implemented to achieve the strategy
- How they can impact the successful execution of the strategy
- The performance metrics used to monitor progress

Communicating milestone accomplishments (e.g., the scorecard for a pilot area or for a higher organizational level is in place) and celebrating the attainment of a target or an objective will help to convert skeptical and wary employees into those prepared to buy in.

Because it takes time for employees to accept the new management system, the communication plan for your scorecard system should be established prior to beginning implementation. Respondents to the SHAPs study indicated that it took, on average, between six months and one year for employees to accept and use the new system. Early communication efforts will get the employee acceptance process started earlier.

Be sure to maintain communication efforts after the scorecard system has been rolled out—it is important to continue to foster the culture of strategy alignment. Some organizations create a newsletter or bulletin board, or provide information on an intranet site. Others are using the scorecard results to set the agenda for management and executive meetings.

ORGANIZATION LEVELS

SHAPs study results showed that scorecards can be used to measure organizational performance at many levels. Most commonly, scorecards are used to measure the overall performance of an organization (see Exhibit 7.1). Exhibit 7.1 also shows that scorecards are commonly used for reporting for strategic business units, operating units, and at the departmental level. Less common is reporting at an individual level.

The implementation level is important because the benefits gleaned from the scorecard correlate with how pervasive it is in the business. The SHAPs study results show that the greatest relative benefits from implementing a scorecard system are achieved when the system is implemented at least down to the operating unit level.

Among the Best Practice Group of the SHAPs study, all used the scorecard system to measure the overall performance of the organization, while significant numbers used the scorecard system to report on performance of strategic units, major divisions, operating units, with a sizable number of organizations reporting to the individual levels (see Exhibit 7.2).

Lower level scorecards, which translate the organization's strategy into objectives more meaningful to workers, help increase organizational alignment and scorecard

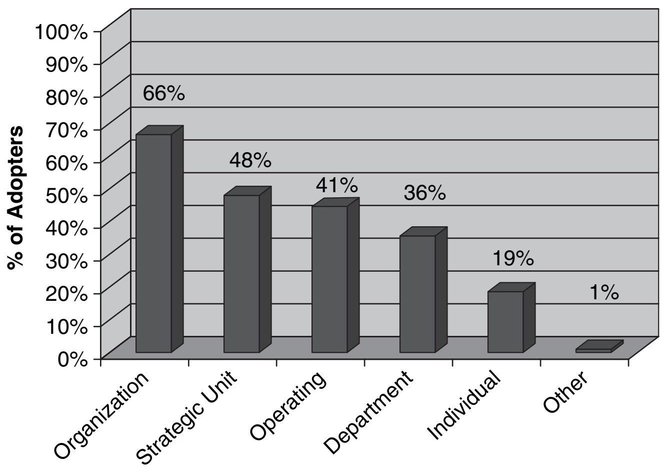


Exhibit 7.1 Levels Currently Using Scorecards

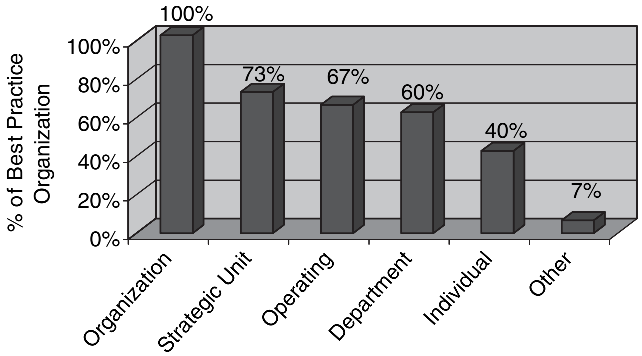


Exhibit 7.2 Levels Currently Using Scorecards for Best Practice Group

system effectiveness. If your organization is planning on implementing a scorecard system initially at a high level, it should have plans in place to cascade the scorecards down through the organization as far as resources permit.

Suzano Petroquímica, a Best Practice organization from the SHAPs study, cascaded scorecards to the individual level to get the highest degree of buy-in and use from management and employees. They have also linked the remuneration, bonuses, individual objectives, and corporate team incentives to the scorecard system.

The City of Boston cascaded its scorecards down to the department level. This level was adequate, in their view, to introduce the cultural change of a renewed focus on performance.

APPROACHES TO IMPLEMENTATION

Because implementing a scorecard system is a significant undertaking, it is usually implemented in stages using one of three approaches: top-down, bottom-up, or pilot. Exhibit 7.3 shows that more than three-quarters of organizations from the SHAPs study reported using a *top-down approach*. In this approach, the scorecard system is implemented at some high level in the organization initially; subsequently, it is rolled out to lower levels (to Strategic Business Units, departments, teams, or individuals). Alternatively, with a *bottom-up approach*, the system is implemented at a lower level in the organization and rolled up to higher levels. Finally, in a *pilot project* approach, scorecards are developed for one part of the organization and rolled out to other parts of the organization in a prescribed sequence.

Use of a pilot project approach enables organizations to obtain a ‘‘proof of concept’’ before making the considerable investment required for a full-scale implementation. It also gives them the opportunity to gain expertise from a smaller

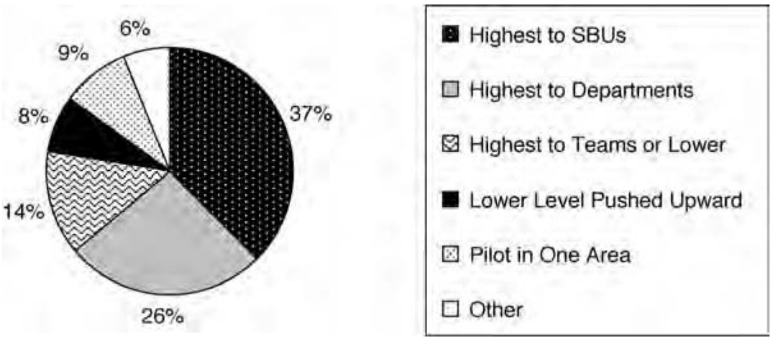


Exhibit 7.3 Approaches to Implementation

implementation, which they can then apply to other parts of the organization. Interestingly, the SHAPs study showed the pilot project approach was found to be most often used by smaller organizations *and* by the very largest ones. Financial Services Company (FSC) and Pfizer used the pilot approach to garner results in one area and then advertised the success before moving to the next area.

First National Bank (South Africa) and the City of Boston implemented using a top-down approach. First National Bank felt that this implementation method contributed greatly to employee buy-in and indicated that their implementation helped them to achieve "exceptional staff morale." As a result of the scorecard project and other complementary initiatives, the business unit achieved full accreditation by Investors in People.[1] The City of Boston indicated that buy-in from their department heads and cabinet members was exceptional and that their scorecards are used to facilitate the mayor's performance-based meetings.

A contract packaging and manufacturing organization in the United States used the bottom-up approach in implementing their scorecard system. They achieved notable efficiency benefits, reporting "increased productivity enough to allow us to pass on 10-percent cost reductions to our customers."

Which of these approaches is best for your organization? The SHAPs study indicates that organizations using a pilot project approach are—by only a slight margin—most likely to report significant benefits from their scorecard system. The approach that is right for your organization depends on a variety of other factors, including your company's size, the degree of top management support, perceived urgency of the implementation, resource availability, and the management maturity level of your organization.

Exhibit 7.4 illustrates a typical high level scorecard implementation plan. Specific plans will differ depending on factors like the purpose of the implementation, the approach, the depth of content, the complexity of the data, and the range of end users.

Exhibit 7.4 Typical High Level Scorecard Implementation Plan

Phase 1

- ❖ Plan the project
  - Client preparation
    - ○ Socialization, education, gather known pertinent information
  - Requirements meeting
    - ○ Determine overall project objectives and scope
    - ○ Determine Phase 1 objectives and scope
    - ○ Determine other phase(s) objectives and scope
  - Conduct the planning meeting(s)
    - ○ Develop overall project plan
  - Gather the technical requirements
  - Technical training for system administrator, if necessary
- ❖ Design packaged application content and procedures
  - Install packaged software
  - Or create in-house development requirements—(additional activities required)
- ❖ Develop the application (populate with organization data, as required)
  - Develop and build measures
  - Develop and build strategy maps
  - Develop and build accountability maps
  - Design and build scorecards
  - Populate with employee data
  - Create users and security roles
  - Document the procedures used for future changes
- ❖ Test the application
  - User acceptance testing
  - Changes and retesting
- ❖ Develop and deliver end-user training
- ❖ Confirm rollout plan
- ❖ Phase sign-off

Phase II

Add scorecards, users, and measures as per rollout plan

❖ Automatic data loads:
For each data source:

- Define software requirements (using data movement, E.T.L. tools, or similar)
- Develop data mappings
- Create integration process
- Test the source—load the data

❖ Define custom reporting requirements

- Build reports
- Test and modify the reports

❖ Phase sign-off

IMPACT OF IMPLEMENTATION APPROACH

When choosing an implementation approach for your scorecard efforts, you need to keep in mind that the approach taken impacts the organizational levels at which you plan to have scorecards. In general, various implementation methods produce expected results: top-down implementers are most likely to have scorecards at the top of the organization and business-unit levels; bottom-up implementers are most likely to have them at the operating unit, departmental, and individual manager levels; and the pilot project implementers are generally using scorecards in the middle of the organization.

Top-down implementers start at the top and plan to deploy scorecards downward through their organization, but how far do organizations actually get in these efforts? The SHAPs study results indicate a mixture of experiences at deploying scorecards throughout the organization. For example, of those organizations that chose a top-down deployment to the business units, one-third of them have not managed to complete this rollout. Rolling scorecards down further into the organization appears to be even harder: two-thirds of these organizations have not done so to the operating unit level. The extent of implementation decreases even more as you go further down in these organizations.

Where do organizations employing a ‘‘bottom-up’’ (or grass-roots) implementation methodology start? The most common level of implementation for these organizations is at the departmental or plant level. How far up do organizations employing this approach get? Compared to the top-down implementers, only about half as many of this group implement at the top of the organization level. It appears much harder to push the scorecard concepts up through an organization than it is to have executives push it down through the organization.

Organizations will often choose the pilot project approach and, more specifically, a particular area to pilot when it is:

1. High profile
2. Experiencing significant business pain
3. An area of concern for the scorecard system champion

Implementing a scorecard system is a big project, and it is best to roll it out in phases. We have seen that the method chosen to implement a scorecard system will have a large influence on the levels in your organization that have scorecards initially, and later. You need to therefore carefully consider where in your organization you most need the benefits of scorecards before deciding on an implementation approach.

INDUSTRY DIFFERENCES

Implementations of scorecard systems vary widely by industry. The SHAPs study shows that government and telecommunications are the most likely to have scorecards at the top of the organization level. This frequency of use by governmental organizations is being driven by several forces including greater public awareness and demand for visibility and accountability. In the United States, mandates and policies such as the Government Performance and Results Act (GPRA), the President's Management Agenda (PMA), and other new reporting requirements are driving forces. The high use by telecommunication companies may be attributable in part to the more regulated nature of the industry.

Energy companies are most likely to include scorecards at the strategic business unit level, while financial organizations are most likely to use a scorecard system at the departmental level. The SHAPs study results show that organizations in manufacturing industries are more likely to scorecard at the operating unit level than at the top of the organization. Scorecards at the individual manager level are more common in the telecommunications industry.

These implementation practices reflect the differences in management styles, management practices, organizational structure, and regulatory requirements among these types of organizations and indicate the need for each organization to customize its management system and its performance measures to fit the specific needs. Often your key business issues or "burning platform" will help guide you on where to start implementation of your scorecard system.

FRAMEWORK AND LEVELS OF IMPLEMENTATION

Chapter 5 discussed choosing an implementation framework for a scorecard system. According to the SHAPs study results, the framework also influences the levels of an organization at which scorecards are used. These implementation differences reflect the differences in the business models underlying the frameworks.

Organizations using Kaplan and Norton's Balanced Scorecard, Baldrige, and Six Sigma frameworks are most likely to implement at the organization-wide level. However, Balanced Scorecard implementers are also most likely to have scorecards at the business unit level. Six Sigma framework implementations are more likely to have scorecards at the operating unit level. Implementers of an Economic Profit (such as EVA) framework are likely to have scorecards for departmental and individual levels.

The SHAPs study shows that the choice of scorecard system framework reflects your organization's strategy, guides the selection of performance metrics, *and* influences the organizational levels to which the scorecard system is implemented.

PLANS FOR FUTURE ROLLOUT

Once they have completed the initial implementation of their scorecard system, most organizations plan to implement the system deeper within their organization. The feeling is that this will help ensure alignment throughout the organization and help maximize the benefits from the scorecard system.

The results in Exhibit 7.5 show that many organizations have not yet deployed to the lower levels and may therefore not be achieving the maximum benefit from their scorecard systems. While for some organizations, the costs from deploying a scorecard system down to the *individual* level may exceed the benefits of doing so, most organizations should plan to eventually deploy their scorecard systems at least to the department level. By doing so, they will maximize the organization's alignment and help ensure that employees are not only doing their work correctly, but that they are doing the correct work.

UPDATING SCORECARDS

As an organization's business needs and situation change, it becomes necessary to update the scorecard system's strategy, objectives, measures, and initiatives. Changes in organizational structure will require the scorecard system to update measures,

Exhibit 7.5 Use of Scorecards by Current Usage and Future Plans

Level	Currently Have Scorecards at This Level (%)	Currently No Scorecards at This Level, but Plan to in the Future (%)
Organization/Corporate	66	23
Strategic unit (e.g., major divisions)	48	31
Operating (e.g., plants)	40	22
Department	36	24
Individual	18	23

objectives, and initiatives to reflect new responsibilities. It is important, therefore, to have a well-thought-out process for making necessary changes to the scorecard system.

In general, organizations are declaring good levels of success in this regard. When asked whether their organization had well-thought-out criteria for adding and removing measures from their scorecards, approximately 70 percent of Adopters agreed to some extent, while 87 percent of the Best Practice group agreed. Results from the SHAPs study indicate a high correlation between organizations declaring well-thought-out criteria for adding and removing measures and those asserting significant benefits from their scorecard systems.

While many organizations are in the initial stages of implementation and have not needed to remove measures from their scorecards, they still need to have a process in place to periodically assess the need to update their scorecards. Having an effective process in place for updating scorecards involves more than just specifying criteria for adding and removing measures. Processes must also include the ability to add, remove, and change objectives, initiatives, targets, accountability, as well as to reorganize hierarchies and maps. Chapter 4 pointed to the use of a committee to oversee scorecard changes as a best practice.

Without a process in place, the following issues may arise:

- There are too many measures being tracked.
- There are multiple measures, with different names, measuring the same thing.
- Scorecards become too difficult to analyze due to too many measures.
- Data entry and tracking of data becomes expensive and unwieldy.
- Out-of-date strategy statements wreak havoc with scorecard success.
- Incorrect responsibility assignments cause confusion.

When implementing your scorecard system, be sure there is a process to update your scorecards. This will help ensure that the hard work that went into the initial design and implementation of the scorecard system continues to pay off. A sensible process will also help to provide continued buy-in from employees and management and help to foster the shift to a strategy focus.

SUMMARY

When designing scorecard systems, it is important to consider several implementation factors:

- *Adequate communication of scorecard concepts:* Your whole organization needs to understand the requirement for the scorecard system and to comprehend scorecard concepts, the benefits to the organization and employees, and how each scorecard ties to organizational strategy.

- *Selling the scorecard to the members of your organization:* Implementing a scorecard system involves change management and communicating effectively with your employees.
- *Style of approach:* Three different approaches may be taken when implementing your scorecard system: top-down, bottom-up, or "pilot project."
- *The organizational level at which the system is initially implemented:* Focus on key business issues and burning platforms.
- *How to roll out the system:* It is generally desirable to implement a scorecard system in a limited way initially, and then roll it out further as your organization gains scorecard experience.
- *The updating of scorecards:* Performance measures, objectives, and accountability will change over time and you must have a process to controllably accommodate these changes.

NOTES

1. Investors in People UK was formed in 1993 to take national ownership of the Investors in People Standard, protect its integrity, and ensure its successful promotion and development. The Investors in People Standard provides a national framework for improving business performance through a planned approach to setting and communicating organizational objectives. It is a non-departmental public body (NDPB) of the UK, which means that it reports to and receives funds from the Department for Education and Skills. The Standard was developed in 1990 by the National Training Task Force in partnership with leading, national, business, personnel, professional, and employee organizations such as The Confederation of British Industry and The Trade Union Congress.

Chapter 8

Implementation Issues

Scene: Executive Golf Club. Patrick and Ted have just teed off at the first hole and are driving the golf cart away from the tee . . .

Patrick: ‘‘Nice shot, Ted. I guess you can tell that I’m a bit rusty.’’

Ted: ‘‘That’s OK. There’s no one behind us, so we’ll have plenty of time for you to catch up on your game.’’

Both laugh.

Patrick: ‘‘I read the last set of materials. I’m getting the sense that communication about the project and the scorecard is ultra-important.’’

Ted: ‘‘A major concept behind a scorecard system is opening up the communication about strategy throughout an organization. It makes sense for communication to start during the project implementation stage—more so when open communication has not traditionally been part of the organizational culture.’’

Patrick: ‘‘But, how diligent do you have to be in selecting where you should begin your scorecard?’’

Ted: ‘‘We’ve seen that no matter where you start, organizations that apply some basic common sense can derive benefits. I think that starting from the top is very common when organizations are attempting to tie the scorecard to the organization’s strategy. Other starting points tend to emphasize performance management and tracking performance indicators.’’

They arrive at Patrick’s ball. He addresses the ball with his five-iron and swings through.

Patrick: ‘‘It’s not Tiger Woods, but at least it’s on the right fairway now.’’

He climbs aboard the cart and, together, they continue to the location of Ted’s ball.

Ted: ‘‘I might have been inclined to use a six-iron for your last shot, but I guess you chose a better club for your swing.’’

Patrick: ‘‘Or lack thereof. After reading the last set of materials, I started to wonder if there are other issues that affect implementation.’’

Ted: ‘‘Yes, there are other things to consider. I think I have some documentation in my car that details some of these items. The documents point out that the implementation time frame can be impacted by the approach taken and the reason for the scorecard system deployment, and that setting a realistic deadline will help to implement in a reasonable time frame.’’

Patrick: ‘‘I imagine that the number of measures might impact the implementation time frame.’’

Ted: "This is another consideration, not only for the implementation time frame, but for the benefits achieved. Of course, the time frame is impacted by the resources the organization can apply to the project—do they use external consultants, for example?"

The cart stops and Ted retrieves his eight-iron. He approaches his ball and, after lining it up, he takes an easy swing. His ball lands on the green.

Patrick: "OK. It looks like I might need some golf lessons, too. Do you have any reading material for that?"

Ted: "Practice, practice, practice. If you believe you'll become a good golfer, then you're already on the right track."

Patrick: "OK, OK, one emergency at a time. What kind of assistance do consultants provide for the implementation project?"

Ted: "It's probably safe to say that you can find consultants to provide knowledge and experience to assist in all stages of the implementation—defining strategy; identifying key performance indicators; and selecting, installing, configuring, and even training for the use of the software.

Anyway, I've got some more material that will discuss all of these things and I think it also includes a discussion on the use of scorecards and other performance/cost management tools."

Patrick: "That sounds good. Yes, maybe it's time for me to concentrate on this game. Once again, I can't wait to look at the next set of documents."

Ted gets into the cart and the game continues . . .

IMPLEMENTATION TIME FRAME AND DEADLINE

It is important to have a realistic time frame for implementing your scorecard system. While management may be eager to get the system up and running, it is important for the organization to take the time to adequately prepare to put the system in place. This includes defining the organization's mission and vision, developing a strategy, mapping the strategy to objectives, developing an organizing framework for performance measures used to reflect the strategy of the organization, selecting appropriate performance measures, designing an appropriate information system to support scorecard, and selling the system to all levels of the organization.

SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study results showed that, on average, organizations implement their scorecard system in about six months. Most of the respondents implemented their systems in one year or less, although a small number took over two years to deploy their systems (see Exhibit 8.1). Factors that affect the time for implementation include the implementation method used for the scorecard system, the degree of automation, the use of consultants, and the resources available.

Having a deadline for implementation was found to be effective in ensuring that the scorecard system is completed in a timely manner; without a deadline, projects

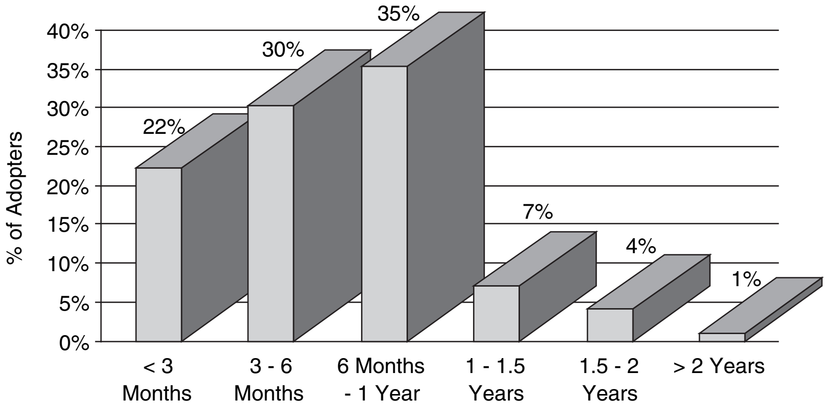


Exhibit 8.1 Time Required to Deploy Scorecard System

may seem to go on forever. From the SHAPs study, a deadline for implementation was set by about two-thirds of organizations. For these organizations, approximately one-third set a deadline of less than three months, one-third set a deadline of three to six months, one-quarter had a deadline of six to twelve months, and the rest had a deadline of more than one year.

In the North American survey, most of the implementations that took over a year and *all* of the implementations that took over two years did *not* set a deadline. Nearly all organizations implementing a scorecard system completed it within their set deadline. In general, it was found that the shorter the deadline for implementation (within reason), the shorter the actual implementation period.

IMPLEMENTATION TIME FRAME AND REASON FOR SCORECARD SYSTEM DEPLOYMENT

Is a faster implementation of a scorecard system better for the organization? As Exhibit 8.2 indicates, the answer is: "No, provided the system is implemented within two years." There is little relationship between the time it takes to implement a scorecard system and the benefits received from the system. For implementations taking more than two years, there is a drop in the level of significant benefits from their scorecard system. This is understandable because organizations that take this long to implement their systems often have systemic issues that hinder their ability to achieve satisfactory results: data accessibility/quality; the initiative may be underfunded or undervalued; or the project's objectives may be too overreaching, often attempting to achieve too much granularity.

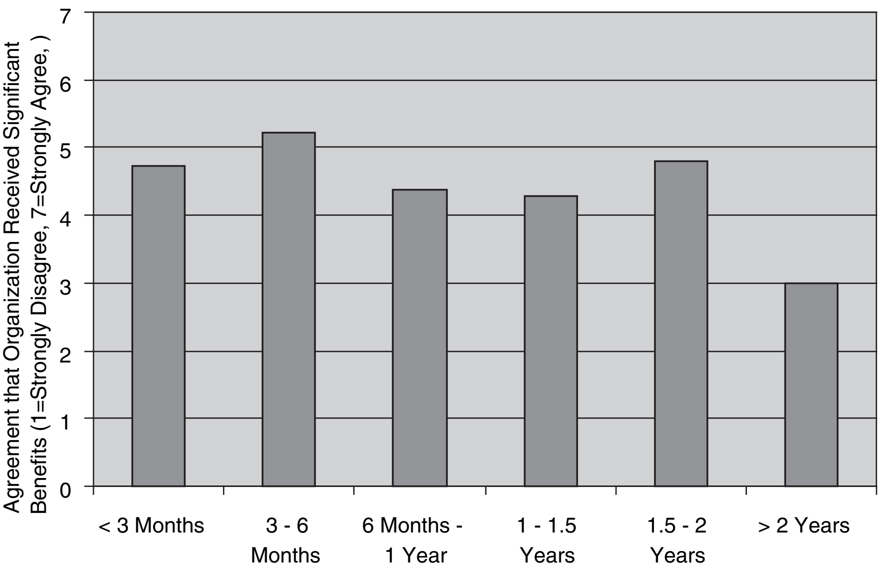


Exhibit 8.2 Relationship between Time to Implement and Benefits from Scorecard System

While many might consider quick implementation of a scorecard system desirable, it is more important to take the necessary time to properly design and implement the system so that the reasons for its deployment are satisfied. As described in Chapter 2, the reasons for implementing a scorecard system can be categorized as those for operational management and those for strategic management.

Organizations that take relatively longer to implement their scorecard system can be divided into two groups. The first group includes those organizations that are implementing the system to meet governmental regulations and to monitor regulatory compliance. The longer implementation time frame is understandable, given the necessary complexity of these systems.

The second group (taking longer to implement) use the system to support strategic management—the need to make strategy everyone's job, to communicate the organization's strategy to everyone in a clear and simple manner, to align employee behavior with strategic objectives, to link and align the whole organization around strategy, to track progress toward strategy, and so forth. This type of implementation has extra tasks associated with it—defining the organization's mission and vision, defining its strategy, mapping its strategy to objectives, and selecting performance measures associated with those objectives—necessitating a longer implementation time frame than for an operationally oriented system. However, it is not uncommon for organizations to start realizing benefits within a six-month time frame. The benefits of this approach, however, justify the extra time required to implement the system.

IMPLEMENTATION TIME FRAME AND THE APPROACH

As discussed in Chapter 7, there are various approaches that can be taken in scorecard implementation, including the top-down, bottom-up, and pilot project. The SHAPs study indicated that implementations using a pilot project approach are most likely to be implemented quickly. This makes sense, as these projects have a limited scope and can be completed in a short time frame. Organizations that use a bottom-up approach and are implemented for operational management purposes are also completed relatively quickly. Systems that are implemented using a top-down approach, especially those implemented down to the departmental level, tend to take the longest time to implement.

While the bottom-up or pilot project approaches typically take less time to implement, it may be more difficult to link the performance measures on the scorecards back to your organization's vision and strategy when you begin to rollout to other areas.

Also, when implementing a system using a bottom-up approach, flexibility in the automation of the system is essential, especially with regard to data availability. For example, a large financial institution used a bottom-up approach to implement its scorecard system. At the beginning of the project, each branch was told to choose its own scorecard measures. Each branch's scorecard had its own unique flavor. Without specific direction from corporate, each branch had to make a leap of faith that the measures it chose to put on the scorecard were somehow tied to overall corporate strategy. The organization subsequently decided to implement a centralized scorecard system, and its information systems were able to meet its changing data requirements. Now, this organization tracks the same performance measures at all of its branches and uses them for benchmarking purposes.

It should be noted that this is a common experience with bottom-up implementations when attempting to extend scorecard use throughout the organization. Often, a great deal of effort is needed to align the strategies of the lower levels with those of the top of the organization.

EFFECT OF RATIONALE ON IMPLEMENTATION

It is important that the rationale for implementing a scorecard system include the benefits expected. Benefits that enable the implementation to succeed may relate to its use as a strategic performance management tool (e.g., linking and aligning an organization around its strategy, communicating strategy to everyone simply and clearly, and the need to make strategy everyone's job), or as an operational management tool (e.g., improving efficiency and effectiveness as it relates to organizational goals). Respondents to the SHAPs study who selected reasons like these for implementing their systems reported receiving the greatest level of benefits.

Some organizations implement a scorecard system for reasons unrelated to the expected benefits. For example, "The stock market now expects a well-run organization to have [a scorecard]," or "It was part of another initiative," or "Government regulation required it." Other examples cited were that the project was designed to simply automate the current manual system and the added benefits were secondary. Not surprisingly, organizations stating these reasons for implementation also reported the fewest benefits from their scorecard initiatives.

Knowing the "right" reasons for implementing a scorecard system will help guide your organization as it designs and implements its system, and help to ensure that it produces benefits.

NUMBER OF MEASURES

Performance measurement systems are nothing new. Organizations have a plethora of measures available through numerous reports. Careful study often indicates that many organizations have too many measures, with numerous redundancies. Many of these measures are tracked for dubious reasons. One company in the survey stated that measures were tracked "because we've always tracked them." Exhibit 8.3 shows that while most organizations track 50 or fewer measures, a significant quantity of Adopters track many times that number of measures.

Exhibit 8.4 shows that most organizations use less than half of their tracked measures on their scorecards.

When an organization that already has a key performance indicator (KPI) system rolls out a scorecard system, it needs to tie them together. Otherwise it will give rise to questions such as, "Why are utilization rates, efficiency rate, and so forth on my KPI report, but not my scorecard?" Employees will manage the measures on which they are evaluated and/or compensated. It is therefore necessary to ensure that the two systems are linked.

The City of Boston tracks 1,000 measures and reports on them monthly. However, only 70 percent of these measures appear on its scorecards. In their case study, it is highlighted that some measures are tracked to facilitate the *creation* of strategy and

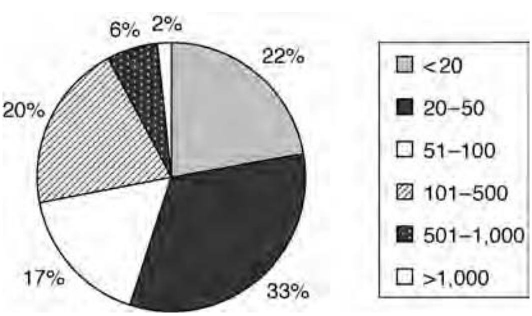


Exhibit 8.3 Number of Measures Tracked by Adopters

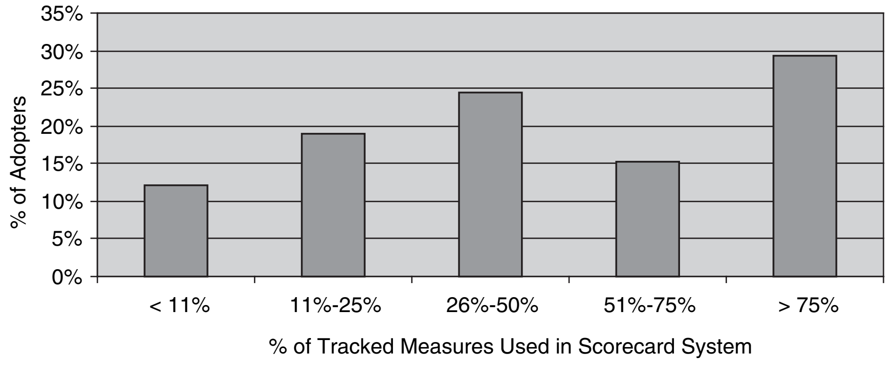


Exhibit 8.4 Percentage of Tracked Measures Used as Part of Scorecard System

the *creation* of initiatives to support the strategy. This is common in many organizations, but perhaps not to the same extent. According to the SHAPs study, a majority of the organizations tracking large numbers of measures (500 or more) report between 10 and 25 percent of them appear on their scorecards.

Pfizer tracks many measures, to a lesser extent than the city of Boston. Some are operational, some are informational, some have multiple dimensions to facilitate slicing and dicing, and some are experimental.

There was no direct link between the number of measures tracked and the benefits attained, according to the SHAPs study. It appears that the number of measures tracked is unique to the organizational requirements for the purpose and use of the scorecard system.

TIME TO IMPLEMENT SCORECARD SOFTWARE

Seventy percent of organizations implementing scorecard systems use software in their implementation. Typically, systems that do not involve software are quicker to implement than those that do. This is provided that the implementation is well thought out and has executive support.

Implementations involving off-the-shelf applications typically take six months to a year (Exhibit 8.5). In our experience, implementations using only spreadsheet software tend to be quicker as they seem to be more limited in scope.

Software developed in-house often takes more time due to the plan, develop, and test cycle—and an ongoing number of enhancement requests from users. Packaged applications tend to be quicker and easier than in-house developed software as they are often based on open architectures for the purposes of data automation.

When implementing software, the creation of scorecards and maps is generally straightforward and quick, but expect the automation of the links to data sources to

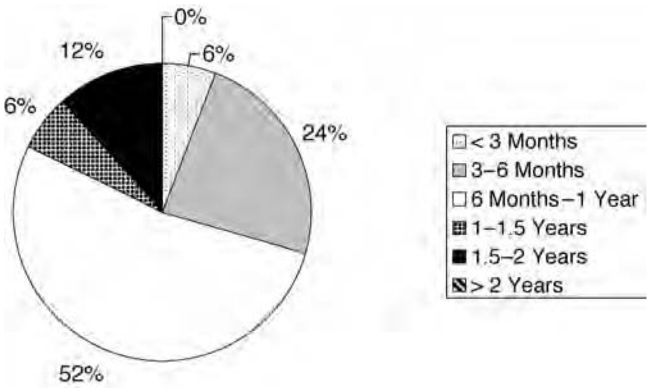


Exhibit 8.5 Time to Implement Off-the-Shelf Software

take the most time. The number of sources to be automated will have an impact on the amount of time for implementation.

USE OF EXTERNAL CONSULTANTS

During the implementation of a scorecard system, many organizations consider the use of outside consultants to facilitate the implementation. Consultants offer many services, including:

- Strategy development
- System design
- Education and training
- Software selection and implementation
- Software development
- Data integration
- Supporting processes development
- Ongoing support

While more than half of respondents in the SHAPs study chose not to use an external consultant, 33 percent made some use of an external consultant and 12 percent made extensive use of an external consultant.

The use of consultants varies with the size of an organization (see Exhibit 8.6). Midsized organizations ($500 million to $1 billion in revenues) are the most likely to hire consultants and to make extensive use of consultants.

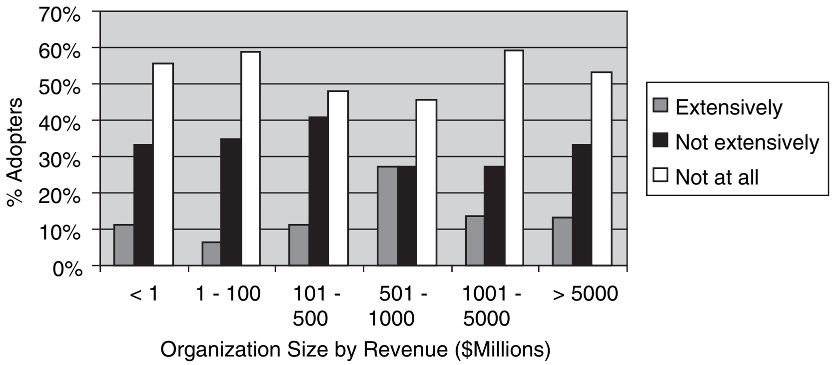


Exhibit 8.6 Relationship between Organization Size and the Use of Consultants

This pattern of usage is very understandable. Smaller organizations tend to have a less complex and more easily implemented scorecard system, reducing the need for consultants. While larger organizations require a relatively complex system, they are more likely to have in-house capabilities for implementing these systems. Midsized companies often have complex system requirements, but not the in-house resources to facilitate the implementation.

The use of an outside consultant in the implementation of a scorecard system can facilitate the timely completion of the project. In the SHAPs study, no implementation that used consultants extensively took over 18 months to complete (see Exhibit 8.7).

An advantage of using consultants is that many generally have a great deal of experience in strategy management and implementing and automating scorecards. Many also have a well-defined, well-thought-out process for implementing a scorecard system—some have even developed their own framework. Only 5 percent of the organizations in the SHAPs study that extensively used consultants did not use an organizing framework for their performance measures. Another 74 percent used the Balanced Scorecard framework and 21 percent used a different framework for their initiative.

Of the organizations that did *not* use a framework, 18 percent also did not use consultants at all, and another 11 percent used them less frequently. Very few organizations that did not use an organizing framework did use consultants extensively. One possible reason is that consultants tend to bring more structure to scorecard implementations, based on their previous experience.

The longer time required to implement a scorecard system using outside consultants (see Exhibit 8.7) is not necessarily a bad thing. The typical time frame for implementation—six months to a year—gives organizations sufficient time to properly put into practice their scorecard system beginning with strategy development, and finishing with automation and support. Very short implementation times

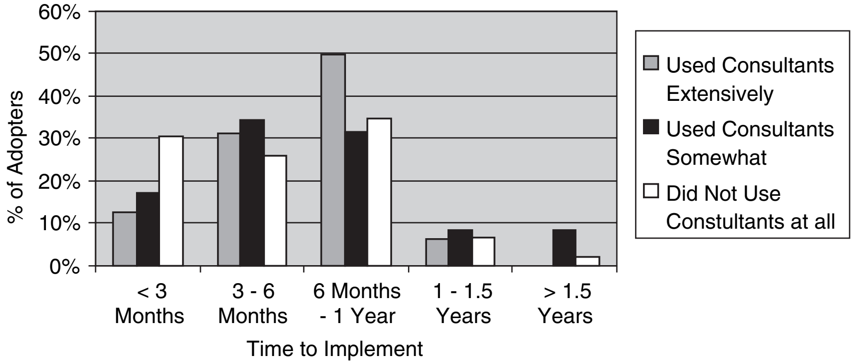


Exhibit 8.7 Impact of Consultant Use on Time to Implement

sometimes suggest that organizations might be simply assembling metrics without thinking about how they are related to the organization's strategy.

This longer implementation time frame may also explain why, on average, organizations that extensively use consultants report achieving greater benefits from their system than those that only use a consultant somewhat or not at all (see Exhibit 8.8).

Pfizer chose not to use consultants extensively, yet achieved excellent benefits. They developed their own in-house expertise, but used consultants to help put the plan together and for education.

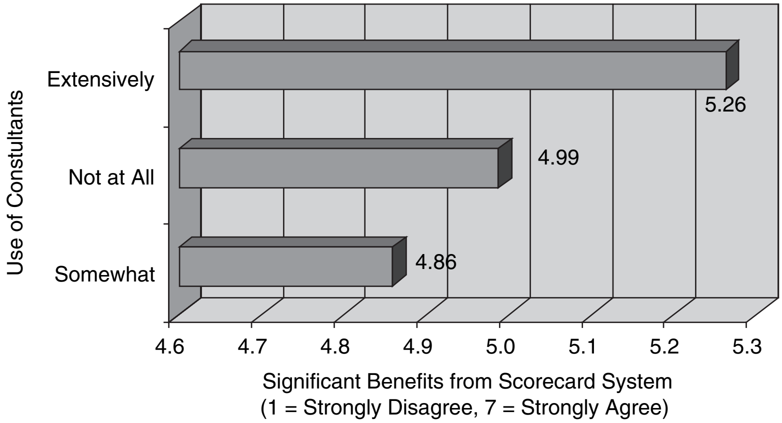


Exhibit 8.8 Relationship between Use of Consultants and Benefits from Scorecard System

The City of Boston and Suzano Petroquímica, however, chose to use consultants extensively. Both of these organizations reported receiving excellent benefits as well, including short implementation times.

The use of consultants must be assessed on an organizational and situational basis. If you have the funding but lack the resources and expertise for a project, consultants can certainly be beneficial. If you lack the funding, using consultants to help build a plan and develop in-house expertise has been shown to be effective.

CONSULTANTS AND SCORECARD AUTOMATION

When involved at the onset, the focus of consultants for many implementations revolves around developing strategy and aligning the organization's resources with its strategy. Problems frequently arise, however, because the organization and the consultants fail to consider sustainability. As organizations become more reliant on the results from the scorecard system, the need to update the results in a flexible and timely manner becomes apparent.

Consultants can often add value in developing processes for updating scorecard content with automated data feeds from various organizational systems. Using consultants makes sense, particularly for organizations that lack the availability of in-house expertise.

ORGANIZATIONAL BUY-IN

An important issue of implementing a scorecard system is taking steps to ensure employee acceptance. Chapters 3 and 4 presented different aspects of socializing employees to the scorecard system, and providing an environment that will foster its proper use. Once the system is in place, the question arises as to how long it takes to reintroduce employees to the new system, train them to interact with it, and to secure their acceptance and get them to use it. The SHAPs survey results indicate that, on average, employee acceptance and use of the scorecard system is accomplished within six months and in the vast majority of cases within one year (see Exhibit 8.9).

Implementation of a scorecard system introduces something new to an organization, something that may not be immediately accepted. It is critical to communicate—even to *over* communicate—with the employees regarding the new system. An organization needs to take the time to demonstrate the new system to employees and talk about how it will benefit them. Employees must also understand what the measure definitions are, where the data comes from, how the measure results are calculated, and how targets are developed. If this step is not taken, employees will question the results and their validity. Presenting only scores without explanations will lead to questions regarding how values are calculated or, if the scores are color coded, why they are "that color." Organizations that communicate effectively prior to implementation, during the implementation, and continue to communicate after the initial implementation will find that the scorecard system is much more accepted.

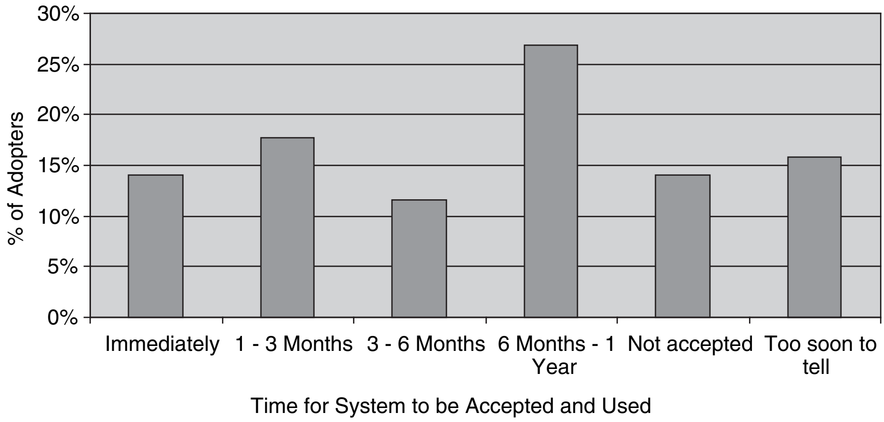


Exhibit 8.9 Time for Scorecard System to be Accepted and Used

It is also essential to get acceptance for the scorecard system at the C-level (corporate management level). While implementation can be top-down, bottom-up, or done as a pilot project, organizations may find it hard to subsequently ‘‘sell up’’ or ‘‘sell down’’ the idea of scorecard without top management support. This support also ensures that adequate funding and visibility for the initiative is available for future rollout of the system.

SCORECARD AND OTHER PERFORMANCE/COST MANAGEMENT TOOLS

Scorecards are not used in isolation as a management tool for strategy or for control purposes. They do work well in conjunction with other performance/cost management tools. The SHAPs study reviewed the use of other management tools in conjunction with scorecards. Respondents were asked to identify if they were using other performance and cost management tools and if so, how effective the tools were in helping them to achieving their vision/goals. The list of tools included:

- Benchmarking
- Target costing
- Pay for performance
- Six sigma (6 Sigma)
- Reengineering

- Performance measurement
- Materials resource planning (MRP)
- Activity-based costing (ABC)
- Just-in-time manufacturing (JIT)
- Total quality management (TQM)
- Theory of constraints (TOC)
- Budgeting
- Breakeven analysis (BE Analysis)
- Scorecard system (Scorecards)
- Strategic planning
- Strategic alliances
- Economic profit (EP)[1]
- Enterprise resource planning (ERP)
- Variance analysis
- Standard cost accounting system (Standard Costing)
- Resource consumption accounting

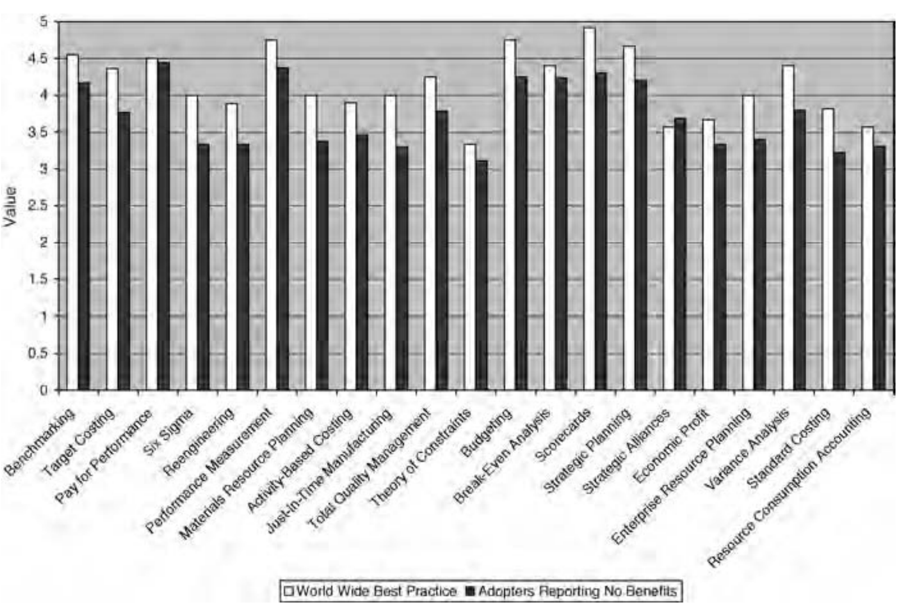


Exhibit 8.10 Best Practices versus Adopter Reporting No Benefits from Scorecards

It was observed that the Best Practice group, in almost every instance, use these management tools in combination with scorecards and receive greater value than the NSBG Adopters (those who report no significant benefits from their scorecard system) using the same tools (see Exhibit 8.10).

The SHAPs study looked at *effective* scorecard Adopters, those who were receiving benefits from their scorecard system, and the improvement in value they were receiving from the other performance and cost management tools used to help achieve their vision. The results for selected tools are shown in Exhibit 8.11.

This exhibit shows, for example, that Adopters with *effective* scorecard systems realized 77 percent more value from their performance measurement systems than scorecard adopters in general. Exhibit 8.11 also shows that the improvement in value is pervasive indicating that effective scorecard systems appear to enhance value from other performance and cost management tools.

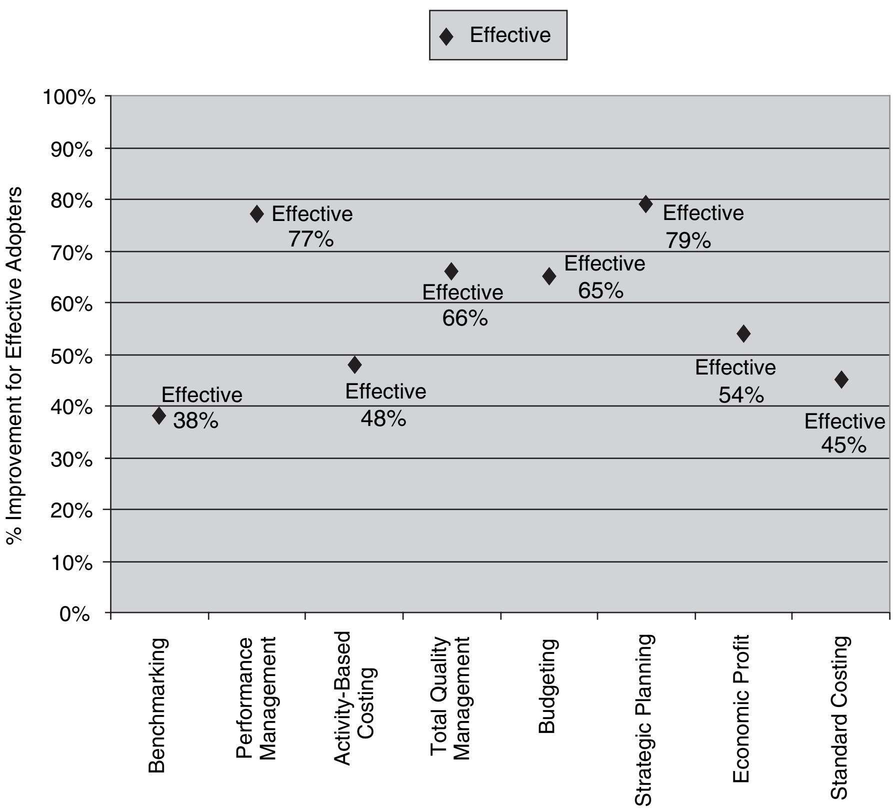


Exhibit 8.11 Effective Scorecard Adopters and the Value Received from Other Tools

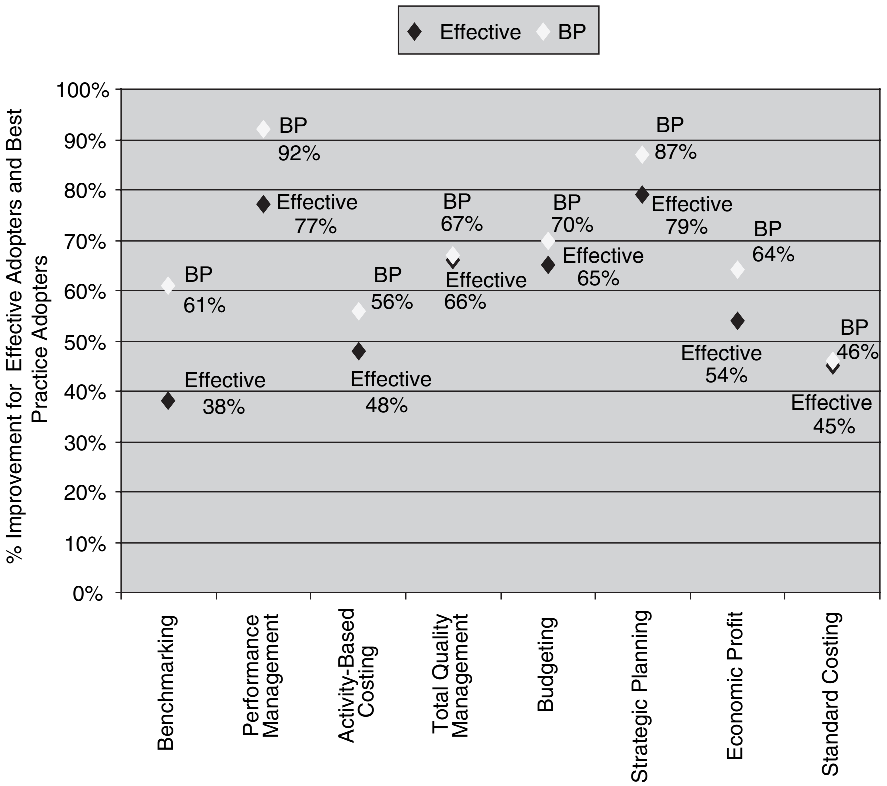


Exhibit 8.12 Best Practice (BP) Scorecard Organizations Compared to the Effective, Benefit-Achieving Adopters and the Value Received from Other Tools

Do Best Practice adopters realize even greater improvement in value from other performance and cost management tools? Exhibit 8.12 superimposes the values for the Best Practice organizations onto the chart for the *effective* benefit-achieving Adopters. In general, it shows that the Best Practice organizations perceived a greater improvement in value than did the Adopters for each of the same tools that were driving them toward achieving their vision.

While these results do not prove a cause-effect relationship exists, they may indicate that organizations can significantly improve the value of many performance and cost management tools by implementing best practice scorecard systems. This result may also be largely due to the fact that scorecard Best Practice organizations have the underlying management and organizational culture to assimilate management tools to the benefit of the organization, and may also be considered best practice implementers for many of the other tools.

SUMMARY

This chapter discussed several of the issues that you may encounter on your scorecard journey. In order to ensure a successful implementation, organizations must:

- Ensure that they have set a realistic time frame for implementation.
- Provide flexibility in the scorecard automation software.
- Create processes to update the scorecard system as the organization evolves.
- Implement with an eye toward seeking appropriate benefits. (Including the value improvement of other performance and cost management tools.)
- Where appropriate, use outside consultants to facilitate the implementation process (but not at the expense of the necessary involvement of the organization's own personnel).

By taking these necessary steps, organizations can go a long way toward ensuring a successful scorecard implementation.

NOTES

1. Economic profit is also known as residual income or economic value added (by Stern Stewart & Co.).

Chapter 9

Scorecard Automation

Scene: Ted's home office. Ted greets Patrick at his front door . . .

Ted: "Welcome, Patrick. Come downstairs to my office."

Patrick: "Thanks for inviting me over. I've been curious to see the modifications that were made when you renovated for the new home office."

Ted: "Yes, I'm very pleased with the way they turned out. If you want, you can leave your umbrella in the caddie by the front door. Would you like a drink—coffee, soft drink?"

Patrick: "No, I can't stay long; my wife and I are meeting some old friends for dinner. I just wanted to thank you again for the golf game and to ask you a few more questions about scorecards."

Ted: "No problem. Remember, your swing will improve when you position the ball under the logo on your shirt."

Patrick: "I know—that tip alone improved the distance and accuracy of my drives."

They arrive in Ted's office, and each takes a seat in one of the plush office chairs.

Patrick: "So, I just wanted to tell you that I finished reading the last set of materials, and I had a few questions regarding the automation of the application."

Ted: "OK, go ahead."

Patrick: "Well, I guess as an overriding question: Is automation necessary?"

Ted: "This is a great question. Often during the initial stages of a scorecard implementation, much of the data entry and creation of reports relies on manual activity—you know, paper-based collection or using spreadsheet and presentation software, that sort of thing. Typically, this allows for quick creation of scorecard reports from which the system can be assessed. And it allows the organization to evaluate these results without having to commit to a heavy IT investment."

Patrick: "That must also help to encourage and support employee and management buy-in."

Ted: "Exactly, but most discover that it is not practical to continue this manual practice over the long term. It takes a considerable amount of effort to gather data and update reports on a frequent basis—even a frequency of once per quarter can take substantial resources."

Patrick: "That's when the organizations begin to feel the need to automate their scorecard system?"

Ted: "Yes, we find a number of organizations evolve into the need for an automated system as they gain experience with these systems. There are also those organizations that will plan for automation as part of their initial design effort, but often those organizations have been using scorecards informally, often to support performance measure reporting."

Patrick: "Do organizations have to automate in order to achieve benefits?"

Ted: "Not necessarily. I know that your time today is limited. Let me go through my files and assemble some documentation on automation for scorecards. I think that I have results from a study that discuss the need for automation, how much automation, and available options."

Patrick: "Do you have anything that discusses system functionality and features?"

Ted: "Yes, I'll include information about that and reporting options, and some information about data accessibility."

Patrick: "You can't imagine how much I appreciate this."

After rummaging through his files for a few minutes, Ted produces a set of reading material and gives it to Patrick.

NEED FOR AUTOMATION

Should your organization automate its scorecard? The answer, in all likelihood, is yes—either initially or eventually. Periodic updating of data and preparation of scorecard reports can involve disproportionate time and effort. Automation can help reduce this effort and, in many cases, reduce errors related to manual data entry.

Automating provides the ability to analyze results in ways not often possible with paper-based or presentation software-based systems. Automated scorecard systems offer:

- Scoring and traffic lighting to pinpoint the status of the most important measures and objectives
- Result and target calculations to automate data entry, to reduce the burden of painstakingly tracking data from people or systems
- Prebuilt reports to make analysis more efficient
- Active alerting and discussion thread capability for improved collaboration

These features reduce the time required to understand performance status, which enables employees and managers to focus their efforts on analyzing results and responding to issues. Providing data on a consistent and regular basis increases the likelihood of employees accepting the system and integrating it into their everyday jobs.

The results of the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study confirm that automating the scorecard system can enhance its realized benefits.

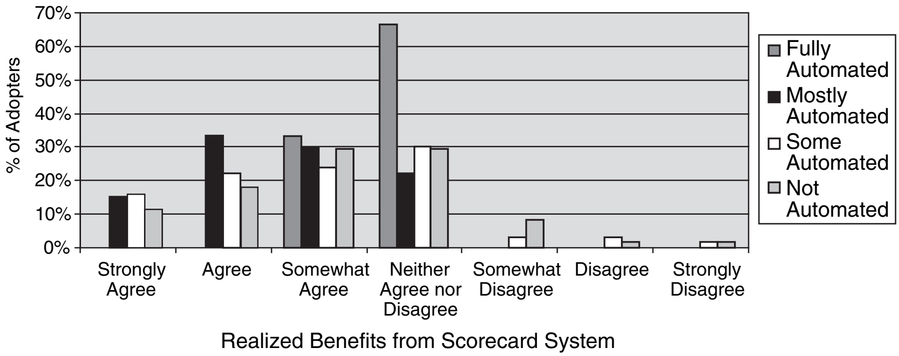


Exhibit 9.1 Relationship between Automation and Scorecard Success

Exhibit 9.1 shows that all of the respondents who indicated that they had *not* realized significant benefits from their scorecard system had, at best, only somewhat automated their system. Organizations that had mostly automated their system appeared, on average, to have achieved the greatest benefit.

From Exhibit 9.1, it is interesting that of the organizations that have fully automated their scorecard system, none state that they strongly believe they are realizing significant benefits. More detailed analysis of the data indicates that these organizations have fully automated existing key performance indicator (KPI)-oriented systems, which has a tendency to reveal little new learning.

EXTENT OF DATA AND REPORT AUTOMATION

To what extent have organizations attempted to automate their scorecard process? Exhibit 9.2 shows that more than 60 percent of organizations with scorecard systems have automated their system to some extent. However, very few have been able to fully automate their system. Some of the factors affecting the ability to fully automate include:

- The number of source systems from which data must be pulled
- The openness of source systems (are they proprietary systems or open systems?)
- The openness of the target system (the scorecard software)
- The accuracy of the data being automated
- The availability of data in electronic format (some data is only kept manually)

As Exhibit 9.3 shows, automating your scorecard system is likely to prove challenging. Only 10 percent of respondents described this job as “not difficult,”

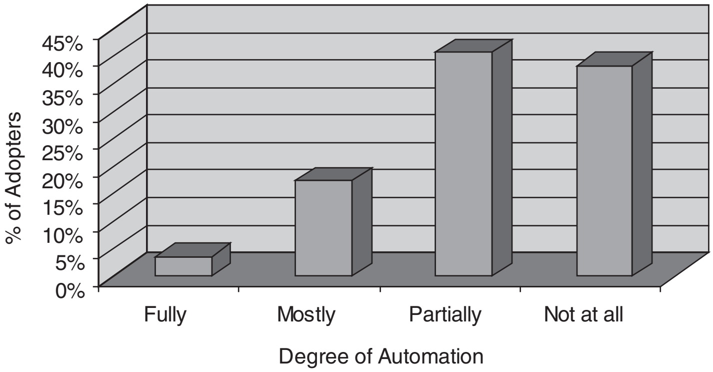


Exhibit 9.2 Degree of Scorecard Automation

and only 16 percent found it difficult but feel they were eventually successful. Over half of the survey respondents found scorecard automation difficult, but are continuing to work on it.

The challenges faced in automating the scorecard system will vary depending on the size of the organization. As shown in Exhibit 9.4, the use of software to support scorecard systems is more prevalent for smaller organizations (with fewer than 500 employees) and the largest organizations (more than 10,000 employees). The smaller organizations have relatively simple scorecard systems that are easier to automate. Larger organizations, because of the complex nature of their environment, are unlikely to be able to succeed without automation. They also have the resources to facilitate their automation. Midsized organizations, however, often face the challenge of system complexity but do not have the ready resources needed to implement systems possessing these complexities.

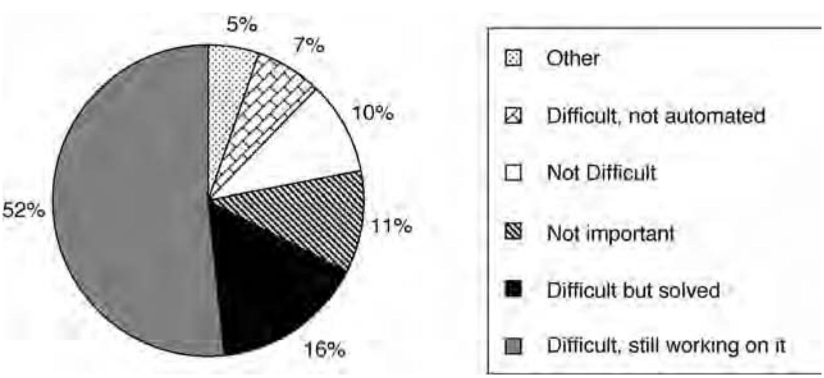


Exhibit 9.3 Effort Involved in Implementing Scorecard System

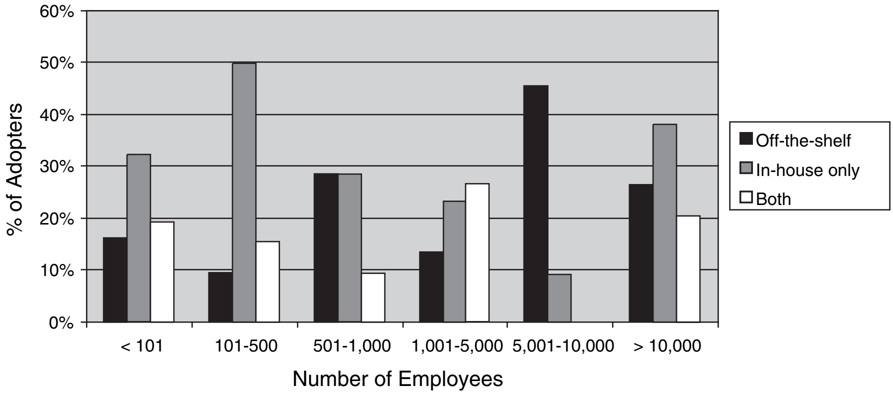


Exhibit 9.4 Relationship between Size of Organization and Scorecard System

Of the organizations with automated systems, 21 percent use purpose-built (off-the-shelf) application software, 33 percent use software developed in-house (based on a spreadsheet or database application), and 18 percent use both types of software for their scorecard system (see Exhibit 9.5).

The longer an organization has had scorecards, the more likely it is to use software to track its performance (see Exhibit 9.6). Sixty-three percent of organizations that have been using scorecards for less than a year use scorecard software, and the usage rate steadily increases as organizations gain more experience with scorecards.

When first implemented, a scorecard system tends to be relatively simple, often using a predominately manual system with the assistance of spreadsheets and presentation software. As the pervasiveness of scorecards grows, and with the

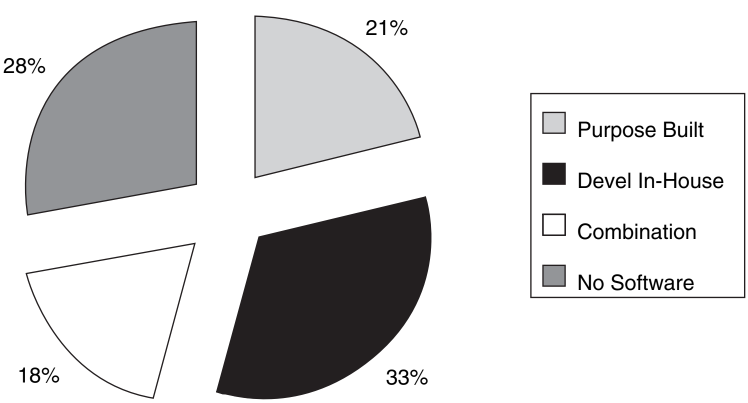


Exhibit 9.5 Software Use

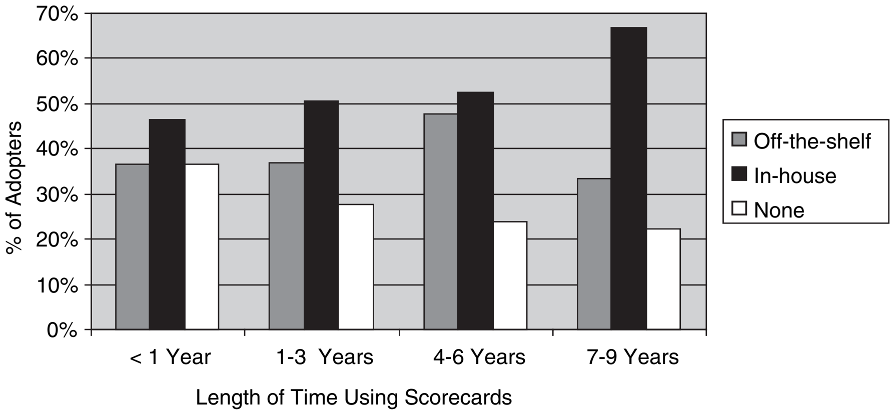


Exhibit 9.6 Relationship between Length of Time Using Scorecards and Type of Software Used (Columns do not add up to 100 percent, due to some organizations using both types of software.)

continued communication emphasizing that this management initiative will *not* go away, the limits of these simple systems are exposed and the need for a more sophisticated system becomes apparent.

A point of interest in Exhibit 9.6 is that usage rate for off-the-shelf software grows with time except for those who have been using scorecards for the longest period. This exception is most likely due to the fact that off-the-shelf scorecard software was not as readily available at the time of their initial implementation, necessitating the use of in-house solutions.

How likely is it that you will adopt new software to implement your scorecard system, either initially or later on? As shown in Exhibit 9.6, approximately half of organizations implementing a scorecard system use software that they already have in house (such as spreadsheet or presentation software) when first implementing their system, while the other half use newly acquired software.

As indicted in Exhibit 9.7, after four to six years of using scorecards, more than half of all organizations adopt new software. This is likely an indicator of the period of time for organizations to acknowledge the limitations of their initial (often manual) implementations, and to commit to a more robust solution.

SOFTWARE OPTIONS

One of the most desired features of a scorecard system is flexibility of report design. This feature, in addition to ease of use and inexpensive availability, accounts for the popularity of spreadsheet packages. Many organizations implementing scorecards using spreadsheet technology find that it does present problems. Difficulty controlling

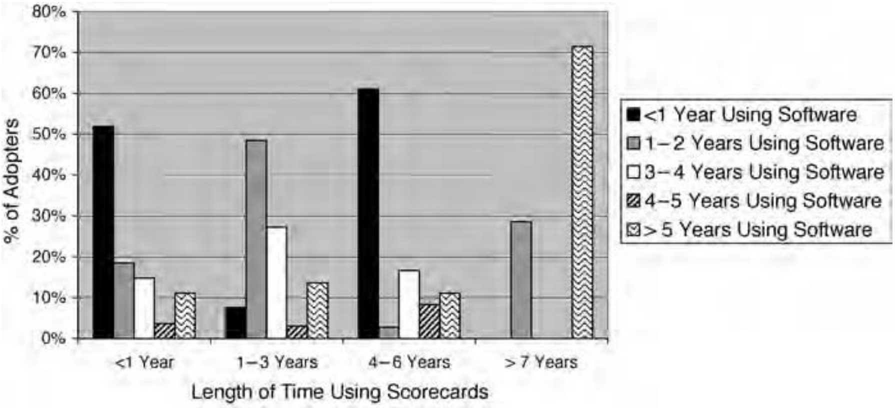


Exhibit 9.7 Relationship between Length of Time using Scorecard System and Length of Time Using Current Scorecard Software

the multiple sheets that proliferate and controlling the versions of information have caused headaches for many organizations. It is not uncommon for two executives to attend a meeting with different versions of the facts, depending upon to whose spreadsheet they refer. The spreadsheet environment also increases the risk of "gamesmanship" (manipulating values to improve perceived results) when cell-locking capabilities are not properly applied to the data input sheets. The ability to customize the presentation of results at will can also make it difficult to compare scorecards across performance units and to conduct benchmark analysis.

Scorecard systems organized as a series of spreadsheets have other drawbacks, including difficulty in maintaining the system. As one survey respondent indicated, "The off-the-shelf packages tended to be too expensive, so we developed our internal package utilizing a data warehouse and Excel. This system is cumbersome and highly inefficient." Another survey participant said that, "We have rolled out an electronic scorecard system somewhat successfully through use of spreadsheets. However, data storage is a critical shortfall of this method. We are currently looking for a more efficient way to report our scorecard."

Advantages that purpose-built scorecard software applications have over spreadsheet applications include better data security, purpose-built functionality to support scorecard implementation, and providing "one version of the truth" regarding the mission and strategy of the organization. Purpose-built applications also have periodic updates of new features from the vendors, and require less maintenance than in-house, developed systems. However, they often lack the flexibility of the spreadsheet graphical presentation choices. While this may be considered a drawback from the individual manager's perspective, from an organizational standards point of view, purpose-built software has advantages.

When considering purpose-built software, it is important for users to be flexible with respect to functionality. It will likely look and navigate differently than a spreadsheet prototype. And although purpose-built software may be fast to implement, it may not deliver 100 percent of the perceived system requirements.

Some organizations preferred to develop a customized, in-house software solution. Usually, this option is available to those organizations with adequate IT resources. An obvious advantage of this approach is the ability to dictate the exact features of the solution. The organization, however, must recognize that maintenance and enhancement requests become its responsibility. In two recent cases, a large automotive manufacturer and a large aluminum producer, each used *significant* resources to create customized in-house systems that worked very well. However, within two to three years, these organizations chose to migrate to purpose-built, off-the-shelf applications. The reason for the move in each case was the same—the cost and time associated with maintaining the system outweighed the perceived benefit.

SOFTWARE DEPLOYMENT

The number of people using scorecard software, either to view reports or to enter data, varies widely. In some organizations, less than 1 percent of the employees use the software; other organizations give all employees access to their scorecard system.

Scorecard software can be used at a variety of levels in organizations. Some organizations use it primarily for top management so that they may manage strategy; in others many more levels of management have access, primarily for operations management. As shown in Exhibit 9.8, most frequently it is used primarily at top levels followed by use at all levels of management.

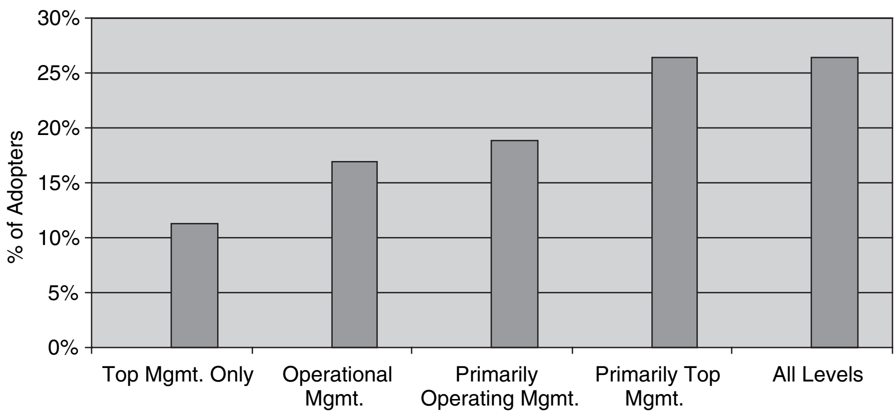


Exhibit 9.8 Primary Level of Scorecard Software Use

As expected, organizations that mostly use software at the top management level tend to have few software users. The number of users increases as more levels of management use the software. Also, the larger an organization, the more likely it is that more levels of management use the software.

REPORTING RESULTS

Scorecard results can be distributed by a variety of means. As shown in Exhibit 9.9, performance results are reported about equally by means of the Web and by use of a local area network (LAN) or wide area network (WAN). Less commonly used as a means of distributing results are paper documents and e-mail. More and more software vendors that provide purpose-built applications are moving to Web-delivery as their reporting method of choice.

The use of Web-based reporting was often cited by survey respondents as an important element of success. Providing "real-time data that indicates performance" helps ensure timely, actionable reporting of information.

Recipients of scorecard information may influence how the scorecard information is reported. Scorecard systems providing reports only to top management are more likely to be paper-based than those reporting to other levels of management. (Yes, paper documents are still being used in top management meetings!) At the time of the SHAPs study, systems used primarily by operations management are more likely to be LAN or WAN-based (see Exhibit 9.10).

The means of reporting scorecard results may also vary depending on the organization's size; larger organizations tend to use more technologically sophisticated means of reporting. Web-based reporting increases in frequency as

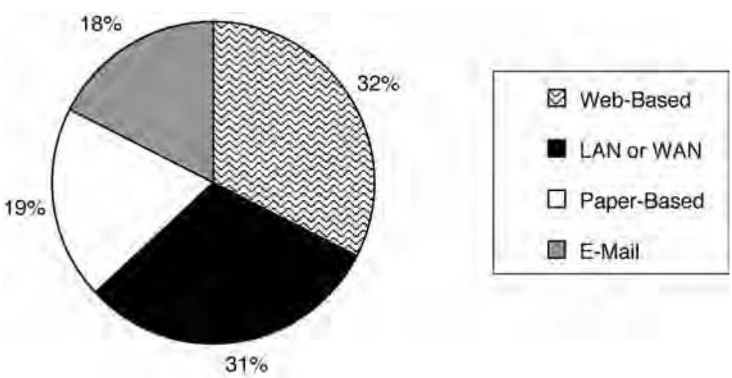


Exhibit 9.9 Reporting of Scorecard System Results

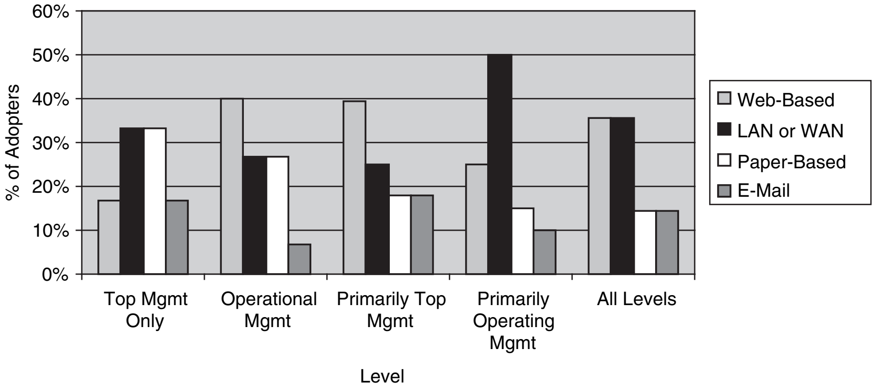


Exhibit 9.10 Relationship between Reporting Method and Level of Reporting

organizational size increases and paper-based reporting tends to decrease (see Exhibit 9.11). For large organizations, Web-based applications provide an efficient method for easy access to consistent results for many geographically distributed locations.

As might be expected, the means of reporting results is affected by the type of software employed. If no software is used for the scorecard system, the reporting of results is typically e-mail or paper-based. Much of the off-the-shelf software provides Web-based reporting. Organizations that develop in-house

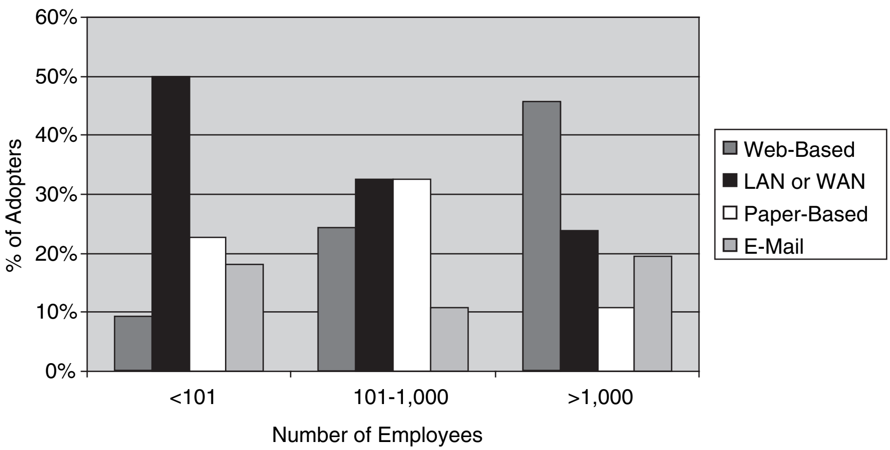


Exhibit 9.11 Relationship between Organization Size and Reporting Method

software use a variety of reporting methods including reports distributed through their WAN, static HTML pages on internal Web sites, spreadsheets distributed by e-mail, white boards/bulletin boards in particular locations with periodic results, and printed briefing books (most often used in upper management meetings).

SYSTEM FUNCTIONALITY AND FEATURES

Software functions and features can make a huge difference in integrating a scorecard system into daily work routines. A simple, convenient, and informative system is more likely to be accepted and used by employees and managers. Which software functions and features are most desirable for an automated scorecard system and important to a successful implementation? According to the SHAPs study, the most important functions that systems must possess, in order of importance, are:

- Actions and objectives supported by measures or KPIs
- KPI reports
- Many types of measures (simple, composite/index, multidimensional)
- Ability to graph measure data over time
- Scorecards for different levels of the organization
- Displaying accountability for actions
- Displaying cause and effect/strategy map
- Communicating vision and strategy to employees
- Enabling feedback/status on objectives

This list indicates a mix of operational management functions and strategy management functions, again showing the different uses for scorecards.

Respondents to the SHAPs study were asked to choose and rank the top three features of a scorecard system they felt were most important to their organization (see Exhibit 9.12). The *overall* top three features reported were:

1. Ability to drill down to root data
2. The cause and effect/strategy map
3. Web-based reporting

Interestingly, *cause and effect/strategy map* was often cited as the number one most important feature.

When planning your implementation, consider the required features necessary for integrating the system into your organizational fabric.

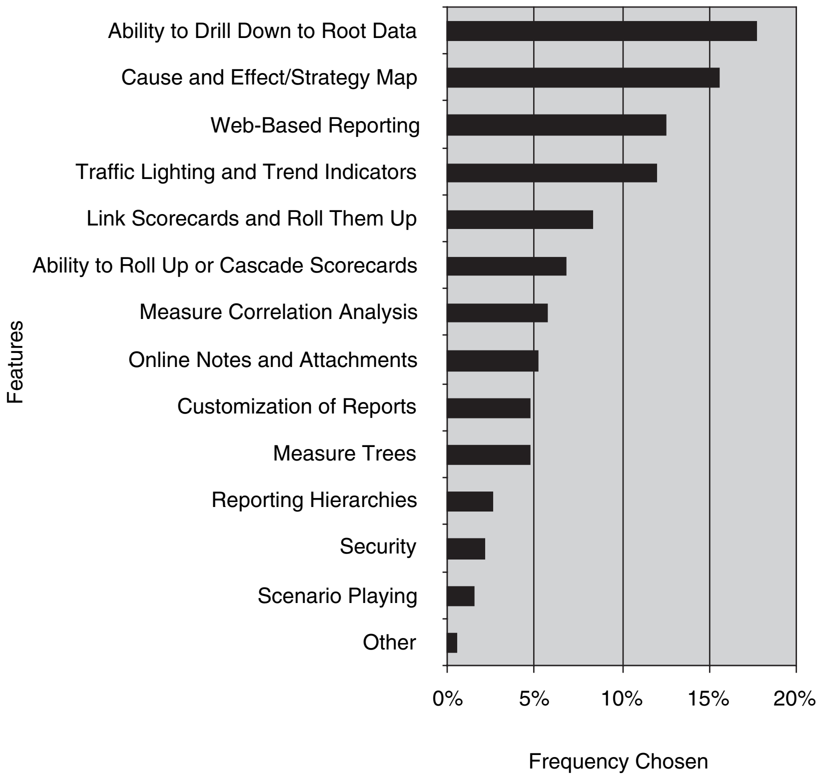


Exhibit 9.12 Top Features for a Scorecard System

SYSTEM FLEXIBILITY

Implementing a scorecard system should be viewed as an iterative process—no one gets all of the scorecards, measures, and targets right the first time. Most organizations realize that they either have too many measures or not the right ones.

As the use of scorecards matures, some organizations recognize that they have too many measures. Often, some of their measures are proven to be redundant indicating that those organizations have been performing unnecessary work in gathering data. As they receive feedback from users and track results over time, many organizations realize that they are not collecting the right measures. Eventually, organizations in either of these positions find it necessary to remove, change, or add performance measures. Flexibility in making changes to measures tracked is a critical feature in scorecard automation.

Flexibility is also required when changes occur to the underlying source systems providing results to the scorecard system. An organization may roll out new enterprise resource planning (ERP) or customer relationship management (CRM) systems or make upgrades to transactional, operational, or performance management systems. The automated scorecard must provide enough flexibility to accommodate these changes to source systems.

When automating its scorecard system, an organization needs to spend time up front to think through its entire vision. The new system should not just replicate what the organization is doing manually, unless the existing system makes sense. System requirements and design should be adequately specified. Organizations that do not pay now by adequately spending time to plan the new system are bound to pay later if the system is inflexible.

DATA ACCESSIBILITY

Numerous organizations have indicated that the key reason for being able to successfully roll out an automated scorecard system (or, in some cases, the reason for their inability to do so) is data accessibility. One organization indicated that its ability to successfully implement an electronic scorecard system was due to "automated data extraction from the mainframe and other databases." Other organizations indicated that their failure to implement an electronic system was due to the lack of "compatibility with a wide variety of database, financial, and ERP applications" and the lack of "integration of multiple systems."

Take the time to understand your data sources, and ensure that your automated system will be able to retrieve the data you need and in the frequency with which you need it. In order to move to a more frequent refreshing of data (perhaps moving from measuring data quarterly to monthly, or from monthly to weekly), the data needs to be available in that frequency from your source systems. There is no point in trying to report on data that cannot be accessed in the desired frequency. Manual data entry will work for a while, but eventually the benefits will likely be outweighed by the amount of effort required to collect the data.

Data accessibility is important to automating your scorecards, but keep in mind that few scorecard systems ever manage to refresh 100 percent of the data automatically. The very nature of strategic data often means that some manual data entry will be required on an ongoing basis (this type of data is typically not available electronically). For example, your organization's position in the market is *not* likely to be available electronically, but you can find it through research. As long as the effort required to update the data is kept to a minimum, benefits will certainly be realized.

SUMMARY

While organizations can achieve significant benefits from initial implementations of scorecard systems that are manual or based on spreadsheets, eventually they will feel the need for more sophisticated systems using either in-house developed software or a commercially available scorecard package. Many organizations have achieved benefits from their automated scorecard system by including the ability to:

- Provide Web-based reporting
- Drill down to root data
- Customize reports
- Link scorecards and roll them up
- Access data from legacy systems and other data sources
- Accommodate future changes to the scorecard system

One respondent from a major consumer products company noted, ''It's not about software . . . it's about work processes and alignment in the organizations. The system is an enabler, nothing more.'' By designing a system that combines the best practice features described in previous chapters with these automation suggestions, organizations can maximize the benefits from their scorecard system.

Chapter 10

Best Practice Considerations Checklist

Scene: Henri's Bistro—revisited. Patrick and Ted meet over lunch . . .

Patrick: "Thanks for meeting me at Henri's, again. I'm happy that we could get together here—after all, this is where you first introduced the concept of scorecards, and I wanted to bring you up to date with what I've been doing with it."

Ted: "Have you had a chance to make use of the ideas and concepts that we shared?"

Patrick: "Absolutely. In fact I've been meeting with the executive team at my company. It has led to a half-day socialization workshop and they're really keen on the idea of using scorecards to help them better communicate the organizational strategy and to get everybody in the organization aligned with it."

Ted: "That's terrific. Let me know if I can be of any help."

Patrick: "Well, that's part of the reason that I asked to meet with you. Although I am very comfortable and confident with what I've seen so far, I think that we would benefit from your experience to help guide us through some of the practical considerations."

Ted: "Great. I can probably make a few days available—let's see if we can work out the details so I can meet with your team in a timely manner."

Patrick: "In the meantime, I'd like to share a document that I put together to help with the early orientation of our executives. It's a summary of what I learned from our conversations and the follow-up reading materials you provided—I put it together in the form of a checklist."

Ted: "Wonderful! That's a very good way to help organize your thoughts."

Patrick: "And it proved extremely helpful for the executives at the early workshop. It helped them to compartmentalize salient points to consider as a scorecard project is undertaken."

Patrick passes Ted a document. Ted scans it.

Ted: "This is great! That's why I was happy to share my experiences with you—I knew that I'd be able to learn from you, too. I like the six categories that you've used: For Socialization, To Appropriately Motivate, To Create a Supportive Environment, Designing the Scorecard System, Implementation and Rollout, and Automation. This can be used to help guide you through an implementation."

Patrick: "It's probably not an exhaustive checklist, that's why we'd like to have your assistance—to help us fill in the gaps."

Ted: "It may not be exhaustive, but it is a great starting point for any implementation or phase of rollout."

Patrick: "Thanks. And thanks for all the direction that you've given me. Let's order lunch."

Ted: "OK. But this time it looks like lunch is on me."

And the scorecard journey continues . . .

BEST PRACTICE CONSIDERATIONS CHECKLIST

FOR SOCIALIZATION

- ☐ Communicate the reasons for scorecard implementation, and the benefits to employees and the organization.
- ☐ Sell and communicate the scorecard concepts and how each scorecard ties to organizational strategy.
- ☐ Scorecard systems often help to foster a culture shift or change; therefore, change management and effective communication skills are required.

TO APPROPRIATELY MOTIVATE

- ☐ Use a framework that represents the organization's vision and business model.
- ☐ The impetus for implementation should come from top-level management.
- ☐ Focus on key business issues and "burning platforms" the system must address.
- ☐ Continue to communicate the reasons for scorecard implementation, and the benefits to the employees and the organization.
- ☐ Use one or more targets where appropriate.
- ☐ Link performance measures to compensation and rewards—where appropriate.
- ☐ Align measures and employees to organizational goals.
- ☐ Advertise successes when they occur.
- ☐ Choose measures carefully and involve those accountable for them in the selection process.
- ☐ Communicate how targets are set and from where data is retrieved.
- ☐ Provide software features that will enable employees to spend their time analyzing and acting on results.

TO CREATE A SUPPORTIVE ENVIRONMENT

- ☐ Impetus for implementation should come from top-level management.
- ☐ Buy-in should occur at the top-level management.

- ☐ Define and communicate the reasons for and benefits of implementing a scorecard system.
- ☐ Articulate and communicate the organizational strategy.
- ☐ Have a strategy champion to maintain the visibility required to be successful.
- ☐ Encourage employees to accept and use the system.
- ☐ Use consultants appropriately.
- ☐ Advertise successes when they occur.
- ☐ Provide adequate time to implement and realize benefits.
- ☐ Create a system that is pervasive, but implement in phases.
- ☐ Create a system that is integrated into the organization's overall planning and performance evaluation system.

DESIGNING THE SCORECARD SYSTEM

Choose a Framework That Will:

- ☐ Reflect the business model of the organization accurately to be accepted by the employees and be useful for analysis.
- ☐ Be adaptable enough to work for both short- and long-term strategic objectives.
- ☐ Work with reporting on other management initiatives.
- ☐ Create formal ties between the organizational strategy and the scorecard system.

Measures and Targets:

- ☐ Choose measures carefully and involve those accountable for them in the selection process.
- ☐ Align measures and employees to organizational goals.
- ☐ Align employee performance evaluation measures with scorecard measures.
- ☐ Balance the scorecard measures (financial versus nonfinancial, leading versus lagging).
- ☐ Err on the side of tracking fewer measures (you can always add more as needed).
- ☐ Choose financial measures wisely, they are still very important.
- ☐ Use one or more targets where appropriate.

Compensation, Rewards, and Evaluation:

- ☐ Link performance measures to compensation and rewards—where appropriate.
- ☐ Link the compensation and reward systems (eventually) to the scorecard system, if it is appropriate to your organizational culture.

- ☐ Ensure that there is congruence between the scorecards and the performance evaluation system.
- ☐ Provide software features that will enable employees to spend their time analyzing and acting on results.
- ☐ Align human capital to the strategy.
- ☐ Use a feedback loop to understand progress and make changes where required.
- ☐ Implement the system pervasively, but in phases.
- ☐ Ensure your cost management system adequately supports the scorecard system.
- ☐ Maintain flexible reporting on key performance indicators and how they roll up through the organization.

IMPLEMENTATION AND ROLLOUT

- ☐ Set a realistic time frame for implementation.
- ☐ Choose the most appropriate approach for your needs: top-down, bottom-up, or pilot project.
- ☐ Roll out to the organizational level that is appropriate to your ‘‘burning platform.’’
- ☐ Implement the scorecard system in a limited way initially, and then roll it out as your organization gains scorecard experience.
- ☐ Consider future roll-out plans.
- ☐ Have a process to controllably accommodate the updating of scorecards, performance measures, objectives, and accountability.
- ☐ Use outside consultants to facilitate the implementation process, but they cannot and should not be used to replace the necessary involvement of your own personnel.
- ☐ Consider the relationship between the scorecard system and other performance/ cost management tools and how/if they can be supportive.
- ☐ Convene a scorecard system committee comprising the scorecard champion, business users, IT leaders, and power users.
- ☐ Create processes to update the scorecard system as the organization evolves.

AUTOMATION

- ☐ Consider software flexibility in the event that source systems or reporting requirements change.
- ☐ Gather and support organization requirements in automation features (e.g., Web-based reporting, drill-down to root data, customize reports).
- ☐ Link scorecards where appropriate, and roll them up.
- ☐ Access data from legacy systems and other data sources.

Case Studies

SUZANO PETROQUÍMICA

Suzano Petroquímica is the Latin American leader in the production of polypropylene resins and the second largest producer of thermoplastic resins in Brazil. These resins are used to make plastic packaging, home appliances and electronics, and are also used in the packaging, automotive, and textile industries. The Company has a production capacity of 685,000 tons/year of polypropylene distributed within its three facilities located in Mauá (State of São Paulo), Duque de Caxias (State of Rio de Janeiro), and Camaçari (State of Bahia).

The company's total production capacity will increase by 190,000 tons/year by 2008 with the expansion of the Mauá and Duque de Caxias units. These production capacity expansions will sustain its leadership position in the polypropylene business in Latin America and will turn it into the second largest thermoplastic resins producer in the region.

In addition, Suzano Petroquímica is a joint controlling shareholder of Riopol, polyethylene producer, and Petroflex, synthetic elastomer (synthetic rubber) producer; both products are raw materials for the converters (industries that make rubber products such as tires), as is polypropylene.

Suzano Petroquímica reported gross revenues in 2005 of $980 million and employed 474 people.

In 2005, Suzano Petroquímica was inducted into the Balanced Scorecard Hall of Fame recognizing its proficiency in the use of Kaplan and Norton's Balanced Scorecard framework as well as receiving outstanding benefits from its scorecard efforts.

SCORECARD USE

Suzano Petroquímica started using a scorecard system in 2003 to help it move in a new direction. To reach its vision to be a leader in polypropylene and polyethylene in Latin America, based on the sustainability and competitiveness of its businesses, as well as on the quality of its partnerships, the company needed to:

- Communicate its new strategy to everyone, quickly and clearly.
- Align employee behavior with its strategic objectives.
- Make strategy everyone's everyday job.

- Find a way to measure performance at different levels in the organization, to monitor progress, and to alert them when changes need to be made.

The impetus for the initiative arose from middle management, which set the aggressive goal of implementing the new system within three to six months. This goal was achieved with the extensive use of outside consultants. Once the system was in place, it took employees under three months to accept the system and begin using it in earnest.

IMPLEMENTATION

Using Kaplan and Norton's Balanced Scorecard set of perspectives, the company tied its scorecard system to strategy by using an accountability method. Accountability for actions and initiatives of the corporate strategy were assigned to teams, individuals or departments. Progress is closely monitored and management decisions are made quickly in order to ensure the success of their corporate strategy.

The company tracks just under 650 measures, 60 percent of which are non-financial. Having accurate cost information is crucial to their scorecard system, which is why it is also linked to their financial planning system. Having a well-balanced set of measures within each of their perspectives, which represent all parts of their business, is critical to its success.

The company's most senior officers regularly review between 11 and 20 measures to get a clear view of the status of the enterprise at any point in time. In order to foster alignment of the company's strategy to employees' actions, Suzano Petroquímica ensures that the measures on its corporate scorecard are the same as those used for setting annual and longer-term goals.

To get maximum benefit and buy-in, Suzano Petroquímica felt that automation was important to the success of its scorecard system. Most of the data values for the scorecards are automatically updated by existing information systems. All levels of management use the scorecard system, which is an off-the-shelf, Web-based solution. The features that users find most useful are the ability to visually map their strategy, to provide status and trend indicators, and to analyze and correlate measures.

BENEFITS

Suzano Petroquímica achieved significant benefits from its scorecard implementation. In addition to facilitating sustainable alignment with its strategy throughout the organization, it enabled:

- Increased communication with employees
- The ability to link compensation to strategy
- The ability to understand cause and effect between the strategy and their measures
- Alignment of employee behavior with strategy

Suzano Petroquímica uses its scorecard system in its quarterly Strategic Analysis Meeting (that they call RAE—*Reunião de Análise Estratégica*). Previously, data and information for the meetings could take two to four days to prepare. It is now available on demand from the Web-based scorecard solution.

In addition to improving strategy management, the company was also able to increase its sales by 126 percent in 2005 and make faster management decisions based upon the up-to-date information provided by the scorecard system.

HIGHLIGHTED BEST PRACTICE

In order to get the highest degree of buy-in and use by management and employees, Suzano Petroquímica extended its scorecard system use to the individual level. It has also linked the remuneration system, bonuses, individual objectives, and corporate team incentives to the scorecard system.

According to Edilson G. Teixeira, Performance Manager, alignment was enhanced by the creation of a "Multifunctional Team to discuss and align all targets of the company." This team includes managers from:

- Planning
- Logistics
- Industrial
- HR
- Controller
- Technology
- Commercial

OBSERVATIONS AND ANECDOTES[1]

Suzano determined that the Balanced Scorecard "isn't just a KPI set but a genuine agent of *changes*. [It must be used to] manage strategic *initiatives* ... not only *indicators*." Scorecards provide:

- "A process for better communicating the company strategy
- Employee behavior changes—Strategy Focus
- The value added concept—Employee as a Shareholder
- Strategic knowledge encouragement
- Key performance indicator (KPI) and targets knowledge and simplification process"

Suzano observed that the linking of rewards to strategic performance served as a change agent to employee behavior, citing "Variable remuneration must work as 'Strategy Leverage.'"

FIRST NATIONAL BANK: BANKING OPERATIONS

First National Bank (FNB) established in 1838, is the oldest bank in South Africa. FNB trades as a division of FirstRand Bank Limited and provides services to individuals, commercial banking, corporate banking, and public sector banking. It is also dedicated to giving back to the community by supporting nonprofit organizations and institutions that help to empower and develop the community.

FNB Banking Operations, a division of First National Bank, employs more than 1,100 people and has annual revenues of US$30 million.

The check processing function for FNB had been partially outsourced and decentralized from the organization. In 2000, a decision was made to centralize this function, and its related back office services, into FNB Banking Operations by 2002. The challenge put forward to management and staff was to process a check at a targeted cost.

To meet this challenge, a scorecard system was introduced and used in conjunction with three other complementary initiatives:

- An activity-based costing system
- An emphasis on gathering, extracting, and applying accurate and detailed MIS information
- A productivity measurement model

SCORECARD USE

A critical element for reaching the processing target cost was the ability to share measurements and objectives in a simple, yet detailed manner to all staff. This was the role of the scorecard.

FNB Banking Operations' top management provided the impetus to implement a scorecard system to help manage and communicate organizational enhancements and process modifications.

Specifically, the scorecard system was implemented to help:

- Communicate new strategies to everyone simply and clearly
- Translate new strategies into operational terms
- Align employee behavior with new strategic objectives
- Measure people, projects, and strategy
- Link and align the organization around strategy
- Track progress towards achievement of organizational goals
- Connect people to what they do everyday with something more meaningful than simply financial data

For the scorecard system to be successful, top management set a one-year implementation deadline for having the system working. Within a few months of implementation employees accepted and began using the system.

IMPLEMENTATION

FNB Banking Operations used external consultants in the initial implementation. Although the chosen time frame of implementation was short, the system was up and running quickly using in-house tools with minor modifications. FNB Banking Operations tracks fewer than twenty composite measures, half being financially oriented and half being operationally oriented, and all of which appear on one or more of the scorecards. Only six of these measures are needed to accurately represent the overall financial performance. Most of the measures on the scorecards have targets and the company is working towards having targets for all its measures.

Banking Operations believe that linking scorecard measures to the compensation and reward system has been a large motivating factor for its employees to work in congruence with its strategy. Many of the measures appearing on the scorecards are the same as those that support FNB's long-term strategy. As the company has been using scorecards for a few years, it employs a well thought out process when creating a new measure or adding one to a scorecard: it does not allow simply adding measures at will. When introducing measures or strategic objects to the Balanced Scorecard, FNB uses the SMART criteria (Specific, Measurable, Achievable and Realistic, Time Bound) to consider whether they are:

- *Specific*—Ensure that the measure is clearly defined and its details are understood by all staff in the division or the organization. A clear definition of the cause-and-effect relationships between measures is also required.
- *Measurable*—Consider the ease and frequency of communication of the specific measure. Only system-generated information is used and results are thoroughly reviewed to ensure accuracy, completeness, and reliability.
- *Achievable and Realistic*—Stretched, but realistic targets are set. Rewards/incentives are introduced to encourage innovation to assist in meeting targets.
- *Time bound*—A deadline for meeting the target is agreed.

Ultimately, most of the measures on the scorecards are also linked to the long-term strategic plan.

FNB chose to use the Norton and Kaplan Balanced Scorecard framework to organize its scorecards. In order to link measures to its strategy, the company uses both a responsibility and weighting method. FNB first adopted scorecards for upper management. When it was ready to roll out the scorecard system to the rest of the organization, it chose to create and then roll out additional scorecards to individual departments, units, and so forth. The company currently has created scorecards to measure performance for:

- The organization (FNB: Banking Operations)
- Teams

- Divisions
- Customers
- Functional areas
- Products/services

FNB Banking Operations believes that this rollout method helped achieve a high rate of employee acceptance and use of the scorecard system at the organizational, departmental, and individual manager levels. However, the company does not have plans to roll the scorecard system out to every individual in the organization. There are currently seven units (approximately 20 users) using the information at all levels of management, and most of the information is distributed by e-mail to the user community.

FNB found it important for its cost accounting system to provide accurate cost data for the scorecards. The company uses activity-based costing, as well as other tools, to help it with costing accuracy. In addition, FNB believes that automating its data refreshing/loading is important to the overall success of the scorecard system and the company has been successful in automating part of the system already. Automation has been challenging because of the number of legacy systems, however the company is continuing to improve this.

BENEFITS

FNB strongly believes that the use of its scorecard system has driven performance improvement in its organization. The company attributes its 200% improvement in productivity, 75 percent reduction in unit cost, increased customer satisfaction and increased staff satisfaction to the introduction of scorecards.

FNB believes that the system has helped it facilitate achieving sustainable alignment of its employees with the organizational strategy, as well as providing the ability to:

- Measure and track performance
- Measure and track strategy cause and effect
- Align employee behavior with strategy
- Make strategic decisions faster with better data

HIGHLIGHTED BEST PRACTICE

The division's CEO reviews no more than five measures to understand the overall performance of the organization.

Now that the scorecard system has been implemented, and is accepted and used by everyone, major changes in direction or strategy in the company can be rolled out in about six months.

OBSERVATIONS AND ANECDOTES

The scorecard initiative combined with the other three complementary initiatives also helped to achieve:

- A reduction in unit rates, despite declining check volumes and a fixed cost infrastructure
- Exceptional staff morale—the business unit achieved full accreditation by Investors in People
- Substantial savings for FNB
- Maximized economies of scale
- A centralized back-office function, which is easier to control and to drive best practices

CITY OF BOSTON

Boston, first incorporated as a town in 1630 and as a city in 1822, is one of America's oldest cities with a rich economic and social history. What began as a homesteading community eventually evolved into a center for social and political change. Boston has since become the economic and cultural hub of New England.

As the region's hub, Boston is home to nearly 590,000 residents, many institutions of higher education, some of the world's finest inpatient hospitals, and numerous cultural and professional sports organizations. Boston-based jobs, primarily within the finance, health care, educational, and service areas, numbered nearly 660,000 in 2002. Millions of people visit Boston to take in its historic neighborhoods, attend cultural or sporting events, and conduct business.

BACKGROUND

The impetus for implementing Boston's new scorecard system came from the city's top officials who wanted to increase responsiveness in delivering services to its constituents. They wanted to align resources to achieve the appropriate results of their strategy. The city had been tracking performance measures for a number of years, but they wanted to shift the culture of the departments to focus on performance as a priority. Matching funding with achieved outcomes and tracking performance for department goals had become a priority.

To renew their focus on performance they needed to:

- Make strategy everyone's job.
- Communicate strategy to everyone simply and clearly.
- Be better able to measure programs, projects and strategy.
- Measure performance at different levels in the city.

- Link and align the city's departments around its strategy.
- Track progress toward achievement of the city's goals.

SCORECARD USE

Mayor Thomas M. Menino and his administration are using the performance scorecards to effectively monitor the performance of his administration.

Several years ago, with the help of a Microsoft Access developer, the city created and began to use scorecards to manage performance. However, they found the system cumbersome to use and required intensive use of resources to maintain. It also lacked features (e.g., no graphs, inability to store data across multiple years, and inability to display information by alternate hierarchies such as by initiative or by theme). In an effort to focus attention on the achievement of strategic goals, the city decided to install a purpose-built scorecard application.

Biannually, Department Heads meet with the mayor to explain results of measures on the scorecard application and to present action plans. The scorecard application presents data as diverse as potholes reported and repaired, trash collection operation, and treasury investment return.

At a citywide level, Boston has organized its strategy and scorecards around eight essential goals grouped into three perspectives. They are:

- Fundamentals
  - Reduce violent crime.
  - Improve service at same or lower cost.
  - Grow revenue.
- Fairness, Equity, and Upward Mobility
  - Narrow health disparities.
  - Close the achievement gap.
  - Increase diversity in city services and jobs.
- Growing Economy and Good Quality of Life at Every Income Level
  - Increase housing supply to meet workforce demand.
  - Create new jobs.

The essential goals and perspectives are presented in the form of a strategy map, which has proven to be very effective in communicating the mayor's goals.

Boston ties strategy to departmental scorecard measures by the responsibility method.

Eighty to 85 percent of their scorecard measures have targets. They track about 1,000 measures each month, 70 percent of which appear on their scorecards. The remaining 30 percent are "context" or census type measures, which they use to understand the context of their business. For example, if they are running a program to reach the youth in Boston, they need to have census data on the number of youths by age group. These measures help to determine and implement strategy, but are not necessarily indicative of the outcome of the program.

IMPLEMENTATION

In July 2006, Boston rolled out its enhanced, application-based performance scorecard program under the name Boston About Results (BAR). In addition, Boston created a BAR Review Committee to review submissions for initiatives, measures, targets, and new scorecards. In September 2006, the mayor and his top aides began performance meetings with cabinet officers and department heads to discuss the results reported by the BAR scorecards.

Between 55 and 60 people use the system at any one time. City officials feel that the top three features that have made this application effective are: Web-based reporting, traffic lighting, and on-demand graphing capability. Having technology that enables them to progress without overburdening the Information Technology group is also important to them. Parts of the data collection have been automated and the city is continuing to improve this functionality.

Deployment of the BAR scorecard application took about three months, with the assistance of one outside consultant. Boston felt a quick implementation was possible because:

- They already had the structure and content for reports that they wanted.
- They already knew what the appropriate measures were, and in many cases had already been collecting them.
- They had purchased software that was robust and contained the features they needed.
- The consultant had implementation experience and experience with their chosen software package.

Once implemented, the system was quickly accepted and used by Boston's employees.

BENEFITS

The city wanted the scorecard initiative to introduce a cultural change to a renewed focus on performance. Boston strongly believes that they are seeing this cultural shift. The scorecard reports have facilitated the mayor's performance-based meetings. Each department head is now able to report on operational performance as well as financial measures. Along with maintaining measures, targets, and new scorecards, the BAR system has had a positive impact on attaining employee acceptance.

Because the BAR scorecard system has enhanced feedback to responsible managers and department heads, adjustments to the strategic plan can be made quickly. Use of the BAR scorecard system has definitely helped to drive performance improvements.

HIGHLIGHTED BEST PRACTICE

Boston has renewed its focus on performance and, according to Conor McEachern from the Office of Budget Management for the City of Boston, "Scorecards enable you to have the conversation about performance.'' McEachern wanted to share some sage advice and what he feels are some of the best practices uncovered during the process of undertaking their scorecard initiative:

- *Create a formal review process.* Take the time to build a team/committee and enable them to review submissions of initiatives, measures, targets, and new scorecards. The BAR Review Committee added greatly to employee buy-in at the City of Boston, was instrumental in getting the system up quickly, and helped to manage changes.
- *The right measures and the appropriate number of measures.* In addition to the BAR committee, a team of management analysts in the Office of Budget Management plays an equally important role in managing the number of measures. This helps ensure that the administration of the scorecard system is not impossible. Utilizing automatic data feeds and having the technology to provide required features and reports takes pressure off of the Information Technology department.
- *Standardize measures across the departments.* Standard measures enable you to see how each department or business unit is helping to move the organizational strategy forward. For example, to support Boston's objective of Increase Diversity, all departmental scorecards track measures related to diversity.
- *Proper messaging.* As early as possible, let departments and all others affected know what you are trying to achieve. Do not wait until the system is implemented—make sure the messaging is done well ahead of creating scorecards. A lack of knowledge can hinder communication and employee buy-in.

McEachern advises organizations to:

- *"Develop a solid understanding of how you want to organize performance in the organization."* The City of Boston had a structure in place already since they were moving from a homegrown system to an off-the-shelf application. Without this infrastructure in place, it would have taken a lot more time.
- *"Communicate well and often."* Include messaging, training, and explain how the rollout will happen prior to rolling out the scorecards. During this implementation and rollout, in addition to the mayor and the department heads, Boston chose to put scorecards on the desks of the mayor's cabinet members too. This was not done previously and contributed greatly to buy-in by the cabinet.
- *"Integrate performance into major projects and initiatives.*'' Including a performance component into major investments and policy initiatives has been critical in enforcing the discipline needed to create a performance culture, to improve transparency, and to focus on results.

ANECDOTES

The City of Boston plans to make their performance metrics more readily available to the public. Currently they are only publicly available in the city's annual budget documents. They will do this through the addition of Web pages to the City of Boston Web site. Boston feels that transparency and accountability are important to its continuing success.

For now, the perspectives they are using are adequate, but they might consider adopting a more formal set of perspectives, such as the Balanced Scorecard.

HOSPITALITY SERVICES COMPANY[2]

Hospitality Services Company (HSC) connects people with the world's greatest travel and leisure possibilities by retailing travel products and providing distribution and technology solutions for the hospitality industry. HSC supports travelers, travel agents, corporations, and suppliers through its affiliated companies. The company is represented in many countries, with revenues in excess of $US1 billion.

In 2004, the hospitality industry faced challenges such as rapid incentive growth and channel shift within the business—including the emergence of direct to consumer models, consolidation, slowing online growth rates, and financial pressures driven by low-cost providers. Additionally, well-capitalized and new low-cost competitors, as well as online and offline consolidation, were compounding the need for faster development times and content superiority.

Internally, HSC experienced a myriad of people and process issues: consumption of executive bandwidth on merger and acquisition opportunities and emerging businesses, looming key customer contract renewals, underperforming initiatives, international growth complexity, unrealized synergies across business units, frustration with performance incentive payouts, and lack of visibility into operating plans and results.

An examination of HSC's Total Shareholder Return during 2004 showed an organization that was trailing in the market as well as within the industry. HSC was perceived by many of its large shareholders as a declining annuity that was challenged by the many businesses that had been acquired over the past couple of years. To reverse this trend, the leadership team knew they had to align the entire organization around a common strategy if the company was to achieve its longer term goals.

SETTING THE STAGE

The lack of communication regarding the organizational strategy and its ineffective execution led the Chief Executive Officer (CEO) of HSC to observe that only "about 25 percent of our strategy is effectively executed." It was recognized throughout HSC that core business processes were not integrated and that senior management was not in agreement on objectives and how to measure them. With lack of agreement and alignment at the senior levels, it was no surprise that the communication of the strategy throughout the company and how everyone contributed was ineffective.

HSC's Corporate Finance Team had several observations and unanswered questions regarding their performance challenges:

- Why do we seem to sacrifice the long-term for the short-term?
- Do we even have a strategy?
- We measure many things, just not what matters.
- The budget is obsolete before it is finished.
- How is what I'm working on important?
- We never hold people accountable.

Previous efforts to improve the situation had not provided the desired results. A cost benchmark study had found broad areas for improvement, but supplied no roadmap for aligning cost improvements with strategy. While referenced often, there was no clear route to achieve the desired efficiency improvements and the organization remained stuck in place. To compound matters, a prior scorecard effort had failed due to complexity, lack of executive sponsorship, and lack of alignment with incentives. This failed attempt meant that any similar endeavor would require significant effort to overcome the stigma associated with its predecessor.

The initial project sponsored by Corporate Finance was to improve the budget process. While developing the case for change for this initiative, the finance team recognized that the issues being uncovered were much broader than the budget itself. While efficiency improvements within the budget process could be achieved, improving the quality of the budget, changing the corporate budget culture, and creating a more market responsive organization would not be addressed through this project. Additionally, they recognized that true business drivers and levers available to management were not found in the budget detail.

With a new management team in place and a mandate for change, HSC's Corporate Finance team was ready to aggressively address its issues. While the sponsors were well read on many management principles and agreed with the concepts of these readings, they knew that to succeed, the HSC culture must adopt these best practices. To help them bridge the gap between theory and practice, they sought assistance from a consulting partner experienced with Corporate Performance Management (CPM) transformations.

SCORECARD USE

The new HSC management team had set aggressive, inspirational goals:

- To make HSC the world's most far-reaching travel marketing company (and set an aggressive revenue stretch target by 2008)
- To increase the value to customers by providing efficient distribution of hospitality products combined with superior merchandising, built upon global content, leading technology, and customer insight

To achieve these goals, they recognized they needed a better way to measure and reward progress. Existing metrics were primarily geared around performance relative to negotiated budgets. Initial efforts to achieve alignment through budgets were acknowledged as falling short of the intended results. Recognizing that no other part of the organization was better positioned to champion change, Corporate Finance expanded its role beyond the keepers of the numbers to include that of corporate strategic alignment. Under the leadership of the Corporate Vice President and Controller, Corporate Finance sponsored an initiative that called Corporate Performance Management (CPM) to improve HSC's performance by better alignment of strategy, initiatives, measures, and rewards.

The initial charter for the CPM initiative included:

- Enhance the traditional strategic planning processes by providing a better discipline for planning and executing strategy in an increasingly turbulent environment.
- Establish a "system of sensors" to accelerate identification of, and response to, emerging opportunities and threats.
- Create planning applications that focus on key drivers of the business in order to reduce both complexity and effort.

IMPLEMENTATION

Phase 0

The first step was to gain consensus on the current state and create a shared vision of the future state with a multi-phased roadmap for getting there quickly. To support the attainment of these milestones, HSC established a common vocabulary for integrated CPM, gained sponsorship, commitment, and resources to execute the roadmap, and assigned roles for key CPM initiatives. The business units and various shared services functions within the holding company shared accountability for discrete CPM tasks and Corporate Finance supplied sponsorship and "air cover" for the change program. They tracked CPM progress through monthly steering committee meetings and resolved cross-functional issues via constant communication within the executive team.

During this initial phase, corporate finance recognized that they needed a communication mechanism to demonstrate the connection between the major processes within this integrated CPM framework. According to a vice president of the consulting company, this framework (see Exhibit A.1) was instrumental in communicating the linkages between the processes and in gaining consensus on how to move forward.

Armed with funding and executive consensus on the CPM program objectives (see Exhibit A.2), the process for improving performance was underway.

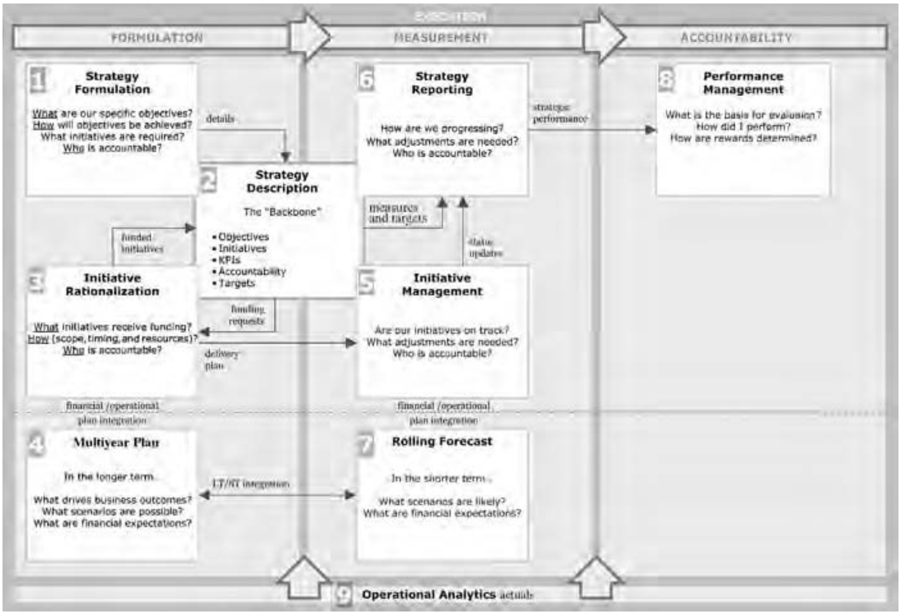


Exhibit A.1 Integrated Corporate Performance Management Framework

Phase 1

Corporate Finance created a strategy map for the three business units (BUs). The strategy map structure was closely aligned with Kaplan and Norton's Balanced Scorecard framework to show the strategy and its major components. They recognized at the outset that by starting with the BUs there would be some conflict and misalignment, but this could be resolved iteratively while both BU and Corporate strategies were updated.

Phase 2

Through the strategy maps, Corporate Finance identified strategic threads that ran throughout HSC, which became key to formulating HSC's strategy. For each objective on the strategy map, they established two to three key performance indicators (KPIs) with an initial target. While evaluating the targets, they found many of the targets had been set lower than current attainment—reinforcing the need to move away from a budget/entitlement culture.

At this point, they associated a list of current initiatives with the strategic objectives and found that more than 65 percent of discretionary spending was aligned against a single area not core to the strategy. Immediate steps were taken to reduce funding in this area. New business development advisory council meetings took on a new flair as initiatives were discussed in relation to the strategy, not as isolated items.

Exhibit A.2 CPM Program Objectives by CPM Process

Strategy Formulation	• Increase the frequency of strategy reviews. • Schedule and deliver "deep dives" on key strategic topics. • Make outputs increasingly descriptive and actionable.
Strategy Description	• Develop select strategy maps, strategic themes, and objectives. • Develop select scorecards to track both financial and operational key performance indicators (KPI). • Establish KPI targets.
Strategy Reporting	• Expand dialogue—complement financial variance analysis with discussion of leading indicators, including status of initiatives. • Focus the dialogue—define performance ranges and manage exceptions. • Make dialogue proactive—ensure necessary course corrections occur.
Initiative Rationalization	• Use strategic objectives and financial return to guide capital allocation. • Provide better information upon which to decide investment initiatives. • Streamline and increase the frequency of the process.
Initiative Management	• Report initiative progress in the context of strategic objectives and accountabilities for delivering strategic results (not just project completion). • Track both pre-implementation status and post-implementation results in conjunction with strategic objectives.
Performance Management	• Use the HSC performance management process to align team/individual accountability with strategic objectives. • Link variable incentive plan funding to a combination of financial and strategic performance.
Rolling Forecast and Multiyear Planning	• Develop a simplified, driver-based, 6-Quarter rolling forecast application to improve visibility, maintain accuracy, and reduce effort. • Tighten ties between targets employed by financial and operational planning processes.
Operational Analytics	• Define/prioritize opportunities to deliver data and analytical applications.

Phase 3

Corporate Finance recognized that realigning targets and incentives with the new operational model would be key to long-term viability. While elements of the former plan were retained, they developed a new model that contained a mix of shared HSC goals, short-term performance targets, and long-term health indicators. The targets were structured to encourage realization of stretch targets, not just achievement of the negotiated one-year budget. This iterative process took time to align the strategy, goals and operational plans to arrive at the correct mix of specific metrics and related targets.

Phase 4

With the organization aligned around the strategy, it was time to provide more visibility into expected outcomes. The old forecast process focused upon financial results for the remainder of the year, which created a void in understanding how one year rolled to the next and a gap between operational and financial results. A rolling forecast that contained the operational drivers linked to the financial results was developed. This dynamic, six-quarter outlook provided better insight into trends and operational metrics. After gaining confidence in the rolling forecast, the Finance Team was ready to eliminate much of the detail found in the traditional budget. They used the rolling forecast to create a baseline budget augmented by additional detail for some of the support organizations. The overall length of time and total amount of time to complete the budget was greatly reduced while focusing on resource alignment for macro trends. To support this reduction in budget detail, additional analytical capabilities were made available. Instead of focusing on budget variance, more focus was placed on time series analysis, trends, peer comparisons, and metric/ratio analytics. The Corporate Finance Vice President noted that we are ‘‘much more accurate since we went to a rolling forecast and better about controlling expenses.’’

BENEFITS

HSC’s CEO noted, ‘‘Our CPM program has helped us focus on the business as a whole and build alignment across the enterprise.’’ Through this better organizational alignment, the CPM program generated other benefits:

- A more focused strategy and more productive strategic planning meetings—with insights on how to close known performance gaps
- Ties established between corporate-level strategy and BU strategies
- Increased speed of decision-making
- Greater discipline and better alignment of investment decisions with strategic priorities
- More insight into why KPIs are trending in certain directions and how to improve the trends—due to forecasting performance beyond fiscal year parameters
- The ability to base executive compensation on the long term strategic health of the business—not just last quarter’s profit and loss results
- Confidence that mission critical strategies can be successful—not just ‘‘pie in the sky’’ exercises

- Aligned incentives for strategy execution
- A compressed annual planning cycle that takes 67 percent less time to complete, with greater accuracy—all while providing more monitoring and control capabilities

HSC expects that strategy execution will improve as a byproduct of increased clarity, enhanced communication, improved visibility, greater agility, and better alignment of resources with strategy.

SUSTAINING PROGRESS: WHAT REMAINS TO BE DONE

Additional phases of the CPM initiative are underway to make strategy execution a sustainable competency within the organization. Subsequent phases of the CPM initiative will focus on continuous improvement:

- Refine drivers in the multi-year plan and rolling forecast to match strategic goals.
- Refine strategy maps and KPIs, particularly leading indicators.
- Create tighter linkages between initiatives and the results expected.
- Establish clear accountability for results.
- Improve reporting process to drive faster decision making on corrective actions.
- Improve analytics for deeper analysis of business drivers.
- Continue educating the organization on CPM best practices.

HSC's journey is not over and significant challenges remain:

- A tendency to add measures without removing any is creating "KPI overload"
- Balancing short-term and long-term objectives with appropriate funding decisions is a continuing struggle
- Breaking the budget culture will take a period of time

Going forward, the new HSC strategy organization will own primary responsibility for sustaining the CPM program.

BEST PRACTICES

Through the CPM program, HSC established five Guiding Principles to help guide them through the journey:

1. *Strategy Focused*. The big levers are clearly defined and the majority of our time and efforts should be aligned with making these things happen.

2. *Trust.* The organization trusts the management team to execute against the strategic plans that have been agreed upon and we will openly and honestly communicate where we stand to key stakeholders.
3. *Accountability.* Clear accountability for execution is in place and we will subject ourselves and each other to very high standards that drive shareholder value for the organization.
4. *Balanced.* Existing processes focus on the current fiscal year; we want to focus the organization beyond the limits of the current fiscal year and incorporate a continuous planning and improvement culture.
5. *Dynamic/Agile.* Simplify and reduce budget detail and quickly respond to changes in the marketplace as we strive for continuous improvement.

At a recent Chief Financial Officer (CFO) event, HSC's Corporate Finance Vice President offered these tips:

- *Remodel, don't rebuild.* There will be significant change as a result of the CPM initiative; keep as much of the structure as possible while changing the content to reflect the new process.
- *Order matters.* Change in some areas is predicated on change in others; without ordering appropriately, limits will be placed on what can change or how accepting the organization will be of the change.
- *Stay flexible/expect resistance.* Executive involvement is key to providing the leadership needed to achieve change while providing the correct pace that can be sustained by the organization.
- *Embed consultants.* Deep subject matter expertise is needed to keep the entire program synchronized while not losing sight of the ultimate objective.
- *Never quit.* It is a journey without a defined end; celebrate successes along the way and do not allow pockets of resistance to stop the progress.

ANECDOTES

As this book goes to print, HSC is being acquired by a private equity firm. During the review process, HSC leadership was commended on their CPM program as one of the "best encountered." More important, significant improvements over the prior years were directly attributable to the CPM program (e.g., increased cash flow) and resulted in an offer 50 percent over market capitalization.

FUJITSU SERVICES OY

Fujitsu Services Oy provides information technology (IT) services in Finland, assuming full responsibility for its customers' IT and infrastructure, and their enterprise applications. This service makes it possible for Fujitsu's customers to focus on their own applications, enabling them to be more competitive.

Fujitsu Services Oy, with a workforce of 2,300 people, operates in 50 cities in Finland and has annual revenues of more than €300 million.[3]

SCORECARD USE

Fujitsu's scorecard application was implemented in its banking and insurance services. It uses the scorecard system to help manage its strategy, as well as to manage day-to-day operations.

The organizational mission, vision, strategy map, and an organizing framework are seen as important elements of Fujitsu's system and the company uses this system to communicate its vision and strategy to its employees.

Fujitsu views performance measurement, activity-based costing, budgeting, scorecards, strategic planning, and strategic alliances as important elements of its cost and strategy management system. These tools and techniques are important drivers in achieving its vision.

The company decided to implement a scorecard system for several reasons. One of these was that prior to the implementation, the organization's strategy and objectives were viewed as being too abstract. Other reasons for implementation of the system included:

- The need to communicate strategy to everyone simply and clearly
- The ability to translate strategy into operational terms
- Having measures at different levels in the organization
- Systematizing the existing scorecard process and providing data more frequently
- Correlating measures and actions to understand cause and effect
- Aligning the organization around its strategy
- Achieving progress toward achievement of organizational goals
- Linking compensation to performance

IMPLEMENTATION

Motivation for implementation of scorecards was provided by top management. Fujitsu used a tailored version of the Kaplan and Norton Balanced Scorecard framework. Not all measures on the scorecards have targets.

Fujitsu ties its scorecards to strategy using a weighting method. This entails assigning weights (to denote relative importance) to each perspective and measure on every scorecard. The measures support various strategic objectives and are combined (or rolled up) to determine the overall score at the company-level.

Fujitsu tracks about 20 measures, but reports only a portion of those measures (those that are important to strategy) on executive scorecards. Of the measures being tracked, 40 percent are financial, 40 percent are nonfinancial, and 20 percent are mixed.[4] It is also important to Fujitsu that it have accurate cost information in order for their scorecard system to be successful.

Fujitsu executives review six to ten performance measures to understand the status of the overall organization. The company feels that it has identified and is using financial indicators that are key to its overall financial performance. However, it is still refining its other measures to ensure that they are well balanced and represent all parts of the business. The company has also tried to ensure, as much as possible, that the measures on its corporate scorecard are the same as those used to set its annual and longer-term goals.

In addition to highlighting the company's overall performance to top management, the system also reports the performance of individual managers, the divisions and major accounts. Future plans include developing scorecards for the departmental level as well.

To encourage employee acceptance and usage of the system, Fujitsu has linked its compensation and reward system to the scorecard system. It believes that this has helped in motivating employees to work in congruence with the overall corporate objectives.

Automating the scorecard system has proven difficult, but the company is continually working on improving this. Currently, it has only some parts of the system automatically updated.

BENEFITS

In the three years since it began to scorecard, the company believes that this system has provided valuable feedback to its managers, and has helped it adjust the strategic plan for successful execution of the overall company strategy.

Fujitsu believes that the major benefits of its scorecard system are that it has:

- Driven performance improvement
- Achieved sustainable alignment throughout the organization as it has grown
- Achieved increased communication of its strategy to its employees by deploying its scorecard system

Additionally, Fujitsu also has improved its ability to:

- Measure performance
- Link performance to compensation
- Understand cause and effect for measures and strategy
- Align employee behavior with strategy
- Make strategic decisions faster

Now that the system is in place and is being adopted and used by the employees, Fujitsu is able to roll out a change to its organizational strategy in three to six months.

HIGHLIGHTED BEST PRACTICE

Fujitsu believes that the use of scorecards complements other management initiatives, such as performance measurement, activity-based costing, budgeting, strategic planning, and strategic alliances. Together, these initiatives help it successfully manage its entire business.

ANECDOTES

Fujitsu sees possibilities in being able to implement the measurement systems together with strategic partners to enable it to analyze and define the optimal business focus of the networking partners and their mutual interfaces.

FINANCIAL SERVICES COMPANY[5]

Financial Services Company (FSC), through its brokerage subsidiaries, provides a dynamic balance of investment products and services to benefit its individual investors. The company's services, which include a leading active trader program and long-term investor solutions, take advantage of a national branch system and relationships with a large network of independent registered investment advisors.

At the beginning of 2003, FSC had reached a point where key strategic choices had to be made and executed effectively. High expectations regarding the performance of the organization by both internal and external stakeholders required improved focus, alignment, and ownership of the corporate strategy.

SCORECARD USE

Prior to undertaking the effort to manage performance through the use of scorecards, most strategic discussions at FSC focused on the performance of tangible financial goals. Now, scorecards and a ''scorecard process'' extend the context for the company's expected financial outcomes by including discussions about:

- The specific, relevant, differentiated value that is expected to be delivered to targeted sets of customers
- The processes required to deliver this customer value
- The set of capabilities, technology, and culture necessary for enabling these processes

The corporate scorecard defines expectations for revenue and productivity improvement for the company overall, while Business Unit and Functional Area scorecards define how the different components of the company support the corporate goals. The scorecards communicate the answer to several strategic questions, including:

- How are we going to grow and by how much?
- How are we going to improve productivity?
- What segments do we target?
- What time frames are reasonable?
- What is our value proposition to clients?
- Who is responsible for the strategic initiatives to drive improvement?
- What initiatives will drive this improvement?

FSC believes that the *process* of using scorecards is as important as the *content* of the scorecards themselves. The scorecard process has established a management rhythm for discussing, altering and taking action on the business performance. FSC's approach:

- Establishes understanding and consistency in the business vocabulary used by leaders when discussing strategic performance
- Establishes a common presentation format for meetings focused on managing strategy
- Defines the roles and responsibilities for taking action on strategic priorities
- Provides a formal schedule for when these meetings occur

The scorecard implementation was an important component of the company's integrated Corporate Performance Management (CPM) strategy. The CPM strategy establishes and drives performance for the organization through its objectives, priorities, and targets. The executive team recognized that scorecard efforts are unlikely to be successful if strategic planning, business planning, initiative prioritization, and incentive compensation processes are not aligned. A Managing Director observed that "moving from financial reporting to strategy reporting without engaging the other CPM components is unlikely to drive performance improvement." The scorecard serves as a tool for aligning objectives horizontally and vertically throughout the enterprise and as the platform for driving strategy into management of the company.

IMPLEMENTATION

FSC used a modified version of the Balanced Scorecard framework and strategy map approach. Although there was sponsorship at the executive-level, there was not universal buy-in across the executive team to focus the first phase at the top of the corporation. As a result, the initial pilots in 2003 were for its largest business unit and the finance organization.

Not starting at the top of the organization introduced some issues for FSC. The absence of formal enterprise alignment caused some confusion on strategic priorities and, initially, caused a proliferation of measures.

Both pilot projects, however, recognized the need for a formal approach for managing strategy and, just as importantly, a willingness to try new things. The success experienced by these two groups planted the seeds for the broader, top-down approach in place today. They also served as a pilot for testing out implementation and sustaining strategies. This valuable learning provided insight into what was required to get broad support across the company, then implement and sustain the effort long-term. Specific lessons learned include:

- Modify the theory to fit the executive team's management style and language.
- Know that you will not gain full traction until the executive team is fully engaged, but your actions can increase their engagement.
- Create Strategic Partnerships within your organization (Finance, HR, etc.).
  - Create buy-in.
  - Tie in departmental processes—budgeting, communications, training, and so forth.
- Don't wait until everything is perfect to get started—just do it.
- Expect the process to be iterative.
- Keep it flexible.
- Small wins will lead to big wins.
- Get established, then automate.

BENEFITS

FSC developed comprehensive strategy maps to clearly articulate the cause-and-effect relationships of various FSC objectives and scorecards to describe the measures, targets, accountabilities, and initiatives required for success.

These views resulted in new insight into organizational structure and the value of managing both tangible and intangible assets. They also presented a common language for identifying and capitalizing on synergies across the organization.

Ultimately, the scorecard effort provided the guidelines for the CPM processes that drove meaningful performance improvement and shaped ongoing strategic discussion.

HIGHLIGHTED BEST PRACTICE

- Integration with additional CPM processes
- Ability to drive enterprise acceptance from initial pilots in the middle of the organization
- Ability to drive change initially through influence rather than authority, observing that "redundant reporting and turf battles arise if you don't gain broad buy-in"

ENTERTAINMENT SUBSCRIPTION COMPANY[6]

BACKGROUND

The Entertainment Subscription Company (ESC) provides proprietary content (music, videos, live content) to its subscribers though hand-held, mobile devices. This rapidly growing company has made large technology investments in many disparate systems. Its disparate systems have created an environment that they, themselves, describe as being "data rich and information poor."

ESC is a young organization and hasn't developed an appreciation of the value of data and the need for consistent metric and data definitions. Within sections of the company, an entrepreneurial spirit and a tendency to be very protective of data and results have created a silo model that limits visibility throughout the organization.

As a consequence, the company's strategic initiatives are not universally understood and employees are unsure of their role in supporting the strategic plan.

SETTING THE STAGE

To provide better focus on its operations, ESC developed six strategic objectives. The objectives addressed improving customer insight, market understanding, and partner alliances that would ultimately lead to a highly profitable organization.

Recently, the new executive management team chose to drive the need for better visibility into the organization. From experience with a previous company, they had developed a positive impression of the use of scorecards and operational dashboards. They hoped that these analytical tools would take ESC's strategic objectives from glossy posters to something that would live within the organization.

SYSTEM DESIGN

ESC took a unique pilot project approach to introduce a scorecard culture. In an effort to develop quick wins to foster buy-in for the process, they chose to implement a reporting system that would initially sustain one strategic objective, Customer Insight. They hoped to gain a stronger customer focus through a clearer understanding of the drivers of the customers' buying behaviors.

This initial implementation was designed for use by the executives, senior managers, and the 100 department managers, who were looking for a system that provided not only a historic view, but a framework of predictive measures.

The initiative was driven by a Scorecard Governance Council sponsored by senior executives of the company. Along with a consulting partner, the Scorecard Governance Council was in charge of overall project management and the need to drive education and adoption of scorecards into the organization.

There were often strong political opinions to deal with during the project and there was a need to build consensus around measures. The Scorecard Governance Council helped to resolve these issues and their facilitation and project management skills were instrumental in maintaining the project's forward momentum.

An early consideration of the project was the need to access data from more than a dozen operational systems. The Scorecard Governance Council knew that accuracy of data was critical for the acceptance of scorecard system. Much design work was needed to define the appropriate data mapping and data model design to support the scorecard application. Consideration of the ability to scale to support data requirements for future phases were important. Otherwise, the acceptance of the scorecards could be short-lived, since employees could become frustrated with the latency of updating the scorecard metrics.

IMPLEMENTATION

Awareness of and need for the use of scorecards was initiated at the executive level of the company. This level of sponsorship increased the chances of early scorecard adoption and allowed the project to start on the right foot. It also improved the visibility of the project within the organization and encouraged resources to align with the company's strategic direction.

Because of the complexity of tying together information from the underlying systems, a consulting group was used to design the system and develop the scorecard application. The consulting group also assisted the Scorecard Governance Council with design and project management.

The Scorecard Governance Council kept the executive sponsors engaged and updated on the progress, and the executive officers were key users of the pilot implementation. The council recalled that the executives wanted to achieve *tangible results*—information that would permit better decisions in support of the customer insight objective.

An iterative approach (see Exhibit A.3) enabled users to kick the tires on the initial working prototypes—they could see it, touch it, and provide timely feedback during the development. Early in the project, they were able to easily expose accurate results for key analytics, such as churn rates. This quick win helped to foster early buy-in from the organization's management.

BENEFITS

The iterative nature of selecting and updating metrics enabled ESC to highlight metrics that were key drivers into the success of their customer behavior. They were able to define customer patterns and the metrics that should trigger customer retention efforts. This led to a significant increase in the number of in-jeopardy customers the company was able to retain.

Through better tracking of campaign analytics, they are now able to make more informed decisions about how to focus campaigns to attract and retain the higher target customers.

The flexible nature of the iterative solution provided ESC with accurate insight into the performance of the organization. They were able to show direct correlation

Exhibit A.3 Development Approach

between operational metrics and higher strategic metrics throughout different sections of the organization, providing the ability to track initiatives and identify root metrics that are key drivers and/or predictive of performance.

SUSTAINING PROGRESS: WHAT REMAINS TO BE DONE?

Customer Insight was the first strategic objective that ESC wanted to address—and the iterative process introduced a robust solution in just over a year. But the architecture, data, and applications developed for this scorecard were designed to be scalable. As support for additional strategic objectives is introduced, the number of metrics and data will increase in order to be used by 800 to 1,000 users.

Although initially ESC did not use a formal organizing framework for their scorecard implementation, it became apparent that once all the strategic objectives were supported, the resulting system had many characteristics of a Balanced Scorecard implementation. This is illustrated in the multiple perspectives represented by the strategic objectives, and use of leading and lagging measures.

BEST PRACTICES

Throughout the process, several key lessons were observed and reinforced:

- An iterative approach provides value quickly and often.
- A working prototype will encourage buy-in via the ability to see it, touch it, and use it.

- Engage frequently with the executive sponsorship committee; form a scorecard council.
- As things change over time, your solution needs to be sustainable, flexible, and scalable; but keep the long-term vision in mind.
- Ensure a solid data foundation from which to build a scorecard application—the need for additional data and analytics often comes quickly after release of scorecards. This approach enables consistent enhancements to the solution and increases the successful adoption of scorecards throughout the organization.

PFIZER

Founded in 1849, Pfizer Inc. is dedicated to better health and greater access to healthcare for people and their valued animals. Its purpose is helping people live longer, healthier, happier lives. Its route to that purpose is through discovering and developing breakthrough medicines; providing information on prevention, wellness, and treatment; consistent high-quality manufacturing of medicines, consumer products; and global leadership in corporate responsibility. Every day, Pfizer helps 38 million patients, employs more than 100,000 colleagues, utilizes the skills of more than 12,000 medical researchers, and works in partnership with governments, individuals, and other payers for healthcare to treat and prevent illnesses—adding both years to life, and life to years.

SETTING THE STAGE

Pfizer acquired competitors Warner Lambert in 2001 and Pharmacia in 2003. While these acquisitions brought resources and capability unmatched in the industry, a somewhat fragmented and asynchronous "new" Pfizer resulted. Very large organizations in their own right, Warner Lambert and Pharmacia brought their own way of doing business—their own operating models, business processes, information systems, and cultures. Pfizer's challenge was to integrate these newly acquired organizations in a timely manner, while identifying and adopting best practices from each. In many Pfizer business units, this effort was assisted by the use of performance scorecards.

Pfizer's Global Operations (PGO) was one of the business units to leverage scorecards to drive the integration effort and ensure the capture of best practices. PGO provides operational, supply chain, facilities, and workplace services to many of Pfizer's over 100,000 colleagues. With an annual operating budget in excess of US$1 billion and more than 1,000 employees, PGO operates in nearly every major worldwide market.

As a result of the integration process, PGO adopted a *matrix* reporting structure—reporting to a site leader locally and to a world-wide functional leader. Senior business leaders felt that this matrix structure was most conducive to achieving the company's key integration objectives—to quickly identify legacy best practices and deploy them globally. ‘‘Network Teams’’ consisting of functional leaders from Pfizer’s various sites, were formed to identify, prioritize, and implement global best practices. Three Network Teams were formed in Global Operations:

- Asset Management Team
- Workplace Services Team
- Risk Management Team

Each team relied heavily on scorecards to help identify best practices. Ultimately, the teams began to rely on scorecards as more than just an integration tool. Today, scorecards are a foundational component of PGO’s ongoing Continuous Improvement endeavors.

STARTING WITH STRATEGY

PGO’s senior leadership recognized that a successful integration is dependent on unifying *all* employees behind a single set of strategic objectives. ‘‘Starting with strategy’’ yielded several benefits. Most notably, this approach ensured a single, unambiguous definition of organizational ‘‘success.’’ By starting with strategy, Network Teams had a clear understanding of the criteria to use in driving integration activities and designing go-forward business processes. There was no longer a debate whether success meant low cost, or high speed, or unmatched quality and reliability. The organization’s strategic objectives provided the ‘‘right’’ pathway to follow.

Another benefit of starting with strategy was that it provided a framework for the organization’s scorecard efforts. While various criteria were used to determine scorecard measures, the most important criterion was that the metric must link directly to a strategic objective. That is, the measure must support and drive attainment of strategy. A proposed measure that did not align with strategy was excluded from the scorecard.

USING SCORECARDS TO DRIVE STRATEGIC ALIGNMENT AND BEST PRACTICES

By linking measures to strategic objectives, all PGO employees had a direct line of sight into how their day-to-day activities impacted and influenced attainment of strategy. Further, PGO’s senior leaders had the ability to readily track and monitor overall progress of the organization. This bilateral alignment was supported by drill-up/drill-down functionality within PGO’s online scorecard application.

Since all measures (even ‘‘shop floor’’ metrics) cascaded from high-level organizational objectives, employees at the lowest levels of the business could drill-up beyond their own scorecard to determine how performance of their function was impacting performance of the entire business. Similarly, the senior-most PGO leaders could drill-down to identify specific areas or functions impeding attainment of strategic objectives.

Strategic alignment was further fostered through the inherent structure of the scorecards. All scorecards, like those for the strategic objectives of the organization, were established in a balanced fashion. PGO adopted five balanced perspectives from which all strategies and resulting measures were defined:

- Processes
- People (employees)
- Customers
- Finances
- Services

This balanced structure enabled all levels of the organization to communicate using a common and consistent framework—another hallmark of end-to-end organizational alignment.

In addition to promoting strategic alignment, performance scorecards were also used to drive identification and adoption of best practices during the integration process. Specifically, scorecards were leveraged to objectively identify internal best practices by allowing "apples-to-apples" comparison of performance across sites. For example, the internal supply chain function at Pfizer's R&D sites, part of the Asset Management Network Team, was managed by PGO. Each site's supply chain organization maintained a scorecard and compared monthly performance results to its peers. Best performers within all of PGO's five scorecard perspectives were readily identified and benchmarked. A site with the fastest cycle time or the lowest cost per transaction could be readily (and objectively) identified. Once identified, underlying business processes were studied and often implemented at other sites around the world.

Once the integration effort was completed and business processes were selected and implemented, the Network Teams began to use scorecards to drive ongoing improvement within their respective functions. Scorecards served as the foundation for a cultural transformation within PGO—from a culture of complacency to one tirelessly focused on continuous improvement.

While this transformation wasn't always easy, it has yielded impressive results. Costs have been dramatically reduced, cycle times and service quality have improved, and customer satisfaction levels have soared. The introduction of target values played an important role in this overall transformation. Rather than limiting performance benchmarks to other internal sites, target values were established to reflect industry-wide best practices.

An illustration of how external benchmarks could be used to drive target values and how target values, in turn, drive continuous improvement follows:

> The Research Services (RS) function engaged in a competitive benchmarking exercise to identify potential improvement opportunities. Through this exercise, the organization determined that significant improvements could be made in the area of lab equipment calibration. Specifically, the group found that competitive pharmaceutical companies were calibrating lab equipment less frequently and faster than the calibration technicians within Pfizer. As a result, targets were established on the technicians' scorecards to reduce "average calibration frequency" by 1.5 calibrations per unit and to reduce "average calibration time" by 2.5 hours.
>
> In order to achieve these targets, it was determined that significant improvements in employee training must be made. Accordingly, the amount of training provided to technicians by equipment vendors was increased through improved vendor management and contract negotiations.
>
> The resulting reduction in calibration frequency and time had a positive impact on operating costs. Fewer calibrations and less time per calibration equated to the need for fewer resources. Another significant, but less intuitive, benefit of the improved calibration process was the dramatic decrease in non-value added researcher activity. In other words, by maintaining equipment in a more productive, usable state, the RS Group helped to keep researchers "at the bench" and focused on their primary scientific tasks (which could lead to R&D productivity gains and improvements in "go-to-market speed").

Aside from illustrating how target values (external benchmarks) are used to drive continuous improvement, it also depicts how scorecards are used to drive alignment at all levels of the organization.

OVERCOMING IMPLEMENTATION CHALLENGES

Initially, Global Operations employees were reluctant to embrace scorecards, fearing that poor scorecard results would lead to criticism, reprimand—or worse. Because of this, measure targets were often set low (resulting in scorecards with all-green-lights). While senior management considered assigning target values in a top-down fashion, they ultimately relented and turned the focus on a cultural transformation that needed to take place. Senior leaders began *recognizing* poor performance and the *rewarding* organization's willingness to be transparent. They adopted and openly shared the credo, "Red Lights are okay."

The leaders of Global Operations recognized that a Continuous Improvement culture is wholly dependent on performance transparency and visibility. "Gaming" target values to show green light results was not helping to drive organizational value and improvement. In fact, this behavior was having the opposite effect. Energy was being expended on scorecard *inputs*, rather than using scorecard *outputs* to tenaciously identify and attack process improvement opportunities.

Once this cultural hurdle was cleared, the Network Teams began to struggle with the number of measures tracked on scorecards. While some teams had only three or four measures, others, thirsty for information, populated scorecards with 30 to 40 measures. Ultimately, the teams realized those large quantities were unmanageable and have now reduced to a comfortable 10 to 12 measures per scorecard. PGO management felt it was crucial to have the patience to enable the teams to go through this learning process.

PGO now has scorecards that are fully integrated into strategic and operational business planning, and an open and trusting culture focused on driving Continuous Improvement. Recently, they added an evaluation/scoring method they called Total Score Management (TSM) (see Exhibit A.4). TSM enabled the Network Teams to build intelligence into each scorecard so that its evaluation could be understood by simply looking at its total score. This intelligence included:

- Using target values and formulas that are truly reflective of the performance expectations of the business
- Weightings applied to both the perspectives and the measures to align with the priorities of the organization during that time frame

The total score for each scorecard would quickly give managers a snapshot of the performance for each site or business unit.

As the organizational culture changed, Pfizer emphatically chose *not* to link performance to compensation. For PGO, bonuses are dictated by the corporate level—

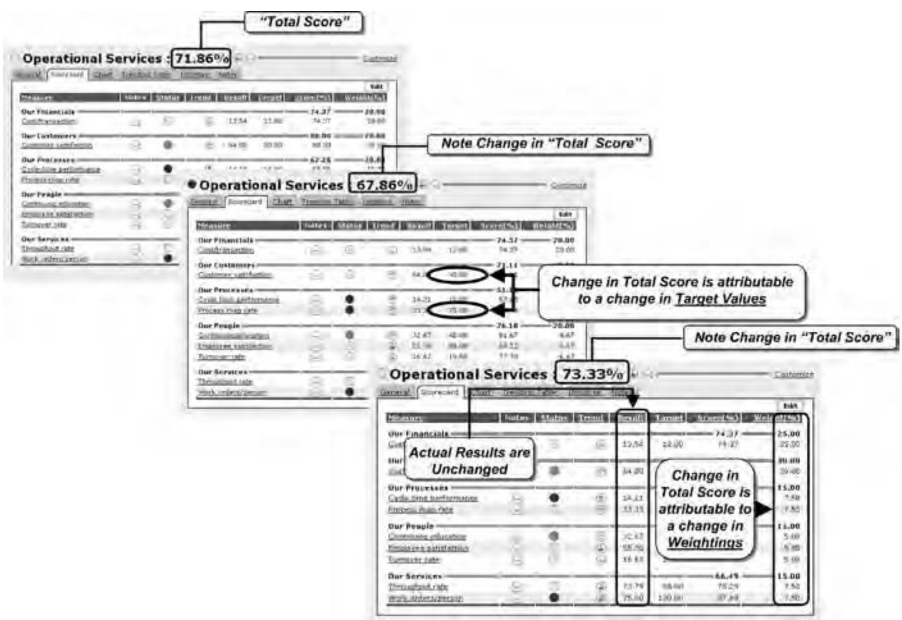


Exhibit A.4 Example of Using Pfizer Total Score Management not the scorecard system. They wanted to carefully foster employee buy-in through a culture of trust—not a command-and-control culture with punitive consequences. Pfizer felt that simply rewarding employees for attaining measure targets would incorrectly direct the focus to throughput rather than continuous improvement. Bringing visibility to problem areas and business challenges is encouraged by the company and rewarded through recognition.

Finally, having technology to support the Continuous Improvement Initiative helped to make it part of the day-to-day process, instead of being viewed as a one-time project. Pfizer has multiple sites around the world using scorecards and found that back end automation of data loading was particularly important for long-term sustainability of their scorecard system. Rather than several full time jobs to administer and manage manual data entry, they need only one dedicated database person, and fractions of time from a few other people. Pfizer also felt that automating the system sent the message that it is sustainable and an integral part of the working environment.

BENEFITS

Pfizer is very happy with their implementation especially because it is staying the course. They feel that their scorecard system has helped transform the culture to one of trust and continuous improvement. That is not to say that they don't still suffer from data integrity and data quality issues, but they are working on those too.

They attribute the following benefits to the use of their scorecard system:

- Dramatically lowered costs
- Organizational alignment
- Increased communication
- Ability to effectively measure performance
- Ability to align employee behavior with strategy
- Ability to understand measure and strategy cause and effect
- Ability to make strategic decisions faster with better data

They have been able to cascade strategy deep into the organization from senior management downward so that everyone in the organization can see how their performance impacts the entire business unit. This constitutes a major change in measuring performance and strategy.

SUSTAINING PROGRESS: WHAT REMAINS TO BE DONE?

Pfizer is going through a major transformation. In the end, the desired state would be to deploy scorecards organization-wide (not just in Global Operations). But until they are finished restructuring, they will continue to drill scorecards into the current organization, closer to the shop floor.

BEST PRACTICES

"If you want to translate what happens on the shop floor to how it impacts strategy, you have to measure what happens on a daily basis—but analyze on a monthly basis."—This quotation is courtesy of Brett Dibkey, Senior Director for Enterprise Performance Management. Mr. Dibkey felt Pfizer had developed several best practices, and has provided other nuggets of wisdom from his experience.

Best Practice: Communicate to all about what is about to come—not just about what has already happened.

"Provide as much clarity to anyone who might be affected by the implementation right *from the beginning*. Don't wait until the roll-out and launch. Pfizer originally rolled out the system from the top down. Executives were provided with scorecards first, then more were provided to subsequent levels down the line. But the communication effort *followed* suit rather than preceding it. People down deep in the organization did not hear about the initiative first-hand early enough. Mistrust and skepticism was fostered because information was not flowing."

Best Practice: Be aware of the data, its sources and its soundness, but don't let it stop you from moving the scorecard initiative forward.

"Look into data integrity early in the implementation. By combining three different legacy organizations (and their transaction systems), measures could not be compared or data properly used. Trying to compare existing data was equivalent to trying to compare apples, oranges, and bananas. All metrics were defined and measured differently."

Best Practice: Have the technology backbone to sustain the initiative properly. This sends the message that scorecards are now part of the culture.

"Make sure the program does not fall under its own weight. Manual data entry is good way to get started, but automating as much data entry as is practical is key."

Best Practice: Establish guidelines to help determine when a measure should be added or taken away. Err on the side of fewer rather than more measures. You can always add more.

"Don't measure for the sake of measuring. Once they adopted the approach, the number of measures began to multiply. If you need to add a measure, ask yourself: What decision making value will this measure give me?"

NOTES

1. Presentation delivered at the Hyperion Solutions Conference April 2006, Session 3104A, "How Suzano Petroquímica–Polibrasil Links Strategic Management With Variable Remuneration," by Edilson G. Teixeira, Performance Manager, Suzano Petroquímica–Polibrasil.
2. Actual name withheld by request—Hospitality Services Company is used as a pseudonym. Thanks to Don Fleitman and Greg Gough of Hitachi Consulting for the case study.

3. Background information taken from http://www.fujitsu.com/fi/about/english/ and other links from this Web site January 5, 2007.
4. Mixed measures include those that combine operational and financial features (e.g., cost per order, cost per transaction, and cost per setup).
5. Actual name withheld by request—Financial Services Company is used as a pseudonym. Thanks to Chris Bohner of Hitachi Consulting for the case study.
6. Actual name withheld by request—Entertainment Subscription Company is used as a pseudonym. Thanks to Jose Contreras for the case study.

Glossary of Terms

Term	Definition
Accountability	The state of being obligated to, liable for, or answerable for any part of a scorecard system.
Accounting	The process of classifying, recording, and summarizing in a significant manner and in monetary terms transactions and events that are, in part at least, of a financial character. Also, the act of interpreting the results thereof.
Activity	A unit of work performed by people, equipment, technologies, or facilities that has defined initiation and termination conditions. Upon completion of the activity, the resultant work product will generally be routed to other participants. Activities may occur in a linked sequence.
Activity-Based Costing (ABC)	A costing system that (a) identifies the relationship between the incurrence of cost and activities, (b) determines the underlying "driver" of the activities, (c) establishes cost pools related to individual "drivers," (d) develops costing rates, and (e) applies cost to product on the basis of resources consumed (drivers).
Analytics	Relatively sophisticated forms of data analysis. Also known as business analytics.
Attribute	A quality or characteristic inherent in or ascribed to a person, system, or object.
Balanced Scorecard	Part of a performance management system that emphasizes the linking of an organization's performance metrics to its vision and strategy. By organizing metrics along financial, customer, internal process, and learning and growth perspectives, it provides a balanced view of organizational performance.
Benchmarking	A process of measuring an entity's performance, products, and/or services against internal or external standards based on levels of performance achieved by "world class" performance leaders.

(*Continued*)

Term	Definition
Best Practice	A methodology that identifies the measurement or performance by which other similar items will be judged. This methodology is used to establish performance standards and to aid in identifying opportunities to increase effectiveness and efficiency. Best practices methodology may be applied with respect to resources, activities, cost objects, or processes.
Budget	A statement of planned or expected revenues, expenses, assets, and liabilities. A budget provides guidelines for future operations and appraisal of performance. Also called Profit Plan or an Operating Plan (in the case of a non-profit organization).
Budgeting	The process of planning flows of financial resources into, within, and from an entity during a specified future period or for a specified project.
Business Performance Management	A category of technologies and practices that enables organizations to translate strategies into plans, monitor execution, and provide insight to improve financial and operational performance. Also referred to as Corporate Performance Management or Enterprise Performance Management.
Business Plan	A comprehensive planning document prepared by a company's management that provides a detailed description of a new or existing business including its objectives, risks and opportunities, strategy, and resources required.
Business Process	A sequence of logically related, time-based work activities performed to provide a specific output for a customer.
Business Unit	Any part of an organization that is treated as a separate entity and not divided into segments.
Capacity	The maximum performance possible under the limiting conditions of the existing physical plant, labor force, method of production, or supply of material.
Change Agent	A person who leads a project or business-wide initiative aimed at achieving cultural change in an organization.
Cost Accounting System	The system within an entity that provides for the collection and assignment of costs to cost objects.
Cost Driver	A measure of activity, such as direct labor hours, machine hours, beds occupied, computer time used, flight hours, miles driven, or contracts, which is a causal factor in the incurrence of cost to an entity.
Costing	The accumulation and assignment of costs to cost objects such as units of production, departments, or other activities for which management desires a separate measurement or evaluation.

Term	Definition
Customer Satisfaction	The extent to which an organization's customers are satisfied with the products and services provided by that organization.
Cycle Time	The time required to move a unit of work from the beginning to the end of a process.
Data	Facts that, by analysis and association, may be developed into useful information.
Decentralize	An organizational structure in which senior management maintains minimal direction and authority over operations and policies relating to identifiable separate activities and operations. Decentralized management allows great freedom for decision making at the level of lower responsibility centers. Contrast with Centralization.
Define, Measure, Analyze, Improve, Control (DMAIC)	The heart of Six Sigma. A data-driven quality strategy for improving processes. DMAIC is an acronym for five interconnected phases: Define, Measure, Analyze, Improve, and Control.
Economic Profit	A measure of the profitability of an entity, equal to net income less the cost of capital employed.
Economic Value Added (EVA®)	A financial performance metric that measures the amount of earnings generated in excess of the cost of funds invested to generate those earnings.
Efficiency	A measure showing the amount of output per unit of input. Often expressed as a percentage of ideal efficiency.
Empowering	(1) Granting or delegating authority or legal power to take action. (2) Providing information, skills, and resources necessary for a group (or individual) to perform their duties.
Feedback	The process of informing users of information about how actual performance compares with the expected or desired level of performance. The hope is that the information will reinforce desired behavior, reduce undesirable behavior, and provide information to managers.
Framework	The framework highlights the fundamentally important business focuses of the business model. Strategic objectives, goals, initiatives, and measures are defined according to the framework's perspectives. Reporting on results and targets of the objectives, goals, initiatives, and measures can be organized according to the framework's perspectives. This type of organization makes it easy to see, at a glance, where an organization is doing well and where it needs to focus effort.

(*Continued*)

Term	Definition
Information System	A system, manual or computerized, consisting of people, data, processes, and information technology with the objective of collecting, manipulating, retrieving, and reporting data in a business or other context.
Initiative	Programs, projects, or actions developed to help achieve objectives or goals. Initiatives are often also employed to help measure results to reach the target.
Internal Benchmarks	These are the best of an organization's own similar processes, products, or services. This is perhaps the easiest form of benchmarking, since the potential benchmarking partners can be easily identified and are usually willing to share the information.
Just-In-Time Manufacturing	A manufacturing process whose purpose is to produce or procure the right parts at the right time, as they are needed rather than when they can be made. It is a "pull" manufacturing system that moves goods through a shop based on end-unit demand. Just-In-Time focuses on maintaining a constant flow of components and products rather than batches of work-in-process inventory.
Key Performance Indicator (KPI)	Quantifiable measurements that reflect the critical success factors of an organization.
Lagging Measure	Traditional financial measures, or measures that are indicators of past performance, are typically characterized as lagging measures. Also referred to as a lagging indicator.
Leading Measure	Measures that give an indication of likely future performance are often characterized as leading measures. Also referred to as a leading indicator.
Malcolm Baldrige Award	An award for performance excellence, bestowed by the United States National Institute of Standards and Technology, is based on criteria in the following categories: leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management, and business results.
Measures	*See* Metrics.
Metrics	Standards of measurement. In business, a system of parameters used to evaluate organizational performance.
Mission	A concise statement of the core purpose of an organization.
Objectives	An organization's stated goals to become or remain competitive and ensure its long-term sustainability. Strategic objectives tend to set an organization's longer-term direction, and are used to allocate resources.

Term	Definition
Outcome Measure	A standard used to measure success in achieving a strategic objective or other organizational goal. It measures how well an organization is doing. Every strategic objective has an accompanying outcome measure.
Output Measure	A measure of the number of units produced, services provided, or people served by an organization or one of its processes.
Performance	A general term applied to part or all of the conduct or activities of an entity over a period of time, often with reference to some standard such as past or projected costs, an efficiency base, and management responsibility or accountability.
Performance Measurement	A quantification of the effectiveness and efficiency with which the objectives of a responsibility center have been accomplished.
Performance Measures	Indicators of the work performed and the results achieved in an activity, process, or organizational unit. Performance measures are both nonfinancial and financial. Performance measures enable periodic comparisons and benchmarking.
Performance Report	A report comparing actual performance with expected or historical performance. The purpose of the report is to identify significant differences as a basis for management consideration and action.
Performance Scorecard	A management reporting approach that helps companies clearly articulate strategy and goals, communicate them across the enterprise, and monitor key performance indicators.
Perspectives	Categories or viewpoints of indicators are frequently referred to as perspectives. Perspectives, for a scorecard, may include those related to customers, stakeholders, employees, safety, efficiency, waste, learning, growth, processes, and operations. Each organization must determine which perspectives best define how it wishes to represent its business model, and to provide the best view for current and future performance. This group of perspectives forms the foundation of the organizing framework.
Process	A series of time-based activities that are linked to complete a specific output. A process has a beginning, an end, an output, and at least one clearly identified input.
Productivity	The relationship between output (the quantity of goods and services produced) and inputs, (the amounts of labor, material, and other costs used to produce the goods and services). Usually measured in terms of output per worker per hour but, conceptually, it should include all conversion costs, not only labor.

(*Continued*)

Term	Definition
Scorecard	A style of user interface designed to deliver user-specific metrics related to explicitly stated strategy, that: Typically focuses on forward-looking, strategic information rather than historic information Focuses on collaboration and communication about strategic goals and progress towards achieving them Focuses primarily on outcome measures rather than output (or throughput) measures
Scorecard System	A strategic performance management system that enables an organization to measure, monitor, and communicate its strategic plan and goals throughout the organization, in a way that is understood by everyone.
Six Sigma	A disciplined methodology for eliminating defects in a process. To achieve Six Sigma, a process must not produce more than 3.4 defects per million opportunities.
Strategic Objective	*See* Objectives.
Strategic Planning	The process of discovering, evaluating, and selecting the strategies that management decides the entity should undertake. Strategies are broad, major plans, usually without specific time limits.
Strategy	The way that an organization positions and distinguishes itself from its competitors. It is the basic business approach an organization follows to meet its goals.
Strategy Management	The process of articulating an organization's objectives, developing plans to achieve these objectives, and allocating resources to implement and monitor the progress. It is often performed by the organization's Chief Executive Officer (CEO) and executive team and is the highest level of managerial activity. Strategy management is the combination of strategy formulation and implementation.
Strategy Map	A visual depiction, often on a single page, of an organization's strategic plan for success. Often strategy maps show not only the objectives for the organization, but also the relationship between them, and the categorization of each objective. A strategy map is often used to illustrate to employees how their jobs are related to the organization's overall objectives.
Target	A value that represents the desired result of a performance measure (leading, lagging, outcome, output, etc.).

Term	Definition
Target Costing	A comprehensive management process that starts with the premise that prices are established in the marketplace based on customer requirements and competitive alternatives or management decision; that prompts markets to remember firms are in business to be profitable, grow, and provide a return to their shareholders, and, as a result, that allowable costs and investments are driven by prices; that costs may be best managed early in the product-development process; that cross-functional teams are best able to deal with the inevitable functional tradeoffs; and that analytical techniques and tools such as value engineering and cost tables contributed to the process.
Theme	Themes can be thought of as secondary perspectives. They are vertically linked groupings of objectives across multiple perspectives.
Theory of Constraints	A management method that focuses on identifying and dealing with the constraints that limit an organization's ability to reach its target goals.
Throughput	One of the key measurements used to manage a theory of constraint (TOC) organization. The rate at which the system generates money through sales.
Total Quality Management (TQM)	A general management philosophy based on a commitment to continuous improvement with a focus on the needs and expectations of internal and external customers with the goal of achieving high quality product and customer satisfaction.
Traffic Lighting	A visual display method used to convey performance information. Green typically indicates normal levels of performance; amber indicates that performance has slowed (or attention is otherwise warranted); red indicates that performance is below acceptable levels.
Value-Added	An assessment of the extent to which activities and processes add value or utility to consumers of a product or service. Value-added analysis focuses on eliminating wasteful activities.
Variance	The difference between an actual and an expected result. Often used to refer to the deviation of actual results from budgeted results, such as actual revenues earned or costs incurred compared with the amount expressed in the budget.
Web-Based Reporting	Meeting the need for accurate, timely delivery of information throughout an organization by providing reports accessible via a Web browser.

Main Source: R. Lawson, *Management Accounting Glossary*, Institute of Management Accountants, 2008, various pages.

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