

# Are You Measuring the Right Performance?

## Understanding the Balanced Scorecard

Andrew Pateman, Principal and Strategy Practice Leader

Palladium Group, Inc.

[apateman@thepalladiumgroup.com](mailto:apateman@thepalladiumgroup.com)

781.402.1188

---

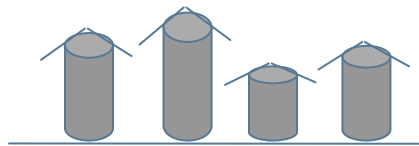
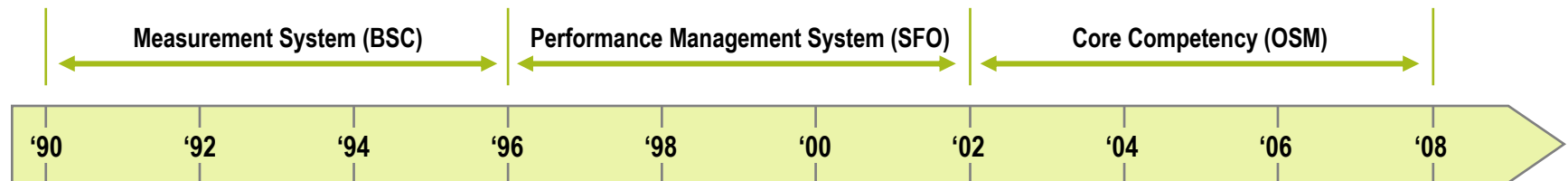
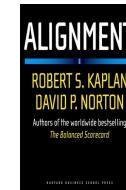
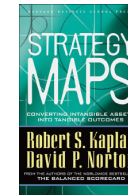
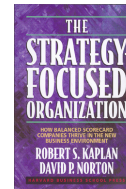
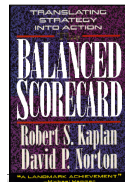
## Overview

### Why are we here today?

- To understand more about the latest thinking on the Balanced Scorecard from the authors of the tool: Kaplan and Norton
- To learn more about measurement techniques to make the Balanced Scorecard more powerful.
- To connect these ideas to the work you do with your clients

# Evolution of Our Approach to Strategy Management

HBSP Books



- Functional Management Silos
- Ineffective for Integrated Strategy Management
- 80-90% Fail to Execute Strategy



- Project Oriented Approach to Achieve One-Time Breakthrough in Strategy Execution
- BSC Hall of Fame
- Dramatic Benefits



- Process Oriented Approach, Building on SFO to Achieve Sustainable Performance Breakthroughs
- 70% Outperform Peer Group
- The Execution Premium

## Process Matters!

Organizations with a formal strategy execution process in place are dramatically outperforming organizations without formal processes.

*Do you have a formal strategy execution process in place?*

Yes	No
(54%)	(46%)

*Describe your organization's current performance.*

<ul style="list-style-type: none"> <li>• ....We have <u>breakthrough</u> results</li> <li>• ...we are performing <u>better</u> than our peer group</li> </ul>	12% <u>58%</u> <b>70%</b>	7% <u>20%</u> <b>27%</b>	Winners
<b>Sub-</b>			
<ul style="list-style-type: none"> <li>• <del>Total</del> performing at the <u>same</u> level as our peer group.</li> <li>• ...performing at a <u>lower</u> level than our peer group</li> <li>• ...<u>not performing</u> at a sustainable level</li> </ul>	18% 9% <u>3%</u> <b>30%</b>	30% 27% <u>16%</u> <b>73%</b>	Losers
<b>Sub-</b>			
<b>Total</b>			

Source: BSCol Research (Survey of 143 performance management professionals, drawn from BSCol On-Line Community, March 2006)

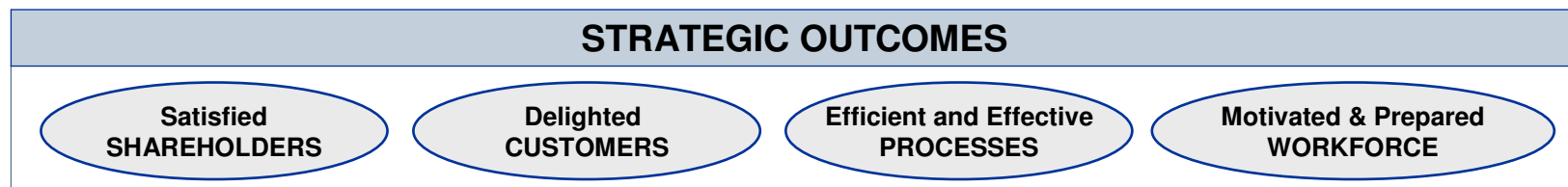
**Total**

## The Balanced Scorecard

The BSC fills the critical gap between strategy and results.



What most organizations *lack* is a framework to clarify, communicate and manage the execution of strategy



---

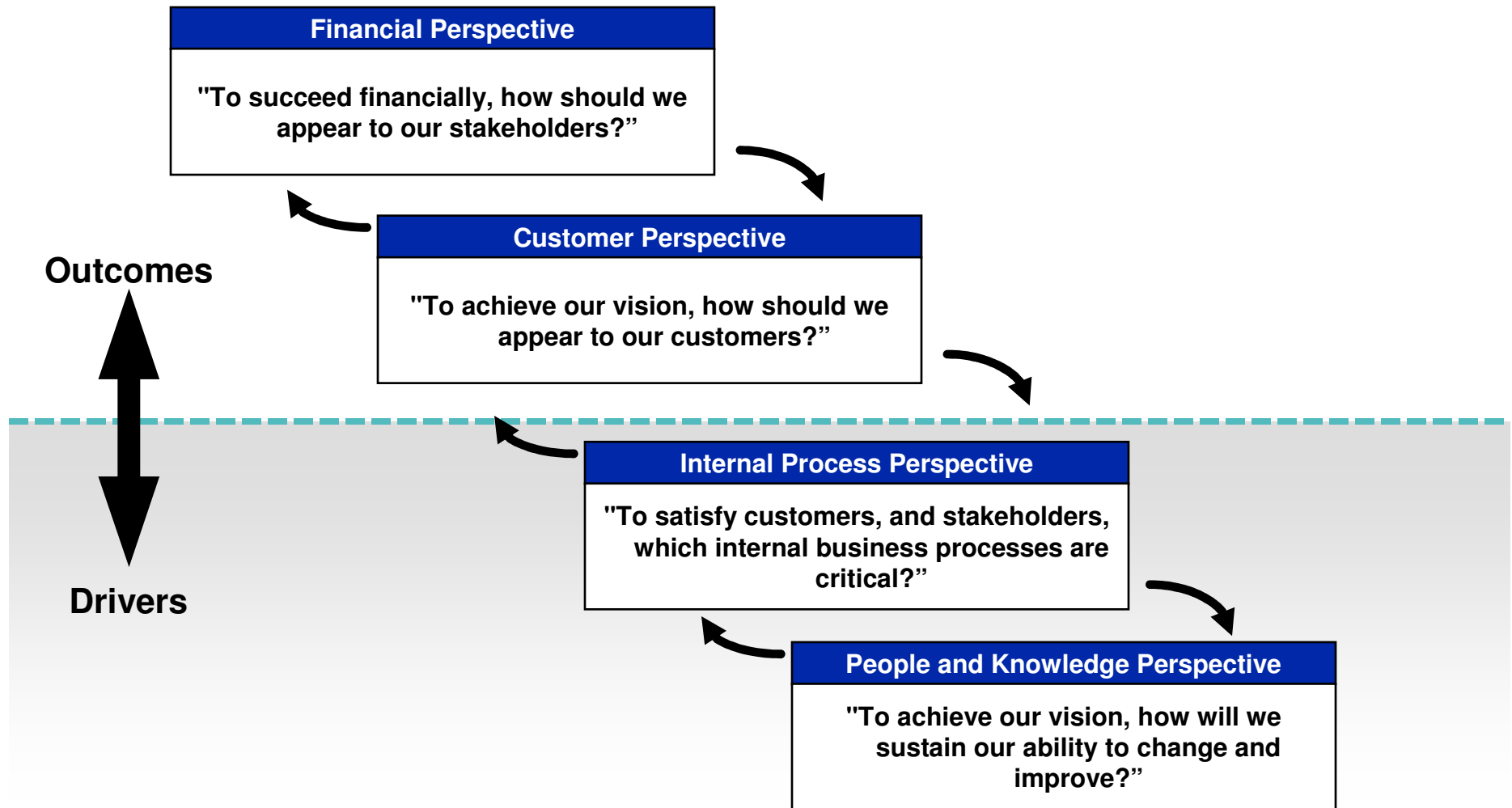
## **The Strategy Map**

**The origin of the Strategy Map was in response to the lack of a standard approach to describing a strategy.**

**You can't manage  
something that you  
can't describe!**

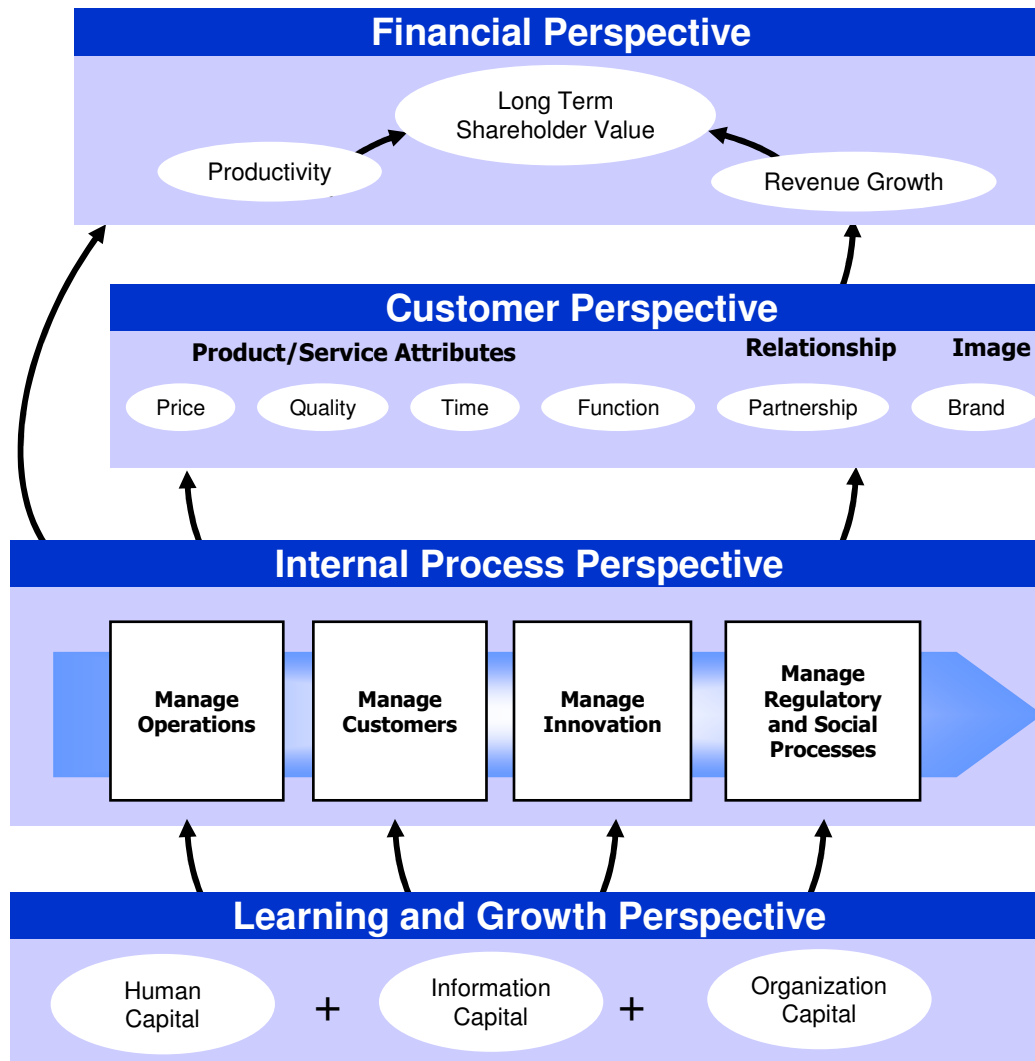
# The Strategy Map

Strategy is described by focusing on the its cause and effect relationships.



# The Strategy Map

These cause and effect relationships are captured and communicated through a strategy map.



## Financial Outcomes

The financial perspective describes the tangible outcomes of the strategy in traditional financial terms

## Customer Value Proposition

Clarifies the conditions and context that will create value for the customer

## Value Creating Processes

Identifies the critical few processes that are expected to have the greatest impact on the strategy.

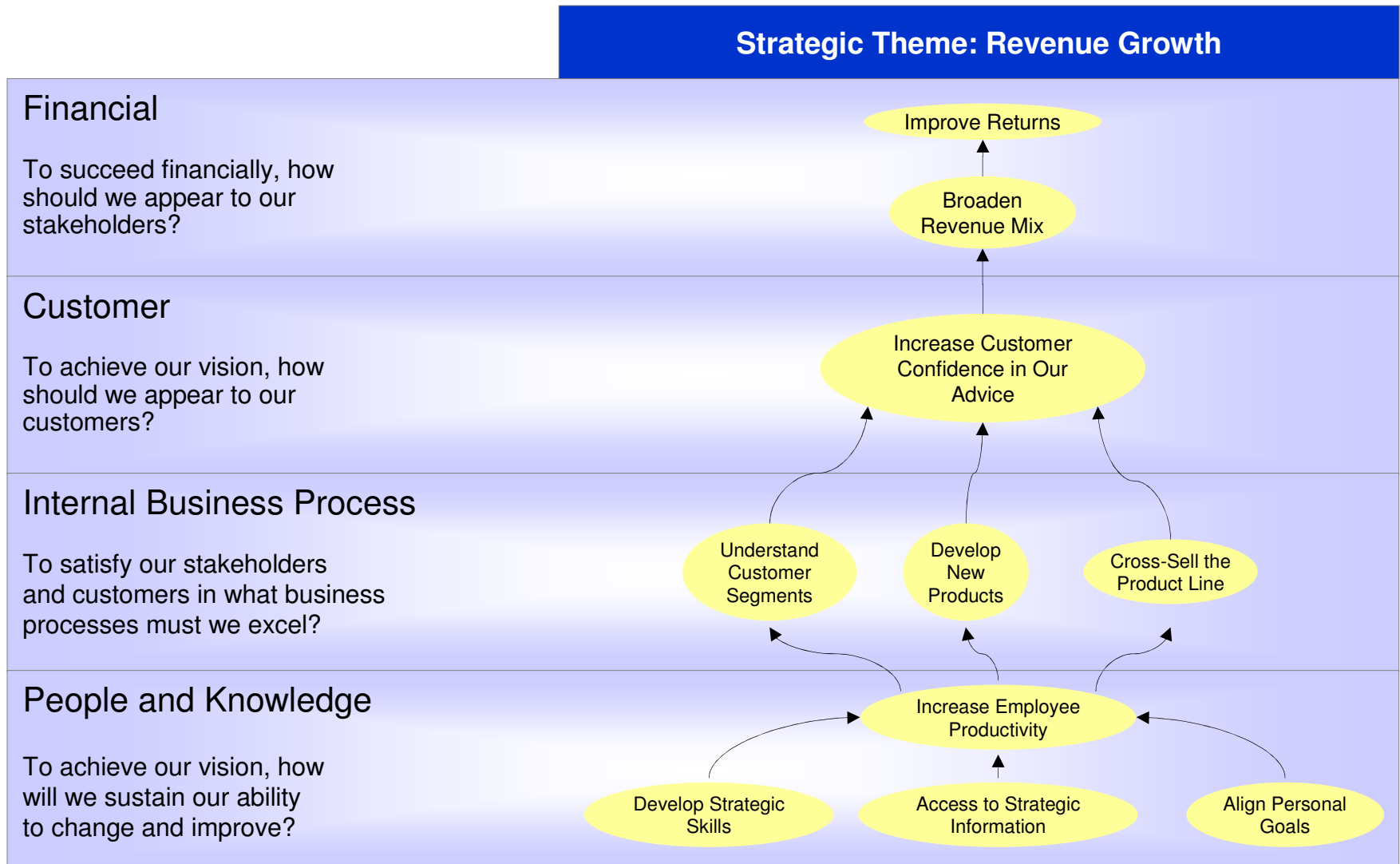
## Learning and Growth Perspective

Identifies which jobs, which systems and what kind of climate are required to support the value-creating processes.



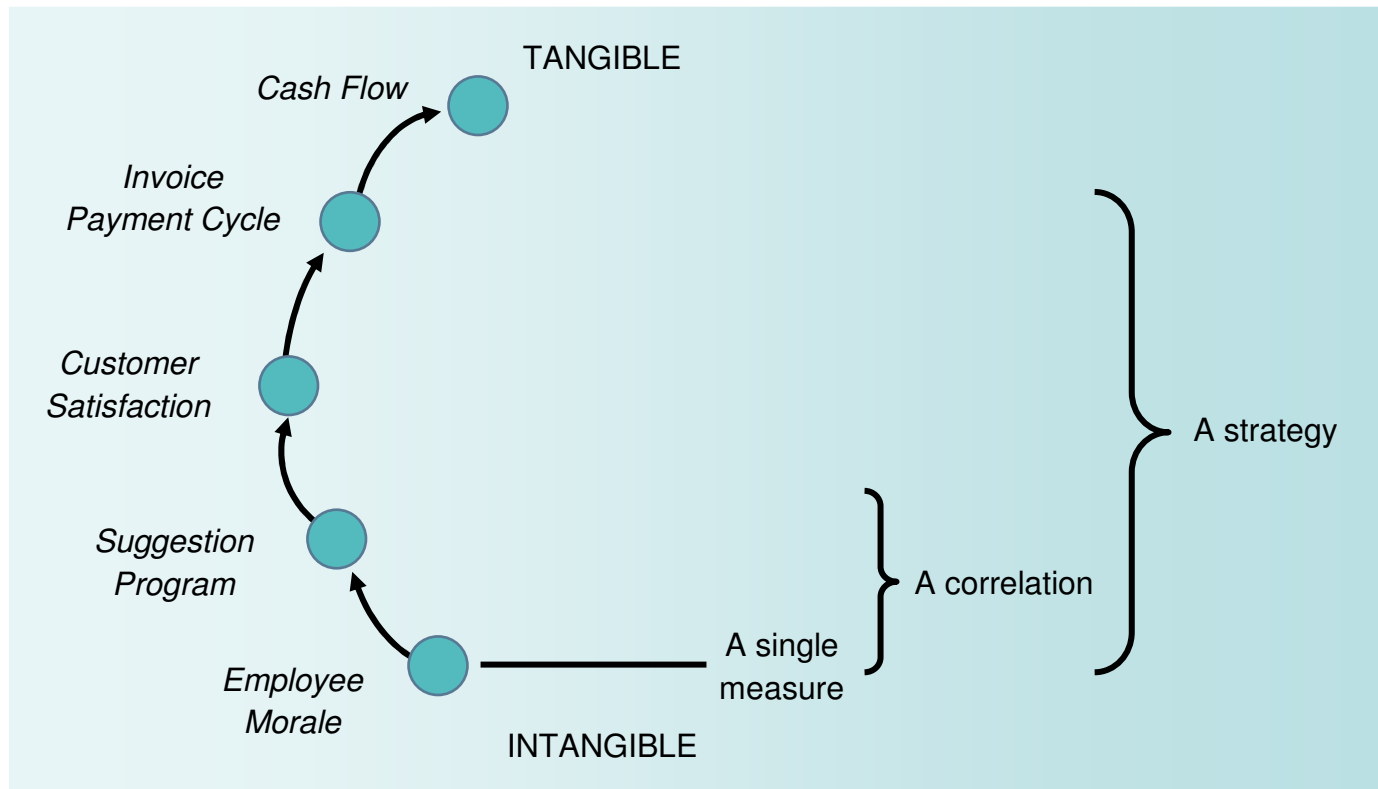
## Describing a Strategy

The map represents the platform for your **Balanced Scorecard**.



## Developing Measures

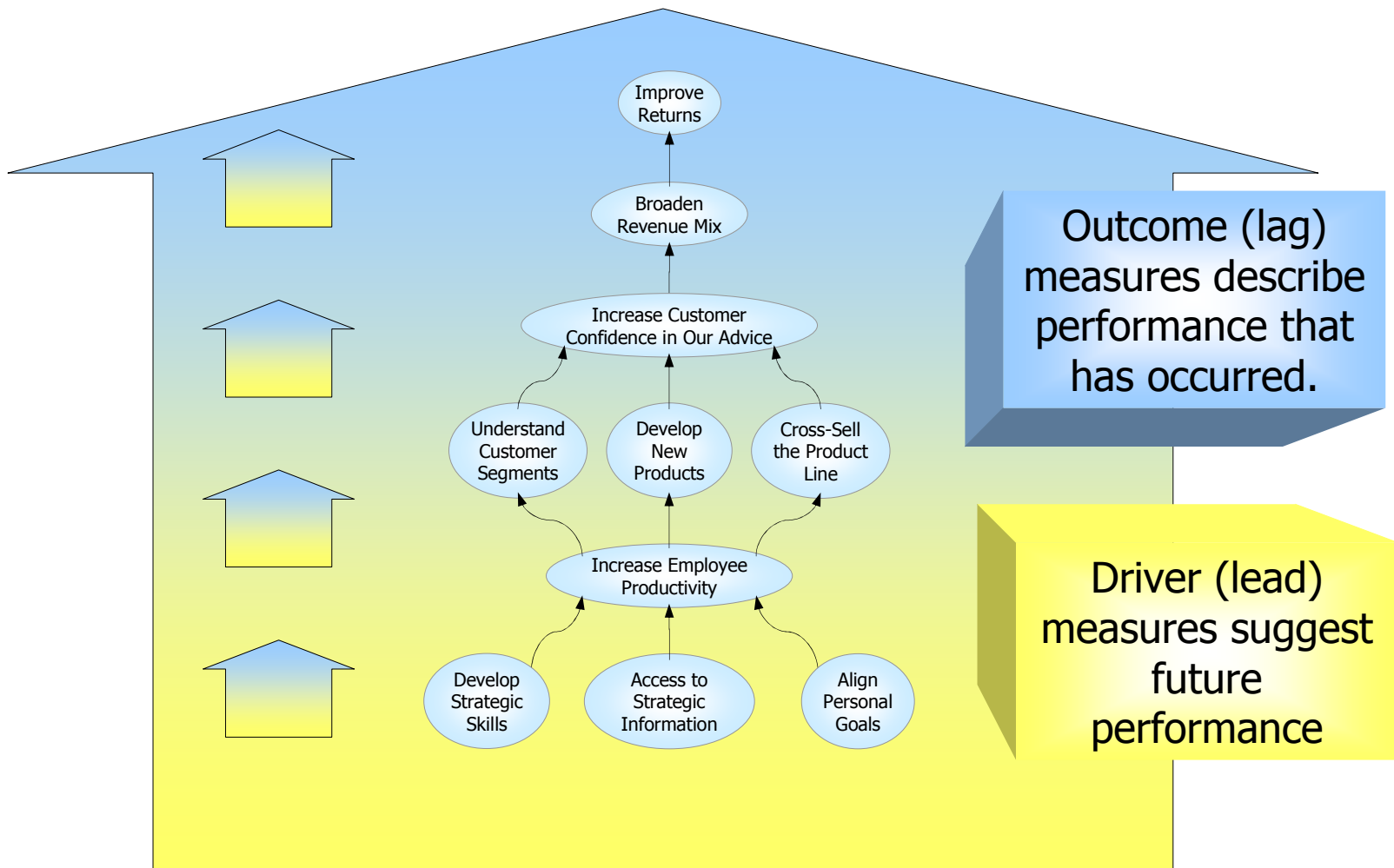
Measurements have different levels of intelligence and value.



*The cause & effect linkages are the only way that the intangible value creation process can be described.*

## Measures Design

Performance objectives tracked by lead measures may provide insights to performance long before financial outcomes are realized.

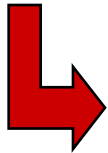


## Measure Design Deliverables

There are four key steps to completing objective statements and developing candidate measures.

### Confirm strategic intent of each objective:

- What strategic issue is being addressed by this objective?
- What processes and activities are the focus of this objective?
- If the objective covers an area where there is significant need for improvement, identify the key activities or process steps that require action.



### Draft a preliminary objective statement

- 2-3 sentences
- Be specific as possible in identifying how the objective is linked to the operations of the organization
- Review statement with the performance advocate



### Identify candidate measures

- Identify which existing measure(s), if any, that can be applied;
- Identify which, if any, measures from the Enterprise Scorecard can be applied;
- Identify any new measures that can be applied to this objective

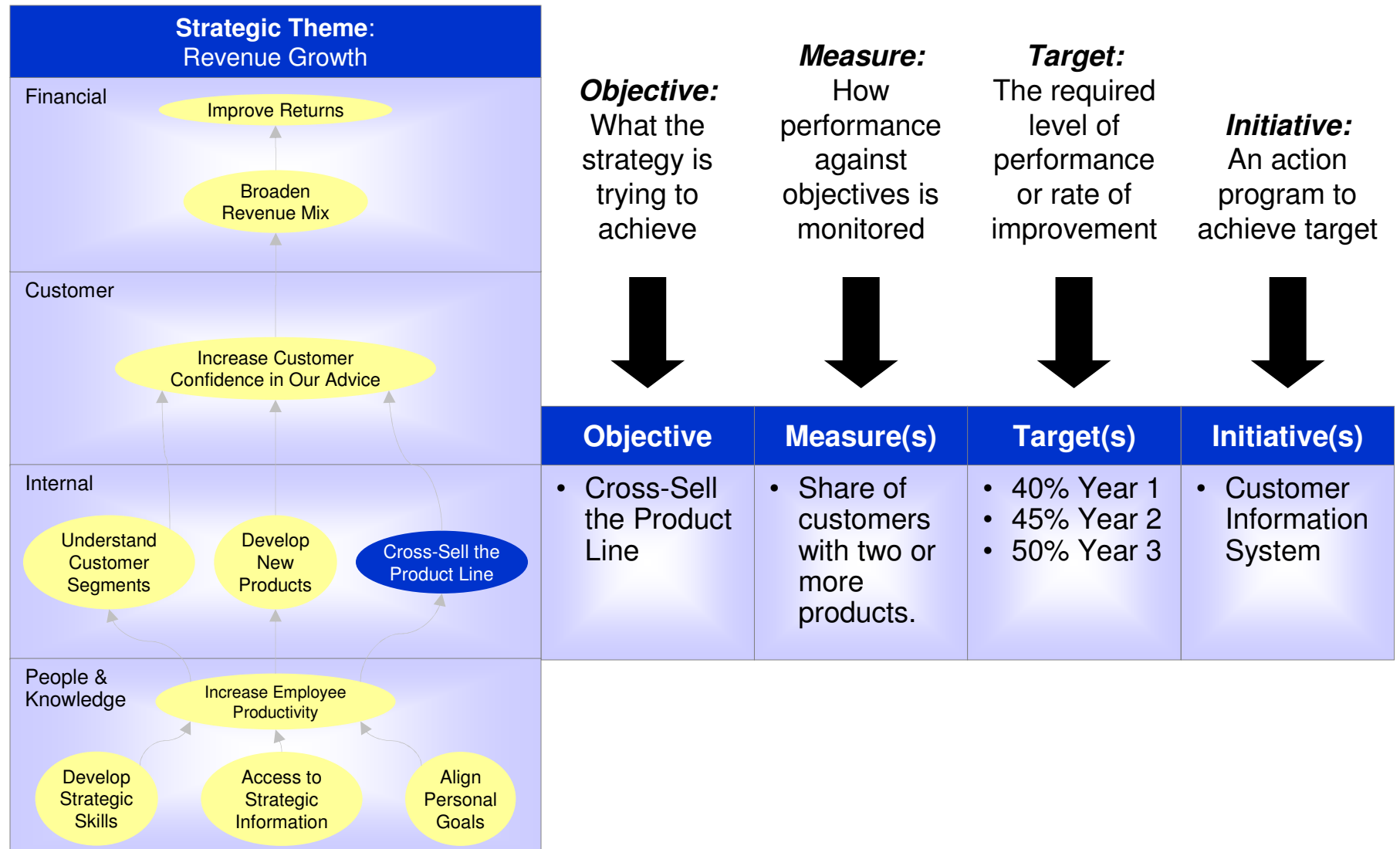


### Filter candidate measures using these questions:

- Will this measure help decision-makers understand strategic performance and communicate results clearly to employees?
- Is the measure quantifiable, reliable and repeatable?
- Can this measure be updated frequently enough to be meaningful, such as monthly, quarterly or annually?
- Can meaningful targets for improvement be established?
- Is external benchmarking possible if it is feasible and/or desirable?
- Can accountability be established for each of the measures?

# The Balanced Scorecard

Measures and targets are identified and communicated for each objective.



# This is what a completed Balanced Scorecard looks like...

**Illustrative**

Strategic Theme: Internal Product Development					
	Strategy Map	Objective	Measure	Target	Initiative
Financial	<pre> graph TD     A[Stable High-Talent Workforce] --&gt; B[World Class Internal Product Development]     B --&gt; C[Innovative Products]     C --&gt; D[Revenue Growth]                     </pre>	<ul style="list-style-type: none"> <li>Grow Revenue from new products</li> </ul>	<ul style="list-style-type: none"> <li>Annual Revenue Growth</li> <li>Percent Revenues from New Products</li> </ul>	<ul style="list-style-type: none"> <li>+25%</li> <li>30%</li> </ul>	<ul style="list-style-type: none"> <li>xx</li> <li>xx</li> </ul>
Customer		<ul style="list-style-type: none"> <li>Satisfy Customer Needs for State-of-Art Capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Customer Retention</li> <li>Share of Account</li> </ul>	<ul style="list-style-type: none"> <li>80%</li> <li>40%</li> </ul>	<ul style="list-style-type: none"> <li>Relationship Management Program</li> <li>Gain Sharing Program</li> </ul>
Internal		<ul style="list-style-type: none"> <li>Accelerate New Product Development</li> </ul>	<ul style="list-style-type: none"> <li>Product Functionality</li> <li>Time to Market</li> </ul>	<ul style="list-style-type: none"> <li>#1 in indy.</li> <li>9 mos.</li> </ul>	<ul style="list-style-type: none"> <li>University Liaison/ Technology Transfer</li> <li>Development Cycle Time Reengineering</li> </ul>
People & Knowledge		<ul style="list-style-type: none"> <li>Acquire, Develop and Retain Strategic Skills</li> </ul>	<ul style="list-style-type: none"> <li>Specialized Competency Availability</li> <li>Key Staff Retention</li> </ul>	<ul style="list-style-type: none"> <li>100%</li> <li>95%</li> </ul>	<ul style="list-style-type: none"> <li>Competency Model</li> <li>New Hiring Program</li> <li>Supervisory Training</li> <li>Benefits Program</li> </ul>

# The leadership team uses the BSC to review performance, examine strategic initiatives and make informed decisions.

**1** Agency Strategy Map

**2** I03 Identify Adverse Trends

**3** Performance Analysis

**5** Recommendations

**6** K01. Implement CRM Program

**4** Purpose/Intent

**6** Milestone / Task

Milestone / Task	% Complete	Start	End	Responsible
Compile Requirements Document	100	01-01-2006	02-15-2006	Chevy Referato
Evaluate Solutions and Make Recommendation	95	02-15-2006	04-01-2006	CRM Team
Budget and Pay for system	85	04-01-2006	04-15-2006	
Implement System and Launch Pilot Program	15	05-01-2006	07-01-2006	

## Use of a BSC Report in Strategy Review Meetings

### Identify Performance Issues:

- 1 Focus on the performance of objectives NOT measures.



### Analyze Objective Performance:

- 2 What are the measures telling us? Are the measures driving change and adding focus?
- 3 What are the root causes of what's occurring? What are the expectations for the future? And, are current initiatives sufficient to close the performance gap?
- 4 Are initiative on track to deliver expected value? If not, why and what can be done to remedy issues?
- 5 What action steps – including additional or different initiatives - are required to improve performance going forward?



### Take Action:

- 6 Discuss and agree on how to remedy issues.

**ILLUSTRATIVE**

# The Balanced Scorecard (and Targets) for Consumer Bank

Perspective		Strategic Objectives	Strategic Measures	Targets
Internal Perspective	<b>Financial Perspective</b>	F1 Increase earnings per share F2 Add and retain high value customers F3 Increase revenue per customer F4 Reduce cost per customer	<ul style="list-style-type: none"> <li>Net income (vs. plan)</li> <li>Revenue mix (by target segment)</li> <li>Revenue per customer</li> <li>Cost per customer</li> </ul>	+\$100M 30%(A) 70%(B) \$300 \$75
	<b>Customer Perspective</b>	C1 Become a trusted financial advisor C2 Provide superior service	<ul style="list-style-type: none"> <li>Customer satisfaction (survey)</li> <li>Share of wallet</li> <li>Target customer retention</li> </ul>	90% 50% 90%
	<b>Customer Management</b>	I1 Understand customer segments I2 Shift to appropriate channel I3 Cross-sell the product line	<ul style="list-style-type: none"> <li>Share of segment</li> <li>Channel mix change</li> <li>Cross-sell ratio</li> </ul>	30% 40% 2.5
	<b>Product Innovation</b>	I4 Develop new products	<ul style="list-style-type: none"> <li>Revenue from new products (%)</li> </ul>	50%
Learning & Growth Perspective	<b>Operations Management</b>	I5 Minimize problems I6 Provide rapid response	<ul style="list-style-type: none"> <li>Service error rate</li> <li>Request fulfillment time</li> </ul>	0.0% < 24hrs
	<b>Responsible Citizen</b>	I7 Build diversity reflecting community	<ul style="list-style-type: none"> <li>Diversity mix versus community</li> </ul>	1.0
	<b>Human Capital</b>	L1 Insure readiness of strategic jobs	<ul style="list-style-type: none"> <li>Strategic job readiness</li> </ul>	100%
Learning & Growth Perspective	<b>Information Capital</b>	L2 Insure availability of strategic info	<ul style="list-style-type: none"> <li>Information portfolio readiness</li> </ul>	100%
	<b>Organization Capital</b>	L3 Create a customer-focused culture	<ul style="list-style-type: none"> <li>Customer survey</li> <li>360° Survey (leadership model)</li> <li>Strategic awareness survey</li> <li>Personal goals aligned to BSC (%)</li> <li>KMS utilization/currency</li> </ul>	100%
		L4 Build cadre of leaders		70%
L5 Align the organization		90%		
L6 Best practice sharing		100%		



## **BSC and Technology**

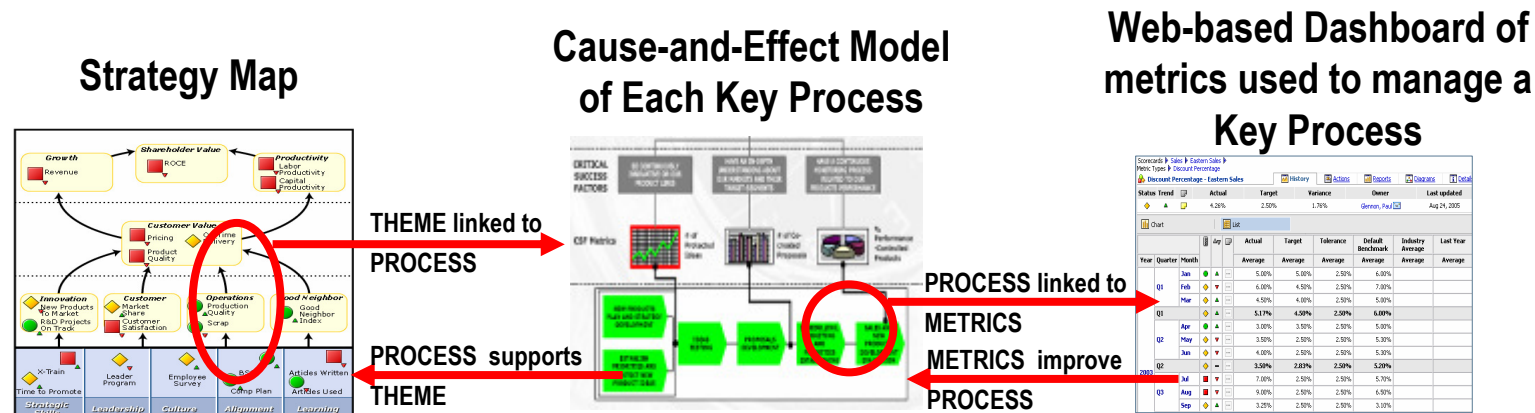
**The BSC reporting system must be linked to an enterprise-wide network of performance measurement.**

<b>THREE TYPES OF PERFORMANCE DASHBOARDS</b>			
	<b><u>Operational</u></b>	<b><u>Tactical</u></b>	<b><u>Strategic</u></b>
<b>Purpose</b>	Monitor Operations	Measure Progress	Execute Strategy
<b>Users</b>	Supervisors, Specialists	Managers, Analysts	Executives, Managers, Staff
<b>Scope</b>	Operational	Departmental	Enterprise
<b>Information</b>	Detailed	Detailed / Summary	Detailed / Summary
<b>Updates</b>	Intra-day	Daily / Weekly	Monthly / Quarterly
<b>Emphasis</b>	Monitoring	Analysis	Management

1. **Operational Dashboards** monitor core operational processes and are used primarily by front-line workers and their supervisors who deal directly with customers or manage the creation or delivery of the organization's products and services. Operational dashboards primarily deliver detailed information that is only lightly summarized.
2. **Tactical Dashboards** track departmental processes and projects that are of interest to a segment of the organization or a limited group of people. Managers and business analysts use tactical dashboards to compare performance of their areas or projects, to budget plans, forecasts, or last period's results. Tactical dashboards are usually updated daily or weekly with both detailed and summary data. They tend to emphasize analysis more than monitoring or management.
3. **Strategic Dashboards** monitor the execution of strategic objectives and are frequently implemented using a Balanced Scorecard approach, although Total Quality Management, Six Sigma, and other methodologies are used as well. The goal of strategic dashboard is to align the organization around strategic objectives and get every group marching in the same direction. To do this, organizations rollout customized scorecards to every group in the organization and sometimes to every individual as well. Strategic dashboards emphasize management more than monitoring and analysis.

Source: Wayne Eckerson, Performance Dashboards, Wiley, 2006, p17.

# Dashboards articulate the critical link between strategy management and operations management.



- Identify operational processes key to executing strategy and manage those processes using analytical models rather than instincts
- Analytical models identify drivers to the process and display these drivers on a dashboard accessible to managers that can make an impact
- Drivers include not only financial (lagging) metrics, but operational, environmental, demographic, and other situational leading indicators
- Models will be updated with actual results and the cause-and-effect correlations will be improved

## Companies use strategy scorecards and operational dashboards to inform their different management meetings.

### ■ Operational Review Meetings: Role for **KPI Dashboards**

- Frequent (daily, twice weekly, weekly)
- Departmental and functional personnel
- Identify and solve operational problems (late deliveries, equipment downtime, supplier problems)
- Promote continuous improvement (better, faster, cheaper)



### ■ Strategy Review Meetings: Role for **Balanced Scorecard**

- Monthly
- Management team; cross functional, multiple business units
- Discuss and solve problems with strategy implementation
- Manage product and customer profitability

