Building a Balanced Scorecard (BSC) Performance Systems

Introduction
“People and their managers are working so hard to be sure things are done right, that they hardly have time to decide if they are doing the right things.”

Stephen Covey
A Balancing Act

- Doing the right things and doing things right
- Requires development of good strategies and efficient operations to deliver the products and services to implement the strategies
- The Balanced Scorecard provides a framework that helps achieve the required balance between strategy and operations
The BSC

- A Performance Management System
- Can be used in any organization to:
  - align vision and mission with client and stakeholder requirements,
  - manage and evaluate strategy,
  - monitor operation efficiency improvements,
  - build organization capacity, and
  - communicate progress to all staff
- Measure financial and client results, operations and organization capacity
BSC Systems

- Originally developed in the 1990s as a framework to measure private industry non-financial performance
- Equally applicable to public sector organizations – changes need to be made for the mission and mandates which are not related to profitability
- Emphasis shifted from measurement of financial and non-financial performance to the management (and execution) of strategy
• Provides an ability to view three different dimensions of organizations:
• Results (financial and client), Operations and Capacity
• (See following slide)
Figure 1: Balanced Scorecard Performance Management System
Figure 1

Components of a fully developed BSC systems

- **Organizational Foundations**, including vision, mission and values;
- **Plans**, including communications, implementation, automation, and evaluation plans to build staff buy-in and communicate results;
- **Strategies and Strategic Map** to chart the course and define the decomposition of strategies into activities;
- **Performance Measures** to track actual performance against expectations;
- **New Initiatives** to test strategic assumptions;
- **Budgets**, including resources needed for new initiatives and current operations;
- **Support Unit Scorecards** to translate organizational vision into actionable activities;
- **Leadership and Individual Development** to enhance staff knowledge skills and abilities
Four Perspectives

- Vision, mission and strategy viewed from different perspectives:
  1. **Financial** – representing the “Owners” of the organization;
  2. **Stakeholders** – representing the clients (a subset of the larger universe of stakeholders) and stakeholders
  3. **Internal processes** – representing managers and process staff
  4. **Learning and Growth** – representing staff and infrastructure capacity
  5. (See following slide)
Public-Sector Balanced Scorecard: 
*Four Perspectives*

- Mission
- Clients & Stakeholders
- Staff & Organization Capacity
- Internal Business Processes
  
  Strategy
• A journey not a destination
• Real value comes from continuous self-inquiry and in-depth analysis
• Changing behaviour is as important as measuring performance
A six-step framework to build an organizational BSC

1. Assessment
2. Strategy
3. Objectives
4. Strategic Map
5. Performance Measures
6. Initiatives
Building a BSC: a 6-step framework

1. Assessment
2. Strategy
3. Objectives
4. Strategic Map
5. Measures
6. Initiatives

MISSION STRATEGY
Financial
Learning & Growth
Internal Processes
Clients & Stakeholders
Step 1: Assessment

- Of the organization’s foundations, core beliefs, values, opportunities, financial position, short and long-term goals and an understanding of what matters to the stakeholders
- Self-assessment often undertaken at an off-site workshops
- Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis carried out, discussed and documented
- A “champion” and a core BSC team selected, a schedule for the development steps set, resources secured, and a communication plan developed
Step 2: Strategy

- A hypotheses of what we think will work and be successful
- Several overarching strategic themes developed
- Also identify what approaches have not been selected
- Remaining steps in building the BSC system provides a basis for testing whether our strategies are working, how efficiently they are being executed, and how effective they are in moving the organization forward toward its goals
Step 3: Objectives

- Decomposition of strategy into smaller components
- The basic building blocks of strategy – components or activities that make up complete strategies
Step 4: Strategic Map

- Of the organization’s overall strategy
- Using cause-effect linkages (if-then logic connections), the components (objectives) of strategies connected and placed in appropriate scorecard perspective categories
- Relationship among strategy components (objectives) used to identify the key performance drivers of each strategy – taken together chart the path to successful outcomes
- Figure 2 shows how an objective (effect) is dependent on another objective (cause), and how, taken together, they form a strategic thread from activities to desired end outcomes
Figure 2: Strategic Mapping

- Improve Returns
  - Broaden Revenue Mix
  - Improve operating efficiency

- Financial
  - Increase confidence
    - Understanding Market segments
    - Develop New Products
    - Cross-Sell

- Clients & Stakeholders
  - Increase satisfaction
    - Shift to Appropriate Channel
    - Reduce Cycle time
    - Provide Rapid response

- Internal Processes
  - Increase productivity
    - Hire Key Technical Talent
    - Cross training
  - Access to information
  - Align Personal goals

- Learning & Growth
Step 5. Performance Measures

- To develop them, understanding of the relationship between the desired outcomes and the processes used to produce outcomes needed
- Track both strategies and operational progress
- Desired outcomes measured from the perspective of internal and external stakeholders, and processes are measured from the perspective of the process owners and activities needed to meet requirements
- Use the strategic Map developed in Step 4, specifically the objectives, to develop them
- Look for the few measures (key performance drivers) critical to overall success
- A means to an end, not the end themselves
- "If it is important to executing good strategy well, and to operating good processes efficiently, measure it – if it isn’t, don’t"
Continuous learning framework

- For measuring and managing both strategic and operational performance
- Use Performance Measurement stethoscope to get meaningful performance information, to measure if we are doing the right things or if we are doing things right
- (See Figure 3)
Figure 3: Results & Process Measures

Are We Doing Things Right?

**INPUTS**
- People
- Systems
- Information

**PROCESS ACTIVITIES**
- Activity
- Activity

**RESULTS**
- Output
- Outcome
- Process Measures
- Result Measures

Are We Doing The Right Things?

Performance Measure
Challenges in developing performance measures (metrics)

- Tendency to hurry and identify many measures, hoping that a few good ones are in the group and will “stick”
- Tendency to rush to judgement – not thinking deeply about what measures are important and why – due to pressures
Three Models to get the measures that matter most

- To identify the critical performance drivers, measure them, and use the information to improve decision-making
  1. *The Logic Model*
  2. *Process Flow*
  3. *Causal Analysis*
1. The Logic model

- Explore relationships among four types of performance measures:
  - *Inputs* – *what we use to produce values*
  - *Processes* – *how we transform inputs into outputs*
  - *Outputs* – *what we produce*
  - *Outcome* – *what we accomplish*
- Reinforces the logic of the strategic map by showing the relationship among the activities that produce good outcomes
Can add another measure category – intermediate outcomes – to capture important intermediate transformations that take place between what we produce and what we accomplish.

Intermediate outcomes useful when end outcome is far removed from the outputs, or when little control is exercised over the achievement of the end outcome.

Figure 4 shows a series of “Why” questions to identify the end outcome.

By substituting “How” for “Why”, the process works from outcomes to processes – start with the outcome and work backwards to the process.
Figure 4: Moving from Activities, Outputs to Outcomes

- **Process**: Write A Rule
  - **Output**: To Enact A Rule
    - **Intermediate Outcome**: So Industry Takes Action
      - **Intermediate Outcome**: To Reduce Oil Spills
        - **Intermediate Outcome**: To Improve Water Quality
          - **End Outcome**: To Reduce Disease in Fish & Humans
2. Process Flow

- Flow charting processes identify the activities (and measures) that matter most to produce good outcomes
- Identifies places where efficiency in workflow are needed and possible
- Help identify new initiatives (Step Six) that can be used to test strategic hypotheses
3. Causal Analysis

- Identifies the causes and effects of good performance
- Start with the result (the effect) we want to achieve and then identify all the causes that contribute to desired result
- Most useful for identifying input and process measures that are leading indicators of future results
Step 6: New Initiatives

- That need to be funded and implemented identified
- Developed at the end of the scorecard building process more strategic than if they are developed in the abstract
- Are means, not ends
The logic of scorecard development

- Client and stakeholder requirements drive the way an organization responds to opportunities;
- Vision, mission and values shape the culture of the organization and lead to a set of strategic goals that outlined performance;
- Strategies provide the approach chosen to meet client and stakeholder needs and attain the desired goals – made up of building blocks that can be mapped and measured with performance measures;
- Targets provide the expected levels of performance that are desired;
- New initiatives provide new information successfully meet challenges and test strategy assumptions;
- Resource identification and budget setting complete the process of adding the new initiatives to the current operations total budget

(See Figure 5)
Figure 5: BSC Logic

Clients & Stakeholders

Mission
Vision
Core Values
Goals
Objectives
Strategic Map

Input
Process
Outputs
Measures
Outcomes
Targets
Initiatives
Budget
A completed scorecard

- Takes a number of unique forms to support each organization’s unique communication and management needs
- Most organizations want to see different scorecard views
- (Figures 6 to 8 shows examples of several presentations)
Figure 6: Putting It All Together – Federal Logistics Centre

Mission

Provide Logistics Support & Products to Assure Safety for the Flying Public

World-class, customer-driven; Providing Quality Service world-wide

Vision

S1: More client-driven
S2: Increase business opportunities

Strategy

S1-O1: Assure timely delivery
S1-O2: Raise quality level
S1-O3: Reduce cycle time

Objectives

S1: More client-driven
S2: Increase business opportunities

Measures

S1-O1-M1: % on-time delivery
S1-O2-M1: % defective product
S1-O3-M2: % defective shipments

Targets

T1: More client-driven
T1: Increase business opportunities

S1-O1-M1-T1: 100% in 2006
S1-O2-M1-T1: Zero in 2006
S1-O3-M2-T1: Zero in 2006

Initiatives

S1-I1: Reengineer delivery process
S1-I1: Six Sigma training
## Figure 7: Linking scorecard components

<table>
<thead>
<tr>
<th>Objective</th>
<th>Measure</th>
<th>Target</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>Broaden revenue mix</td>
<td>Revenue mix</td>
<td>10% Product A 40% Product B 50% Product C</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sales Promotion New Channel Marketing</td>
</tr>
<tr>
<td>Client &amp; Stakeholder</td>
<td>Increase client satisfaction</td>
<td>Client retention</td>
<td>95%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Frequent clients’ club</td>
</tr>
<tr>
<td>Internal</td>
<td>Develop new products</td>
<td>% revenue from new products</td>
<td>2006-15% 2007-50% 2008-60%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R&amp;D Programme Client Mailing</td>
</tr>
<tr>
<td>Learning &amp; Growth</td>
<td>Develop strategic skills</td>
<td>Cross-train</td>
<td>90%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Client training Knowledge management</td>
</tr>
</tbody>
</table>
Figure 8: Putting It All Together - Local Government

Serve county residents by helping improve their lives & community

Be the best local government service provider

S1: Increase value by providing more cost-effective services
S2: Reduce violence, harm & injury through community partnerships

S1-O1: Optimize organization
S1-O2: Identify services & resource gaps
S1-O3: Survey citizens

S1-O1-M1: Skills match index
S1-O2-M1: Cost per unit service
S1-O3-M2: Citizen satisfaction rating

S1-O1-M1-T1: Skills index: 80% in 2006
S1-O2-M1-T1: 7% improvement above baseline
S1-O3-M2-T1: 95% in 2006

S1-I1: New outreach programme
S1-I1: Communications plan
How long does it take to build a BSC system?

- Depending on the size of the organization, 2 to 4 months is typical, 6 weeks is possible.
- It depends on senior management support and continuous commitment, existing assessment information, size of the organization, availability of scorecard members, willingness to change and embrace new ideas, level of organization pain and facilitation support.
Conclusion
BSC System

- Provides a basis for executing good strategy well and managing change successfully
- Will cause people to think more strategic about their organization and their work
- A refreshing change to “strategic planning as usual”
- Bring change in the way things are done
- Involves changing hearts and minds as much as it involves measuring performance