

# Balanced Scorecard



## Summary



- Balanced Scorecard is probably the most widely used management system in the modern times. It is Selected by Harvard Business Review as one of the “most important management practices of the past 75 years.”
- It began as a performance measurement framework, but evolves into an integrative management system in the past decade.

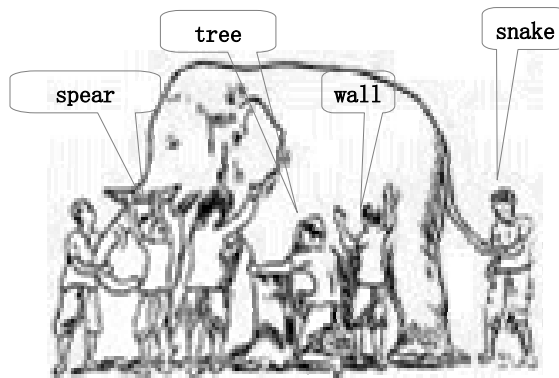
# History of Balanced Scorecard

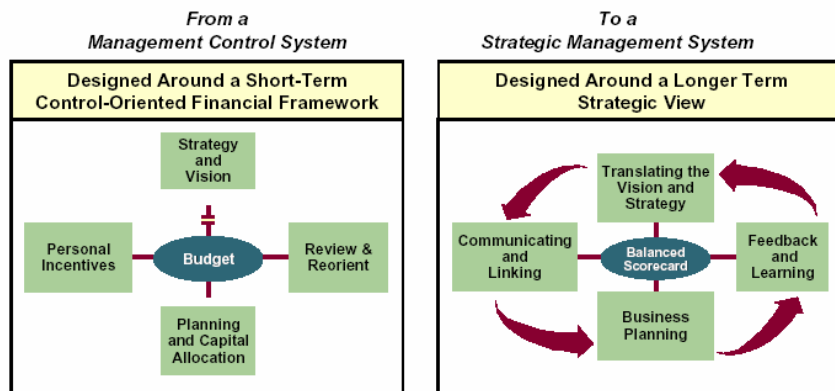


## Key Milestones:

- 1992 ■ **BSC as Performance Measurements** (“The Balanced Scorecard — Measures that Drive Performance” January - February 1992, HBR)
- 1996 ■ **BSC as Strategic Management System** (“Using the Balanced Scorecard as a Strategic Management System” January - February 1996, HBR)
- 2000 ■ **BSC as basis for “Strategy-focused Organization”**. (*The Strategy-focused organization.*)

# What's An Organization's Goal Like?





Source: The Balanced Scorecard Collaborative, Inc.

## Why Do We Want A Balanced Scorecard?



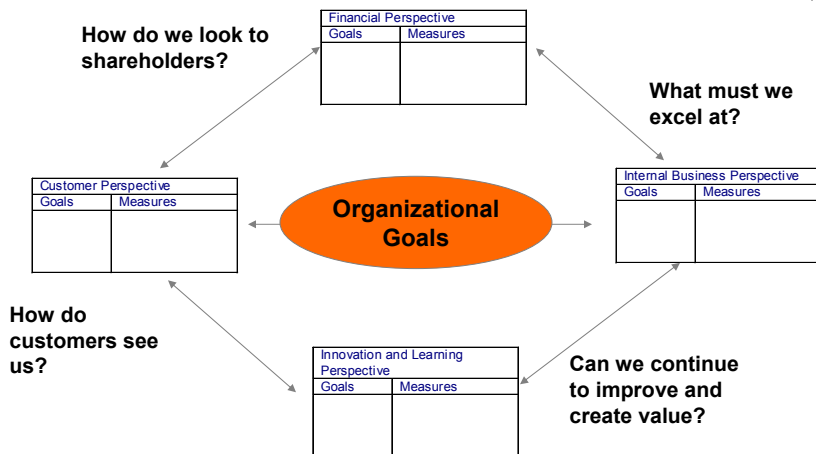
1. Measurements are one-sided
2. Goals are disintegrated
3. Measurements are unstructured
4. Causes and effects are confused
5. Vision and Strategy not actionable
6. Strategy not linked to Division/Team Goals
7. Feedback is Tactical, not Strategic
8. ...in a word, things are not well balanced...

# DIALS IN AN AIRPLANE COCKPIT

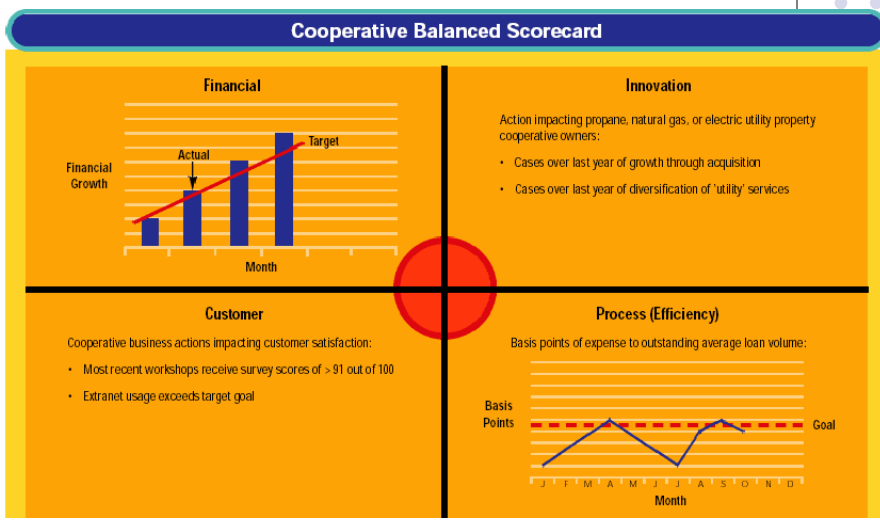
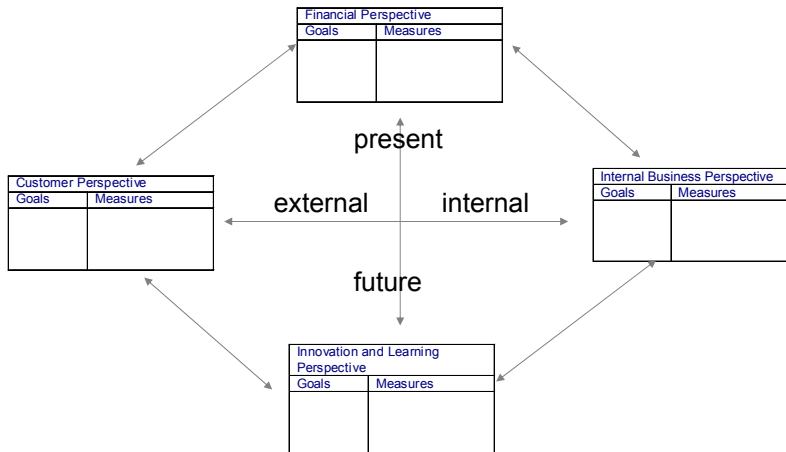


- Weather
- Fuel
- Height
- Latitude
- Temperature
- Time
- Frequency

# The Balanced Scorecard



# The Balance



# Case Overview



## Case: Balanced Scorecard-based Performance Assessment

Organization: Federal Procurement System, Department of Energy

Time: Financial Year 2002

### MISSION

To provide acquisition and assistance services to support accomplishment of the Department's programmatic goals and objectives.



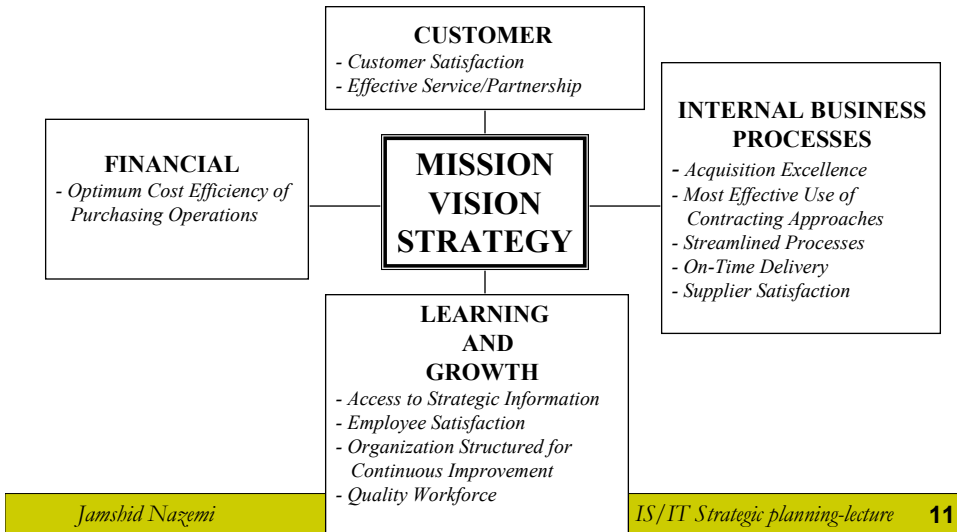
### VISION

To deliver on a timely basis the best value product or service to our customers while maintaining the public's trust and fulfilling public policy objectives.

### STRATEGY

To change the present system's culture, management systems, and line processes consistent with the principles of Quality Management, in order to establish and maintain: **a customer focus, a sense of urgency, continuous and breakthrough process improvement, and an emphasis on results.**

# BALANCED SCORECARD PERSPECTIVES AND OBJECTIVES



## CUSTOMER PERSPECTIVE



OBJECTIVE	MEASURE	TARGET
Customer Satisfaction Data Source: Customer Survey Data Generation: Accomplished by using standardized survey instrument. Individual survey responses are entered into Excel Data Reduction Program which calculates results. Data Verification: Procurement Directors are responsible for accuracy of data and retention of Excel Program Reports in accordance with records management requirements. Reports will be made available for compliance and/or HQ reviews.	Timeliness: Extent of customer satisfaction with timeliness of procurement processing; planning activities; and on-going communications.  Quality: Extent of customer satisfaction with the quality of goods and services delivered.	85% for FY 2002  90% for FY 2002
Effective Service/Partnership Data Source: Customer Survey Data Generation: Accomplished by using standardized survey instrument. Individual survey responses are entered into Excel Data Reduction Program which calculates results. Data Verification: Procurement Directors are responsible for accuracy of data and retention of Excel Program Reports in accordance with records management requirements. Reports will be made available for compliance and/or HQ reviews.	Extent of customer satisfaction with the responsiveness, cooperation, and level of communication with the procurement office.	88% for FY 2002

## INTERNAL BUSINESS PERSPECTIVE



OBJECTIVE	MEASURE	TARGET
<p><b>Acquisition Excellence</b>                      Data Source: Manager's Self-Assessment Survey, protest data                      Data Generation: Accomplished by using standardized survey instrument. Individual survey responses are entered into Excel Data Reduction Program which calculates results.                      Data Verification: Procurement Directors are responsible for accuracy of data and retention of Excel Program Reports in accordance with records management requirements. Reports will be made available for compliance and/or HQ reviews.</p> <p><b>Most Effective Use of Contracting Approaches to Maximize Efficiency and Cost Effectiveness.</b></p> <p><b>Use of Purchase Cards:</b>                      Data Source: Card Issuer Reports, PADS, CUTS, local tracking systems                      Data Generation: Data is tabulated from the listed tracking systems.                      Data Verification: Procurement Directors are responsible for accurately reporting results and retention of records in accordance with records management requirements. Records will be made available for compliance and/or HQ reviews.</p>	<p>Extent to which internal quality control systems are effective, particularly with respect to compliance with laws and regs, vendor selection and performance, contract admin., and subcontractor oversight.</p> <p>Use of Purchase Cards:</p> <ol style="list-style-type: none"> <li>1. Number of purchase card transactions as a percentage of total actions under \$25,000.</li> <li>2. Total amount of cost avoidance through the use of purchase cards.</li> </ol> <p>(The above two measures will be tracked at Headquarters based on data submitted by the field offices)</p>	<p>85%</p> <p>No sustained protests.</p> <p>87%</p> <p>\$6M</p>
<i>Jamshid Nazemi</i>	15	<i>IS/IT Strategic planning-lecture</i> <b>11</b>

## INTERNAL BUSINESS PERSPECTIVE - Cont.



OBJECTIVE	MEASURE	TARGET
<p><b>Use of Electronic Commerce:</b>                      Data Source: Electronic Small Purchase Systems, PADS, CUTS, local tracking systems                      Data Generation: Data is tabulated from the listed tracking systems.                      Data Verification: Procurement Directors are responsible for accurately reporting results and retention of records in accordance with records management requirements. Records will be made available for compliance and/or HQ reviews.</p> <p><b>Performance Based Service Contracts:</b>                      Data Source: PADS                      Data Generation: Data is tabulated from PADS.                      Data Verification: Procurement Directors are responsible for accuracy of data entered into PADS. On a routine basis, HQ will randomly sample pre and post award actions and compare against the FAR PBSC standards.</p>	<p>Use of Electronic Commerce:</p> <ol style="list-style-type: none"> <li>1. Percent of purchase and delivery orders issued through electronic commerce as a percentage of total simplified acquisition actions.</li> <li>2. Percent of all synopses (for which widespread notice is required) and associated solicitations posted on FEDBIZOPPS. This measure will be tracked at HQ.</li> </ol> <p>Performance Based Service Contracts:</p> <p>PBSCs awarded as a percentage of total service contract awards.</p> <p>Percent of total eligible service contract dollars obligated for PBSCs (applicable to all actions over \$25K). This measure will be tracked at HQ.</p>	<p>33% for FY 2001                      50% for FY 2002                      60% for FY 2003</p> <p>100% of actions over \$25K.</p> <p>80% for FY 2002                      85% for FY 2003                      85% for FY 2004</p> <p>60%</p>
<i>Jamshid Nazemi</i>	16	<i>IS/IT Strategic planning-lecture</i> <b>11</b>



## LEARNING AND GROWTH PERSPECTIVE



OBJECTIVE	MEASURE	TARGET
<p><b>Access to Strategic Information</b>                      Data Source: Manager's Self-Assessment Survey (Data Collection)                      Data Generation: Accomplished by using standardized survey instrument. Individual survey responses are entered into Excel Data Reduction Program which calculates results.                      Data Verification: Procurement Directors are responsible for accuracy of data and retention of Excel Program Reports in accordance with records management requirements. Reports will be made available for compliance and/or HQ reviews.</p>	<p>The extent to which reliable procurement management information systems are in place.</p>	<p>Strategic information system that is 100% accurate, timely and efficient.</p>
<i>Jamshid Nazemi</i>	17	<i>IS/IT Strategic planning-lecture</i> <b>11</b>

## LEARNING AND GROWTH PERSPECTIVE - Cont.



OBJECTIVE	MEASURE	TARGET
<p><b>Employee Satisfaction</b>                      Data Source: Employee Survey                      Data Generation: Accomplished by using standardized survey instrument. Individual survey responses are entered into Excel Data Reduction Program which calculates results.                      Data Verification: Procurement Directors are responsible for accuracy of data and retention of Excel Program Reports in accordance with records management requirements. Reports will be made available for compliance and/or HQ reviews.</p>	<p><b>Superior Executive Leadership:</b>                      Employee's perception of the organization's professionalism, culture, values, and empowerment.</p> <p><b>Quality Work Environment:</b> Employee's degree of satisfaction with tools available to perform job, with mechanisms in place to ensure effective communications to accomplish job requirements, and with current benefits and job security.</p>	<p>84%</p> <p>85%</p>
<p><b>Organization Structured for Continuous Improvement</b>                      Data Source: Manager's Self-Assessment Survey (Mission Goals)                      Data Generation: Accomplished by using standardized survey instrument. Individual survey responses are entered into Excel Data Reduction Program which calculates results.                      Data Verification: Procurement Directors are responsible for accuracy of data and retention of Excel Program Reports in accordance with records management requirements. Reports will be made available for compliance and/or HQ reviews.</p>	<p>Assessment of the level of continuous improvement including existence of an effective quality culture, extent of benchmarking and other improvement initiatives, and strategic planning actions.</p>	<p>81%</p>
<i>Jamshid Nazemi</i>	18	<i>IS/IT Strategic planning-lecture</i> <b>11</b>

## FINANCIAL PERSPECTIVE



OBJECTIVE	MEASURE	TARGET
<p>Optimum Cost Efficiency of Purchasing Operations</p> <p>Data Source: PADS, local budget tracking systems</p> <p>Data Generation: Cost to Spend Ratio is calculated from data extracted from listed data systems.</p> <p>Data Verification: Procurement Directors are responsible for the accuracy of the calculated ratio, and for retention of source documents and ratio calculation sheets in accordance with records management requirements. Records will be made available for compliance and/or HQ reviews.</p>	<p>Cost to Spend Ratio: Procurement organization's operating costs (labor plus overhead) divided by procurement obligations. (Note: the costs and obligations associated with M&amp;O actions are excepted).</p>	<p>.012</p>

## STRATEGY-FOCUSED ORGANIZATION



# EXECUTIVE TEAM LEADERSHIP TO MOBILIZE STRATEGIC CHANGE



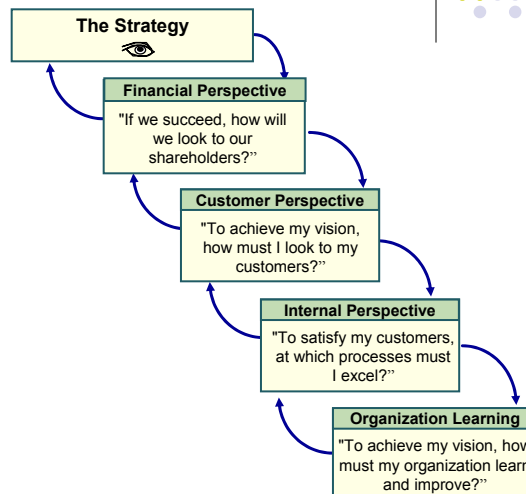
*A successful Balanced Scorecard program starts with a recognition that it is not a “metrics” project, it’s a “change” process.*

Leadership Roles	
1.	<b>Creating the Climate for Change</b> <ul style="list-style-type: none"> <li>• Unfreeze the organization</li> <li>• Show the need for change</li> </ul>
2.	<b>Creating the Leadership Team</b> <ul style="list-style-type: none"> <li>• Breaking down functional bias</li> </ul>
3.	<b>Creating the Vision and Strategy</b> <ul style="list-style-type: none"> <li>• BSC as a “visioning process”</li> <li>• BSC to clarify the strategy</li> </ul>
4.	<b>Creating Team Accountability</b> <ul style="list-style-type: none"> <li>• Accountability for cross-functional strategic themes at Executive Team level</li> </ul>
5.	<b>Change the Culture</b>

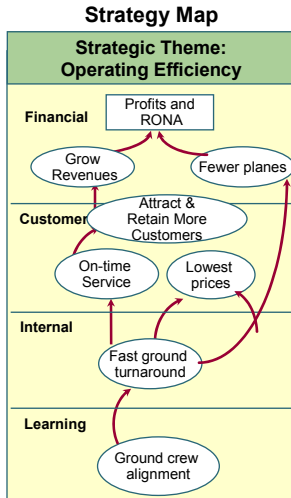
# TRANSLATE THE STRATEGY TO OPERATIONAL TERMS



- ❑ **Measurement is the language that gives clarity to vague concepts.**
- ❑ **Measurement is used to communicate, not to control.**
- ❑ **Strategy can be described as a series of cause and effect relationships**



# Basic Scorecard ,Airlines Example)



**Objectives:**  
What the strategy is trying to achieve

**Measures:**  
How success or failure (performance) against objectives is monitored

**Targets:**  
The level of performance or rate of improvement needed

**Initiatives:**  
Key action programs required to achieve targets

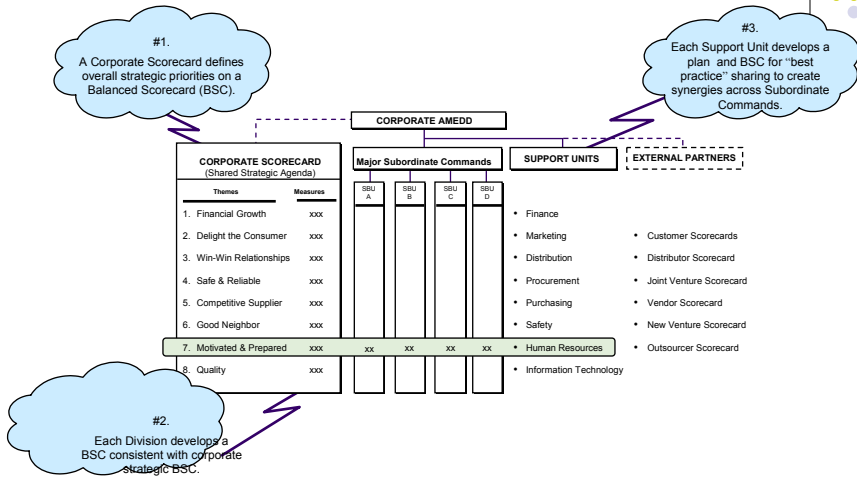
Objectives	Measures	Targets	Initiatives
<ul style="list-style-type: none"> <li>Fast ground turnaround</li> </ul>	<ul style="list-style-type: none"> <li>On Ground Time</li> <li>On-Time Departure</li> </ul>	<ul style="list-style-type: none"> <li>30 Minutes</li> <li>90%</li> </ul>	<ul style="list-style-type: none"> <li>Cycle time optimization</li> </ul>

## More...

**Strategy Map**

Strategic Theme: Operations Excellence	Objectives	Measures	Targets	Initiatives
	<ul style="list-style-type: none"> <li>Profitability</li> <li>Grow Revenues</li> <li>Fewer planes</li> </ul>	<ul style="list-style-type: none"> <li>30% CAGR</li> <li>20% CAGR</li> <li>5% CAGR</li> </ul>		
	<ul style="list-style-type: none"> <li>More Customers</li> <li>Flight is on-time</li> <li>Lowest prices</li> </ul>	<ul style="list-style-type: none"> <li># Customers</li> <li>FAA On Time Arrival Rating</li> <li>Market Survey</li> </ul>	<ul style="list-style-type: none"> <li>12% growth</li> <li>Ranked #1</li> <li>Ranked #1</li> </ul>	<ul style="list-style-type: none"> <li>Customer loyalty program</li> <li>Quality management</li> </ul>
	<ul style="list-style-type: none"> <li>Fast ground turnaround</li> </ul>	<ul style="list-style-type: none"> <li>On Ground Time</li> <li>On-Time Departure</li> </ul>	<ul style="list-style-type: none"> <li>30 Minutes</li> <li>90%</li> </ul>	<ul style="list-style-type: none"> <li>Cycle time optimization</li> </ul>
	<ul style="list-style-type: none"> <li>Ground crew alignment</li> </ul>	<ul style="list-style-type: none"> <li>% Ground crew trained</li> <li>% Ground crew stockholders</li> </ul>	<ul style="list-style-type: none"> <li>yr. 1 70%</li> <li>yr. 3 90%</li> <li>yr. 5 100%</li> </ul>	<ul style="list-style-type: none"> <li>Ground crew training</li> <li>ESOP</li> </ul>

# LINK AND ALIGN THE ORGANIZATION AROUND ITS STRATEGY



Strategies Are Executed Through Business Units. The Strategies of the Business Units Must Be Integrated If Organization Purpose and Synergies Are to Be Achieved.

# MAKE STRATEGY EVERYONE'S JOB

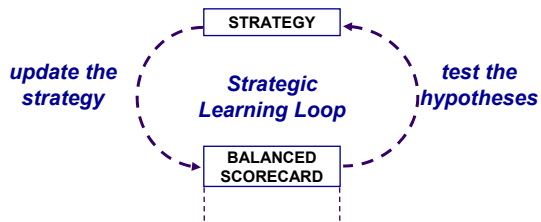




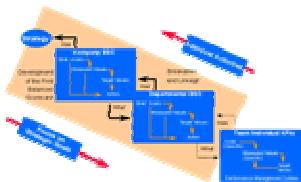
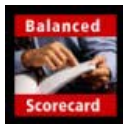
# MAKE STRATEGY A CONTINUOUS PROCESS

**60% of organizations don't link strategy & budgets**

**85% of management teams spend less than one hour per month on strategy issues**



## Implementation Process



Suggested Stages	Activities
Preparation	-Define business unit for which a top-level balanced scorecard is appropriate (with its own customers, distribution channels, production facilities, and financial performance measures.)
Interviews: First round	-Executives of BU receive and read BSC materials -Facilitator/consultant interviews executives on company goals and tentative proposals for BSC -May also interview some customers
Executive Workshop: First round	-Top management team with facilitator -Intensive session for developing BSC -May use video of some interviews -Generate draft measures for each perspective
Interviews: Second round	-Consolidate findings into a preliminary BSC -Interview each executive for input
Executive Workshop: Second round	-Senior Management Team, their direct subordinates, a large number of middle managers -Debates vision, mission, strategies and tentative BSC -Develop implementation plan -Formulate stretch objectives
Executive Workshop: Third round	-Senior executives -Finalize BSC -Finalize stretch objectives -Agree on implementation plan -Integrate BSC into a management philosophy -Decide to develop an information system to support BSC
Implementation	-Implementation plan -Link measures to databases and information systems -Communication -Facilitating second-level metrics
Periodic Reviews	-Prepare review reports for top management -Revise metrics regularly

# Ten Commandments in BSC Implementation



## Do:

- Know what you hope to achieve.
- Use the scorecard for implementation of strategic goals.
- Ensure goals are in place before the scorecard is implemented.
- Ensure that at least one top-level non-financial sponsor and line manager back the project.
- Implement a pilot before introduction.
- Carry out a pilot for each business unit before implementation

## Don't:

- Use the scorecard for top-down control.
- Standardize the project with ready-made scorecards.
- Ignore training and communication.
- Overcomplicate the process or strive for perfection.
- Underestimate the extra administrative workload and cost.
- Leave the process to accountants or without top-down support.

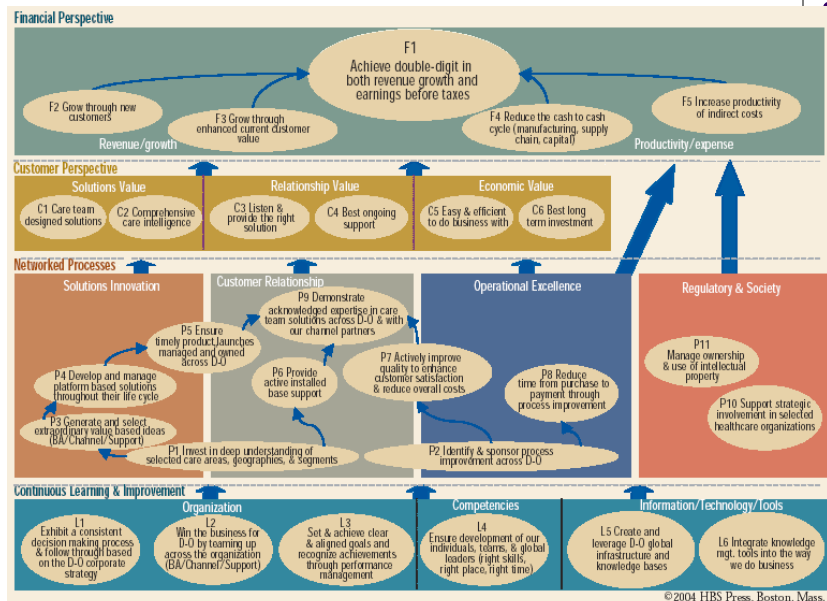


Figure 3: THE STRATEGY MAP ALIGNS INTANGIBLE ASSETS WITH THE STRATEGY FOR VALUE CREATION

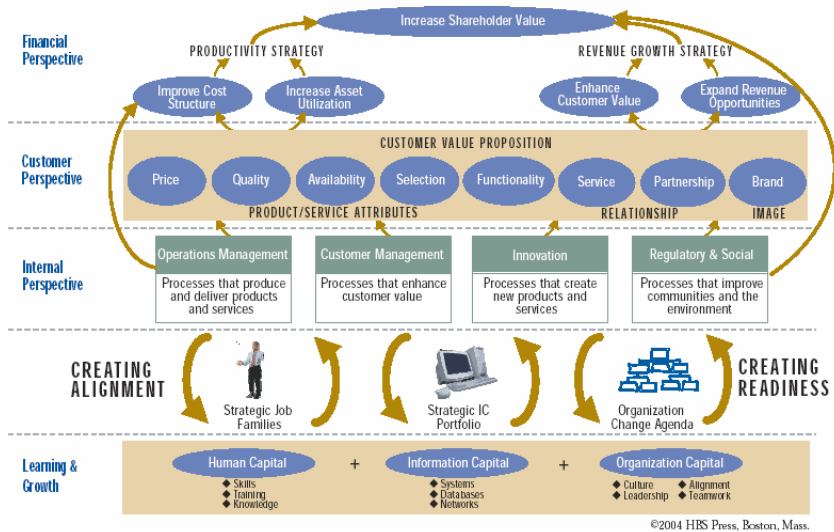


Figure 2: INTERNAL PROCESS OBJECTIVES

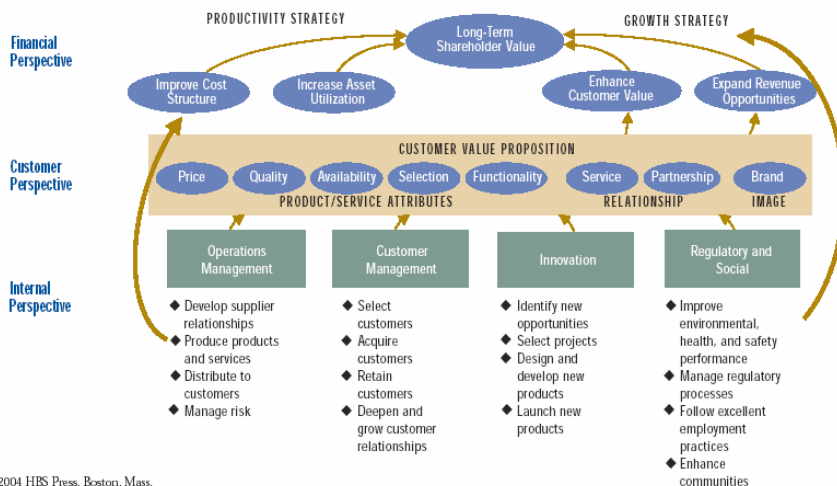
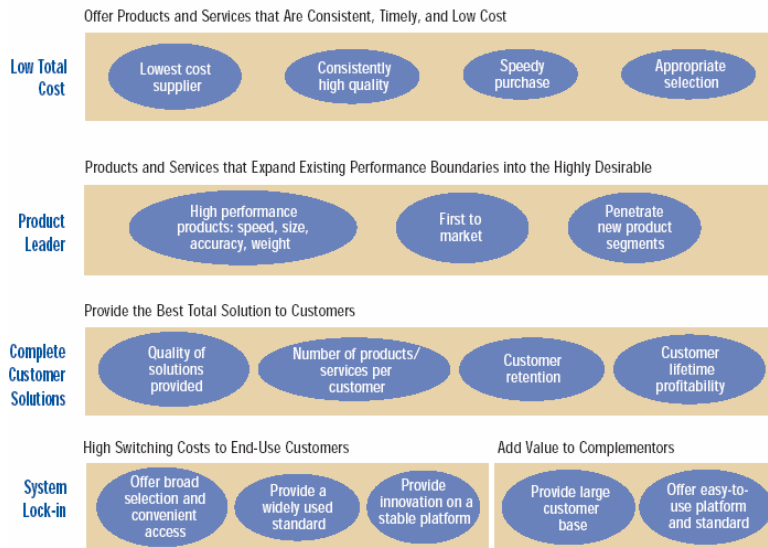






Figure 1: CUSTOMER OBJECTIVES FOR DIFFERENT VALUE PROPOSITIONS

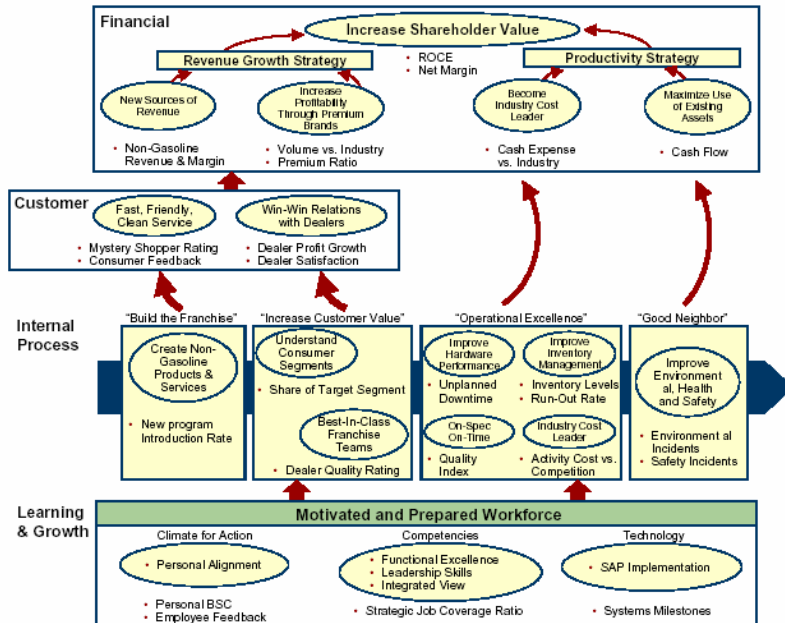


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Cooperative Balanced Scorecard Measures by Group

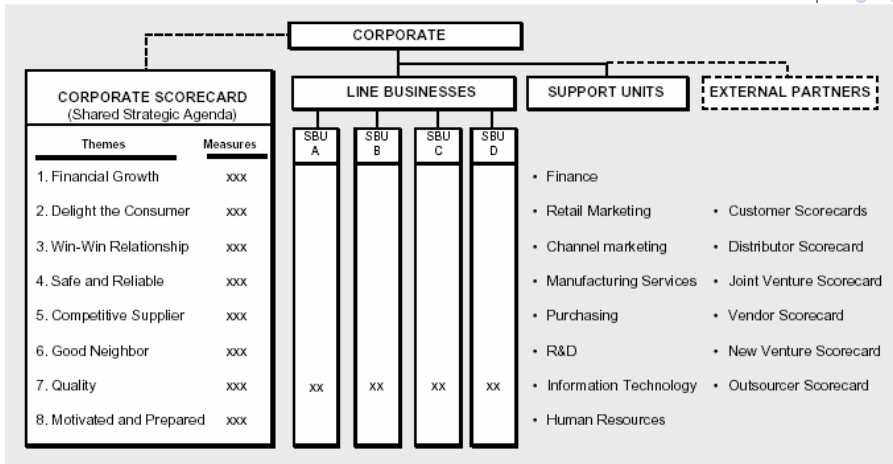
Group RC	Category	Goal	Measure	Target Value	Actual Value	Accountability
Corporate Scorecard	Customer	Become the MVP for co-ops business management	Ranking and extranet survey-based satisfaction conducted annually	> 91 overall satisfaction	TBD	Smith
	Financial	Achieve loan volume growth	Net year-end changes in loan portfolio	\$\$	\$\$	Jones
	Innovation	Completed acquisitions & diversifications	# of Cooperative-“involved” “deals”	\$\$ loans	TBD	Dobbs
	Process	Achieve target expense levels	Basis points	x basis points	y basis points	Settle
CRG Business Center	Customer	Maximize copy technology that improves output efficiency	Number of copies produced by Business Center	FY99 year-end totals to reflect copies per month	266,000 copies for the month of January, x copies YTD reflecting monthly average of y copies	Thomas
	Financial	Increase external revenues	Amount received from external organizations	Generate \$\$ revenue	\$\$ Billed for the month of January	Avery
	Innovation	Reduce postage expenditures for letter size mail by maximizing postal technology and partnering with presort mail services	Actual costs to Cooperative of postage for letter size mail	Reduce FY99 postage expenditures for letter size mail to average \$ per letter	Cost per piece \$	
	Process	Deliver a cost-effective communications and marketing program that maintains flexibility to corporate needs and accountability to corporate budget specifications	FY99 Corporate Relations Group Budget	Business Center expenses stay within budget	x% of total budget remaining	King



Source: The Balanced Scorecard Collaborative, Inc.

	Strategic Objectives	Strategic Measures
<b>Financial</b>	F1. Return on Capital Employed F2. Cash Flow F3. Profitability F4. Lowest Cost F5. Profitable Growth	<ul style="list-style-type: none"> <li>• ROCE</li> <li>• Cash flow</li> <li>• Net margin</li> <li>• Cash expense (cpg) vs. industry</li> <li>• Volume growth rate vs. industry</li> <li>• Premium ratio</li> <li>• Non-gasoline revenue</li> </ul>
<b>Customer</b>	C1. Delight the Target Consumer (Fast, Friendly, Clean) C2. Improve Dealer Profitability	<ul style="list-style-type: none"> <li>• Consumer feedback</li> <li>• Mystery Shopper rating</li> <li>• Dealer profit growth</li> <li>• Dealer survey</li> </ul>
<b>Internal</b>	I1. Build the Franchise <ul style="list-style-type: none"> <li>• Create non-gasoline products</li> </ul> I2. Increase Customer Profitability <ul style="list-style-type: none"> <li>• Understand consumer segments</li> <li>• Best-in-class franchise teams</li> </ul> I3. Operational Excellence <ul style="list-style-type: none"> <li>• Improve hardware performance</li> <li>• Improve inventory management</li> <li>• On-spec, on-time</li> <li>• Industry cost leader</li> </ul> I4. Good Neighbor <ul style="list-style-type: none"> <li>• Improve EHS performance</li> </ul>	<ul style="list-style-type: none"> <li>• New program introduction rate</li> <li>• Share of target segment</li> <li>• Dealer quality rating</li> <li>• Unplanned downtime</li> <li>• Inventory levels</li> <li>• Run-out rate</li> <li>• Quality index</li> <li>• Activity cost vs. competition</li> <li>• Environmental incidents</li> <li>• Safety incidents</li> </ul>
<b>Learning &amp; Growth</b>	L1. Organization Alignment L2. Core Competencies and Skills L3. Access to Strategic Information	<ul style="list-style-type: none"> <li>• Employee survey</li> <li>• Staff with personal BSC (%)</li> <li>• Strategic job coverage ratio</li> <li>• Strategic system milestones</li> </ul>

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