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First – my apologies. *This newsletter is a bit long, but I thought it better to provide a moderate coverage of the 5 steps in one newsletter rather than splitting it over several. Make sure you have fresh coffee at hand before you plunge into this one...*

The 5 Simple Steps to Building an Award-Winning Balanced Scorecard

Setting up a Balanced Scorecard appears to be a great intellectual quest. What a wonderful challenge for a team – to figure out the critical aspects of your organization and how to measure them.

The problem is this: no matter how many people you put on that team, you will have access to only a tiny portion of your organization's wisdom; therefore, more often than not, you will miss the critical aspects of your organization's success.

We have discovered that a trick to creating a great scorecard is to "rough it in" first, just like building a house. Use the team to create the framework for a great scorecard, like the framing of a house, and then quickly release it to the organization with the request for them to provide the details around the roughed-in scorecard.

In the house metaphor, the scorecard team members are just the framers – putting up the wood frame of the structure. The organization's job is to put in the plumbing, electricity, walls, paint, wallpaper, etc.

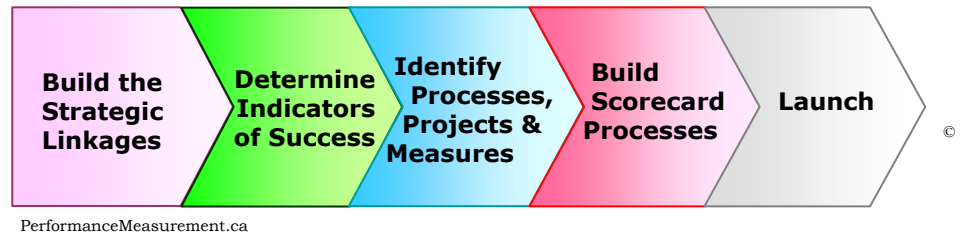
How do you do this "scorecard-framing" work?

About the 5 Steps

There are five distinctly different tasks that provide the breadth of understanding required for a scorecard and performance measurement process.

Build all four walls before the fine points of interior design.

Take whatever strategy your organization is actually using and capture that. Do NOT start a strategic planning project.



We usually accomplish each of these steps in one day, and the entire process in a business week from Monday to Friday. In a few cases, though, the culture and tempo of the organization may require this process to be spread over five weeks – or five months. The principle, though, is that it should be significantly faster than one would first think.

The trick, like framing a house, is to build the whole structure's framework quickly in order to make it self-supporting. If you pause too long between any of the steps, the entire program fails as the organization begins to "tweak" elements of the scorecard before the overall structure is built and understood.

Step1: Build the Strategic Linkages



Step 1 calls for capturing the *existing* strategy and documenting it in a new way, called a strategy map. The strategy map is the "secret sauce" that is a requirement for all great scorecards.

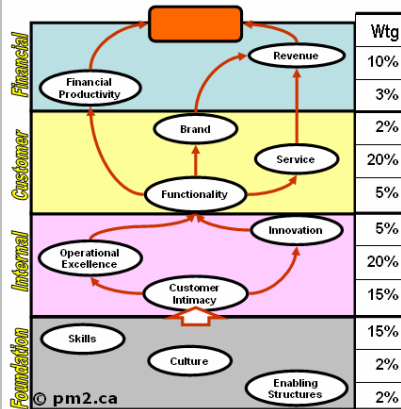
Drs Kaplan and Norton frequently quote a *Fortune* magazine article revealing that 90% of strategies fail – not because they are weak, but merely because they are not executed! ***Given such a high failure rate, the most important gain for your organization will come through the execution of your existing strategy – not through devising a better strategy.***

Do not allow your scorecard project to get sidetracked into another "strategic planning" activity. Take whatever strategy your organization is actually using and capture that. (After using the scorecard for six months, you will have enough information to have an informed strategic planning discussion.)

Much has been written about building strategy maps, including the most recent book by Drs Kaplan and Norton, called *Strategy Mapping* (a must-read). The next pm2 e-newsletter will provide some simple ideas to help you along.

KIS. If you cannot draw your strategy map on a napkin, it is too complicated. Call this your Napkin Test of Strategy.

(Pm2 is profiled in Kaplan and Norton's book. Look for the MDS section in *Strategy Mapping*.)



A strategy map describes what the organization needs to do to be successful. In building a simple map with relative importance, the senior team is able to create alignment across their areas and an overall game plan, without committing to specific actions, performance levels or ownership. The strategy map becomes a risk-free tool to engage the leadership team in agreements about the way

forward.

As the organization learns and needs to refine its strategy or direction, the strategy map becomes the tool to capture and communicate those changes.

Building the strategy map is work for the senior team within the area being scorecarded. The measurement team may or may not be invited to sit through the session.

Step2: Determine Indicators of Success

Use indicators not measures.

Determine Indicators of Success

Good scorecards start off with indicators – not measures. What is an indicator? Think of “miles per gallon” (or litres/100km). It is an indicator of the car’s performance, but does not try to diagnose specifically what might be wrong. Low mileage might be caused by poor engine performance, soft tires, bad driving technique, etc.

Many of our clients use employee absenteeism as an *indicator* of employee satisfaction. It is not precisely accurate, but many organizations have discovered that unhappy employees tend to take more sick days. Periodically they will check the indicator with a more rigorous analysis – say an employee survey – to ensure it is still a good proxy.

By using indicators, not measures, a number of benefits can be realized:

- Better breadth of scorecard coverage with fewer indicators. Because the indicator covers a wide range of possible causes, a single indicator provides wide coverage. (e.g., absenteeism might be caused by poor

management, organization changes, reduced rewards, etc.)

- Ability to start using the scorecard right away. There are *always* indicators available in the organization that can be immediately used in the scorecard.

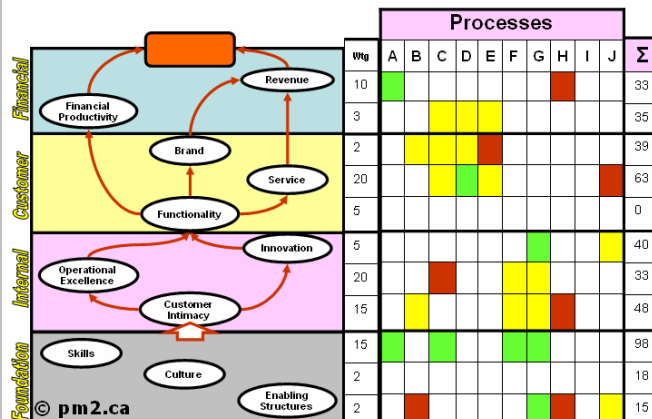
It is important to select indicators after you have built the strategy map. An organization would not adjust its strategy just because there were no obvious measures. Do not confuse the two concepts.

Step3: Identify Processes, Projects and Measures

Identify Processes, Projects & Measures

The promise of the scorecard is the translation of strategy into action. An important deliverable from any scorecard process must be the linkage between strategy and what we do – the processes and projects we work on from day to day.

During the third step, the scorecard team should produce a

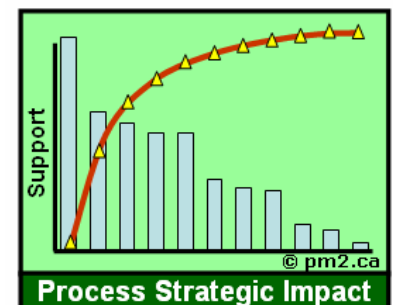


a short list of core processes, identify which ones are critical to each Strategic Objective on the strategy map, and then rank the processes' ability to support that objective.

This will allow the organization to

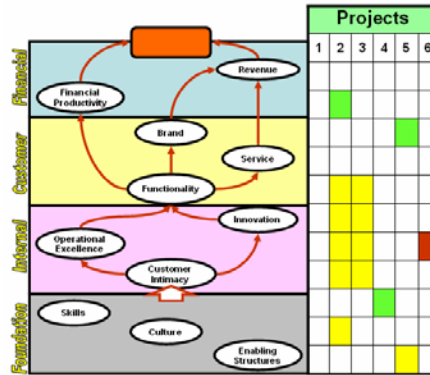
identify the strategic impact of each process. Processes that have a high weighting but provide poor support are performance risks for the organization.

Likewise, all significant projects should also be ranked based on their impact in improving the performance around each Strategic Objective.



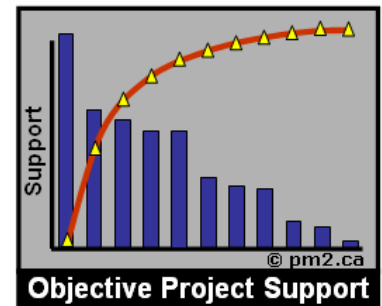
Scorecards allow the organization to link everything we do to strategy – or realize that we should stop it.

Linking processes and projects to strategy produces a risk matrix informing the organization where the largest gaps exist between strategy and execution.



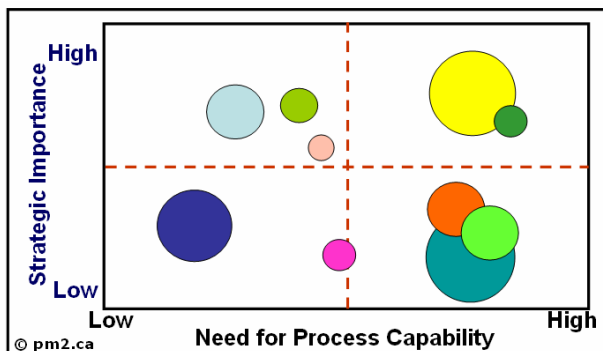
Ideally, projects will provide support around the identified weak processes; if not, the organization has a misalignment between the projects and strategic need.

It is not unusual to find that 40% to 60% of existing



projects *do not* link to any Strategic Objectives. Those projects should be stopped right away, so as not to divert resources from the things that will help execute the strategy.

By the end of step 3 the team will have a rough-cut risk-analysis illustrating the “execution gap” – the gap between what the strategy calls for and the capabilities of existing processes and projects.

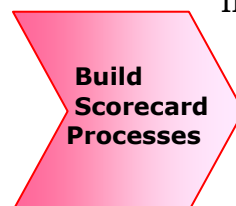


In this illustrative chart, the team can clearly show the risk profile by Strategic Objective.

Typically, we invite the senior team in to review the findings from Steps 2 and 3 (indicators,

Strategic Objective risk profile, projects recommended for suspension).

Step 4: Build Scorecard Processes



In order to receive all the benefits that scorecarding offers, management needs to learn some new techniques. The scorecard needs to (slowly) become integrated with other existing processes, such as accountabilities and financial planning, and some efforts need to be made in shifting the organization’s mindset to a performance-based culture.

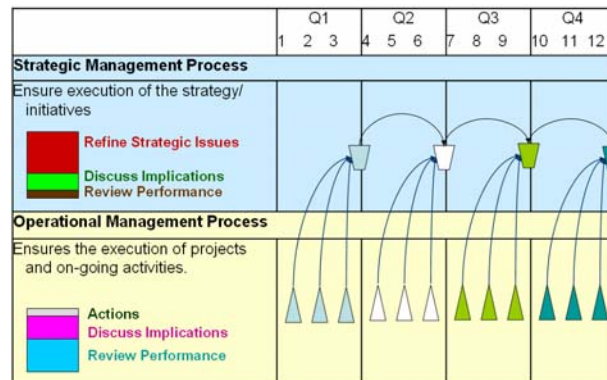
Processes need to be designed for the monthly gathering of data and objective owner commentaries. Step 4 calls for

Build roots to the scorecard tree. Begin linking the scorecard to the rest of your key processes including business planning, compensation and strategic and operational management.

Stop thinking! Turn on your scorecard as quickly as possible.

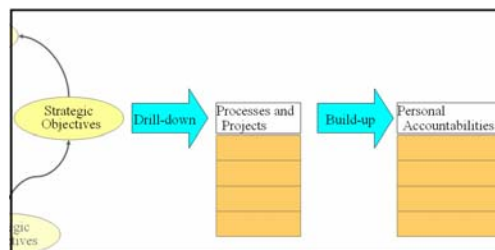
designing where the data is to come from, who writes the commentary, when it is due, and how it is published.

On the management process side, as Drs Kaplan and Norton describe in *Strategy Focused Organization*, you will need to begin making “strategy a continuous process” and making “strategy everyone’s job.”



Central to this is the addition of a new

type of quarterly management meeting – a Strategic Management Process – where the strategy map and weighting are reviewed to ensure that they are constantly tracking the best way forward for the organization.

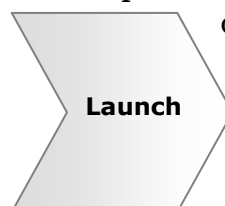


Based on the work done in step 3, the organization can begin linking the strategy down to the team or individual level by assigning accountability for each supporting process and project, which in turn is

linked to each Strategic Objective.

Step 5: Launch

It is important to get the scorecard into the hands of the organization as soon as possible.



Two bad things happen if you spend too much time before the organization starts using the scorecard: **1.** The organization begins to feel that the scorecard is becoming a tool to punish them for their “red” indicators, and **2.** The scorecard team begins to think that they have *the right answer* and becomes reluctant to change the scorecard regardless of the organization’s feedback.

Launching the scorecard has three components: developing a presentation to be given to the entire organization (repeatedly), getting management to openly support the scorecard, and getting agreement on the next steps.

Typically, we have the scorecard team produce the presentation in the morning (during a five-day project) and deliver it at 1:00 p.m. The senior team joins them at 1:00 p.m., along with as many members of the target organization as are interested.

After the open presentation, the senior team and scorecard team remain for an additional hour to review and agree to next steps.

About the pm² e-Newsletter

The goal of this newsletter is to provide pragmatic and proven ideas around performance measurement in organizations... tools like the Balanced Scorecard and Activity-Based Accounting.

Author Brett Knowles is a long-time thought leader in performance measurement. His credentials include over 300 scorecards and ABC implementations. He co-founded the first BSC application and served as a Vice President working for Drs Kaplan and Norton at the Balanced Scorecard Collaborative. Brett's clients have won two Hall of Fame awards from Drs Kaplan and Norton and have been profiled in both of their recent best-selling books, as well as in *Harvard Business Review*, *Forbes* and *Fortune* magazines and several business books.

This newsletter is intended to extend the Balanced Scorecard community of practice that Brett already hosts.

There are many other lessons that our community has taught us. These will be covered in future editions of this newsletter. If you have any specific topics that you would like us to address, please contact us.



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