Balanced Scorecard: Implementation & Challenges

23rd July 2007

Organized by: SMR

Program Schedule

» **9.00 am – 10.30am**

> Introduction PMS
> BSC Terminology & Principles
> Understanding BSC
> BSC Development Process
> The Business Strategy
> The Corporate Strategy Map & Strategic Outcomes

» **11.00am – 12.30am**

> Developing Objective Statement
> Developing the Strategy Map
> The Number of Objectives
> Common Issues
> **Workshop Practice 1**

» **2.00pm – 3.30pm**

> The Measurement System
> The Measure Characteristics
> Developing Data Dictionary
> Setting Targets & Initiatives
> Constructing the Scorecard
> Tips in the Implementation
> **Workshop Practice 2**

» **4.00pm – 5.00pm**

> Reporting Process & Concerns
> The Cascading Process
> Change Management
> Q & A

Workshop Map

The following graphic illustrates the structure for the workshop Sessions over the next four days. Within this structure you will find:

> Breaks at logical interval
> Lectures, discussions and workshop
> Questions & Answers
> Test skills
> Relationship building

Session 0	**Session1 Introduction to PMS**	**Session 2 Introduction To BSC**	**Session 3 Strategy Map**	**Session 4 BSC Strategic Measures**
Session 5 Targets/ Initiatives	**Session 6 Understanding Cascading**	**Session 7 Challenges & Issues**		

Session 0 - Purpose & Benefits of this Program

Self Assessment

Please list down the common objectives of You Participating in this program:-

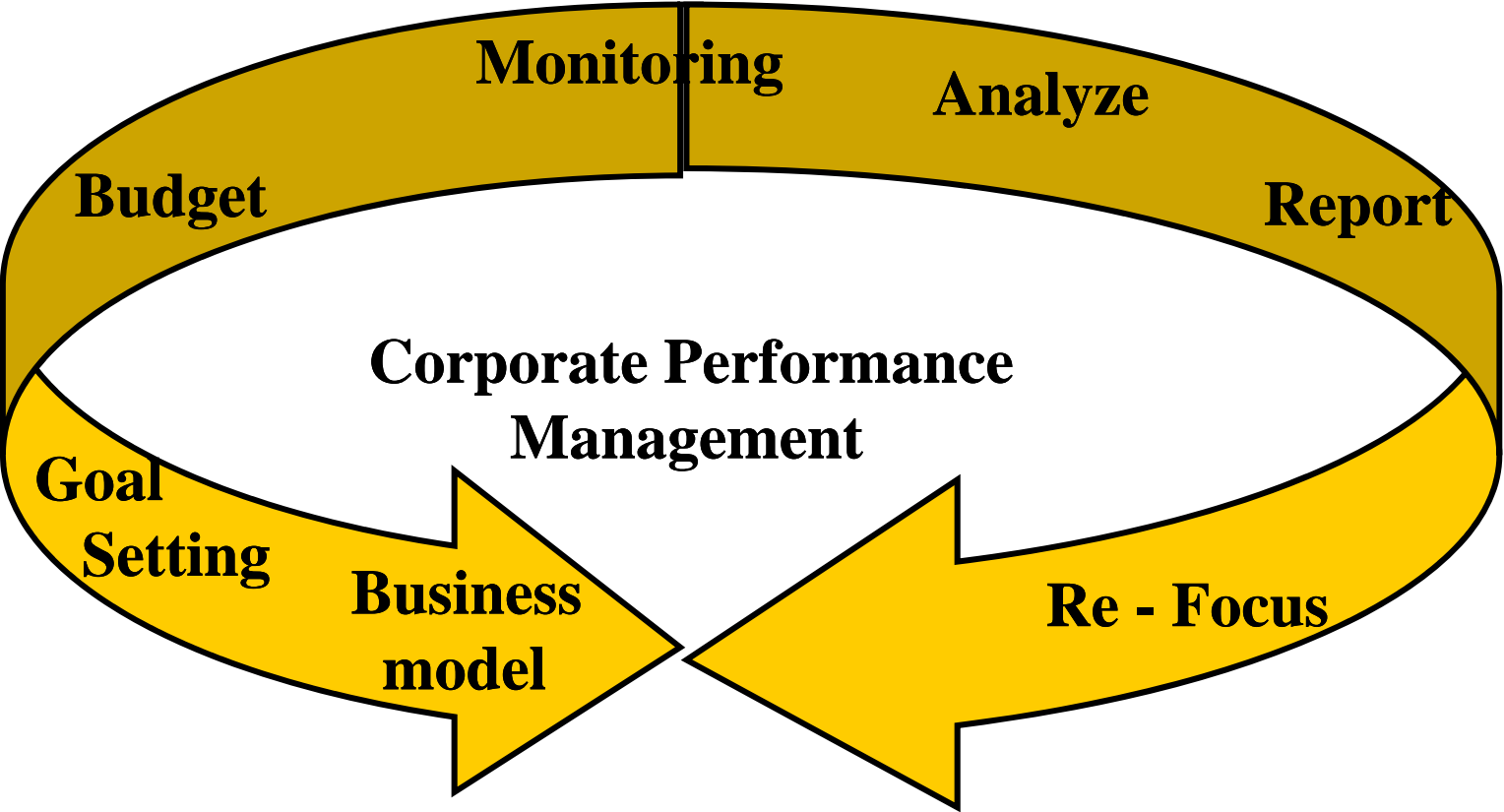   **1.**

      2.

      3.

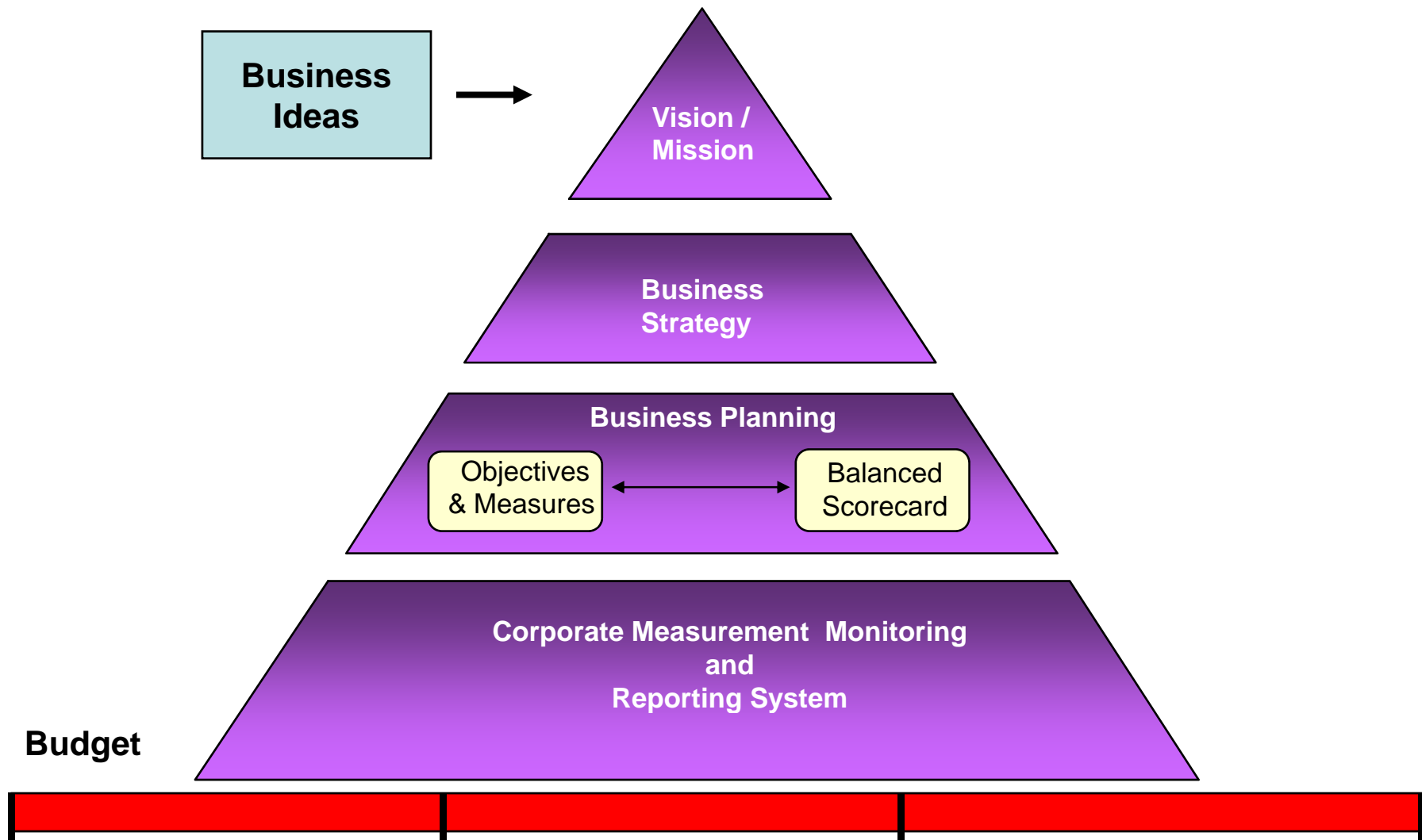   **4.**

      5.

Session 1:
Introduction to PMS

CORPORATE PERFORMANCE MANAGEMENT
Traditional View

Monitoring

Analyze

Budget

Report

Corporate Performance Management

Goal Setting

Business model

Re - Focus

PERFOFMANCE MEASUREMENT SYSTEM
Current View

Business Ideas →

Vision / Mission

Business Strategy

Business Planning

Objectives & Measures ↔ Balanced Scorecard

Corporate Measurement Monitoring and Reporting System

Budget

PERFORMANCE MEASUREMENT SYSTEM

Why Measure?

- – To track and Monitor Critical Indicators

- – To focus Attention on key Targets and Initiatives

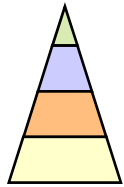- – To refocus our Resources

PERFORMANCE MEASUREMENT SYSTEM

Issues in Performance Management

– Intangibles are not measured

– Measuring and Monitoring outcomes

– KPI'S does not reflect the strategy

– System to Track the Organization's Strategic Initiatives

Levels of Measurements

STRATEGIC OBJECTIVES → KEY PERF. INDICATORS → STRATEGIC TARGETS → STRATEGIC INITIATIVES **Level 1**

OPERATIONAL OBJECTIVES → KEY PERF. INDICATORS → TARGETS → STRATEGIC ACTIONS **Level 2**

INDIVIDUAL OBJECTIVES → KEY PERF. INDICATORS → TARGETS → ACTIONS **Level 3**

PERFORMANCE MEASUREMENT SYSTEM

Strategy Execution Some Findings

- – "In majority of failure – 70% the real problem has been bad execution of Strategy" Fortune

- – Only one out of every ten companies that formulate strategy can effectively implement it – Harvard Business School

- – Corporate strategy is not well understood throughout the ranks, as a result execution suffers
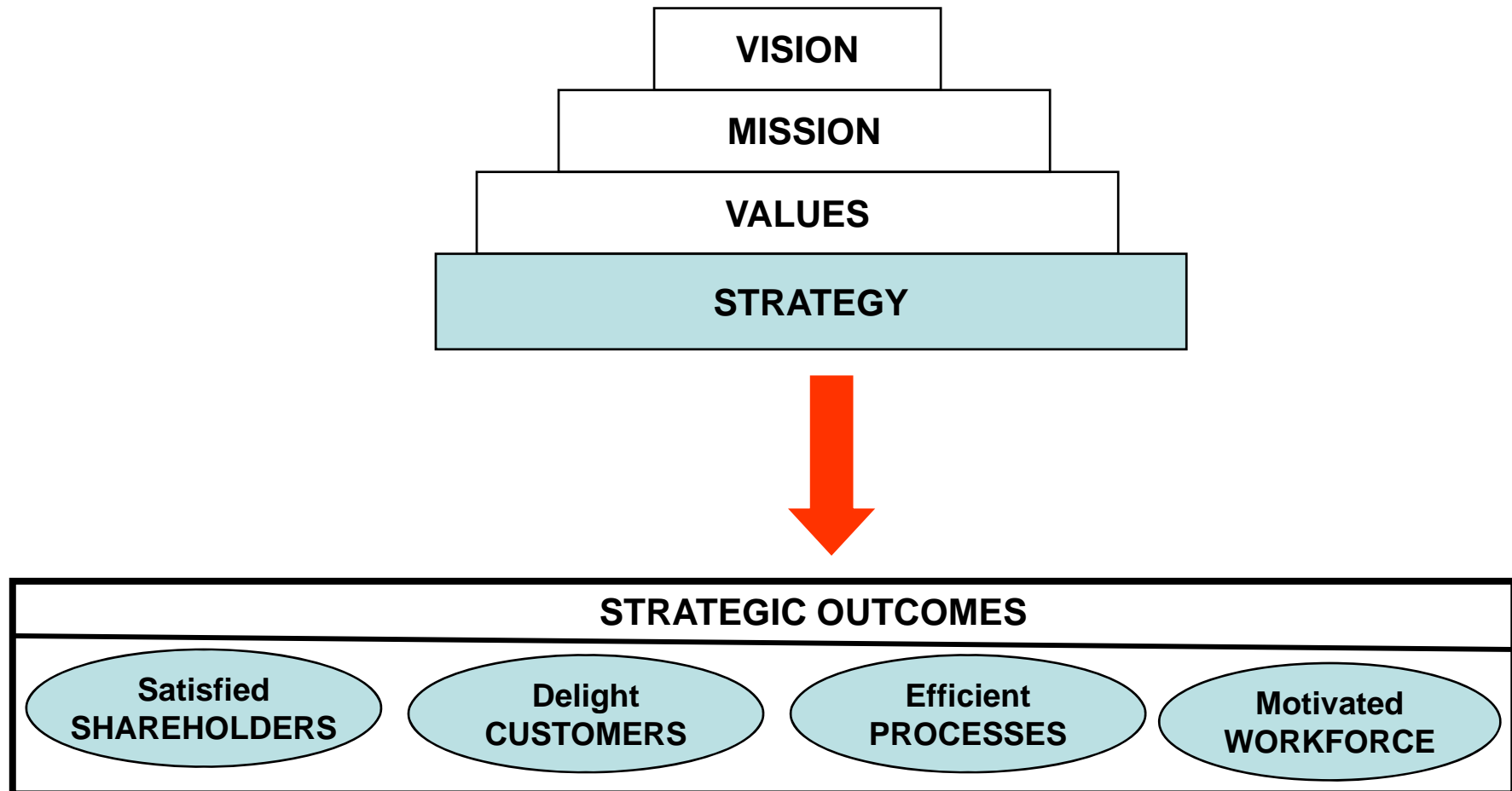
Organizations need both strategy and execution

Strategy Execution

	Weak	Strong
Weak	Doomed From the Start	At Risk
Strong	Missed Opportunity	Strategic Success

Strategy Formulation

A Gap Between Strategy and Action

Strategy Is a Step In a Continuum

VISION

MISSION

VALUES

STRATEGY

STRATEGIC OUTCOMES

| Satisfied SHAREHOLDERS | Delight CUSTOMERS | Efficient PROCESSES | Motivated WORKFORCE |

A Gap Between Strategy and Action

Strategy Is a Step In a Continuum
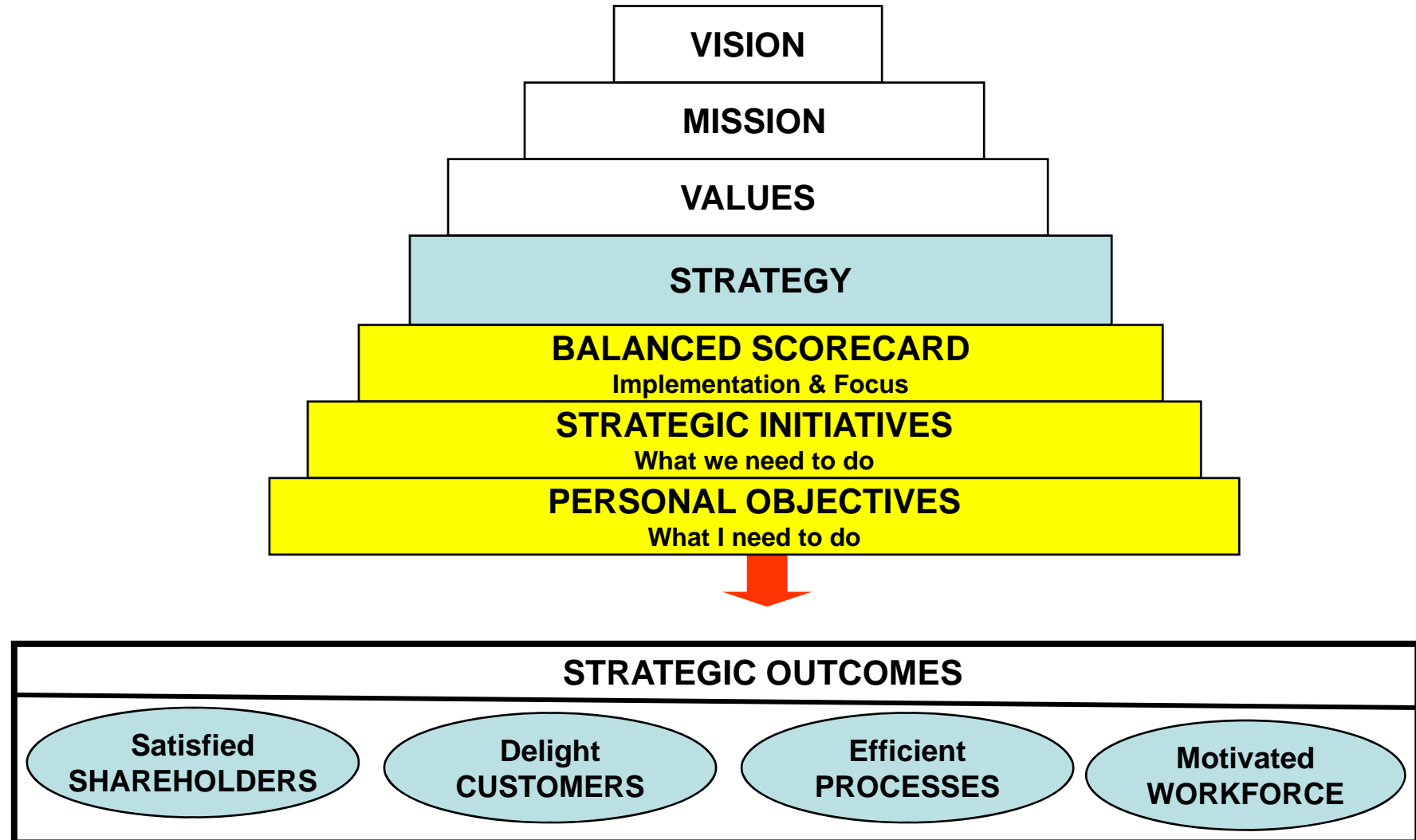
Session 2:
Introduction To Balanced Scorecard As A Tool to PMS

The Balanced Scorecard
What is it?

Definition:

The Balanced Scorecard is a management tool that provides stakeholders with a comprehensive measure of how the organization is progressing towards the achievement of its strategic goals.

KEY PERFORMANCE INDICATORS
What is it?

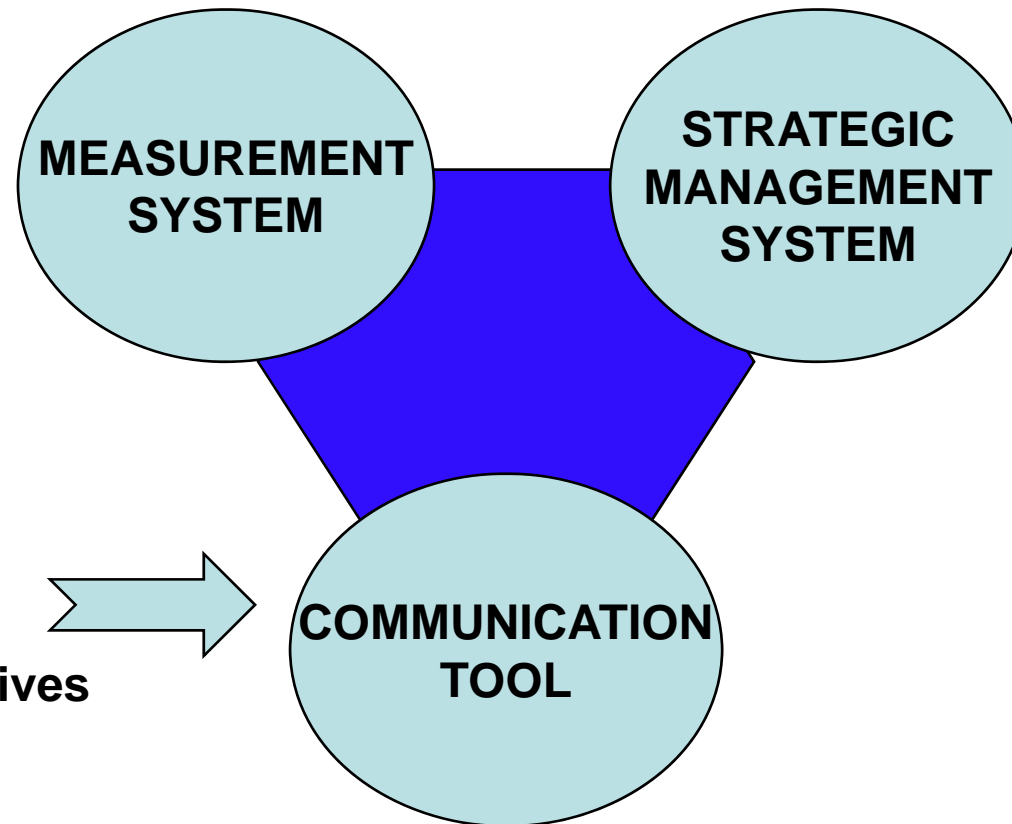Definition:

Key Performance Indicators are key measures that gauge success of the organization or Measurement that reflect the success factors of an organization. These kpi(s) are:

- Quantifiable
- Measurable today and over time
- Assessed regularly against preset corporate targets
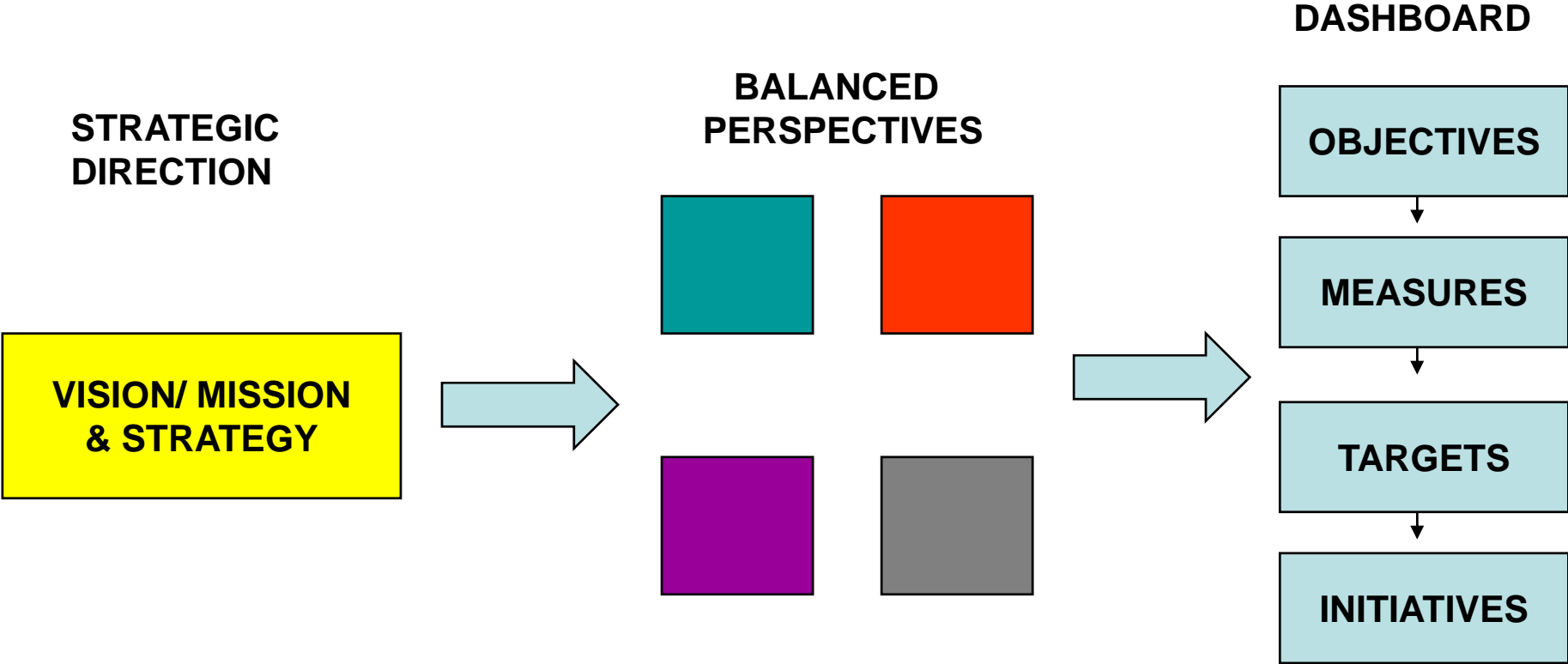- Tracked by decision makers
- Key Initiatives

BSC as a 'Tool"

MEASUREMENT SYSTEM
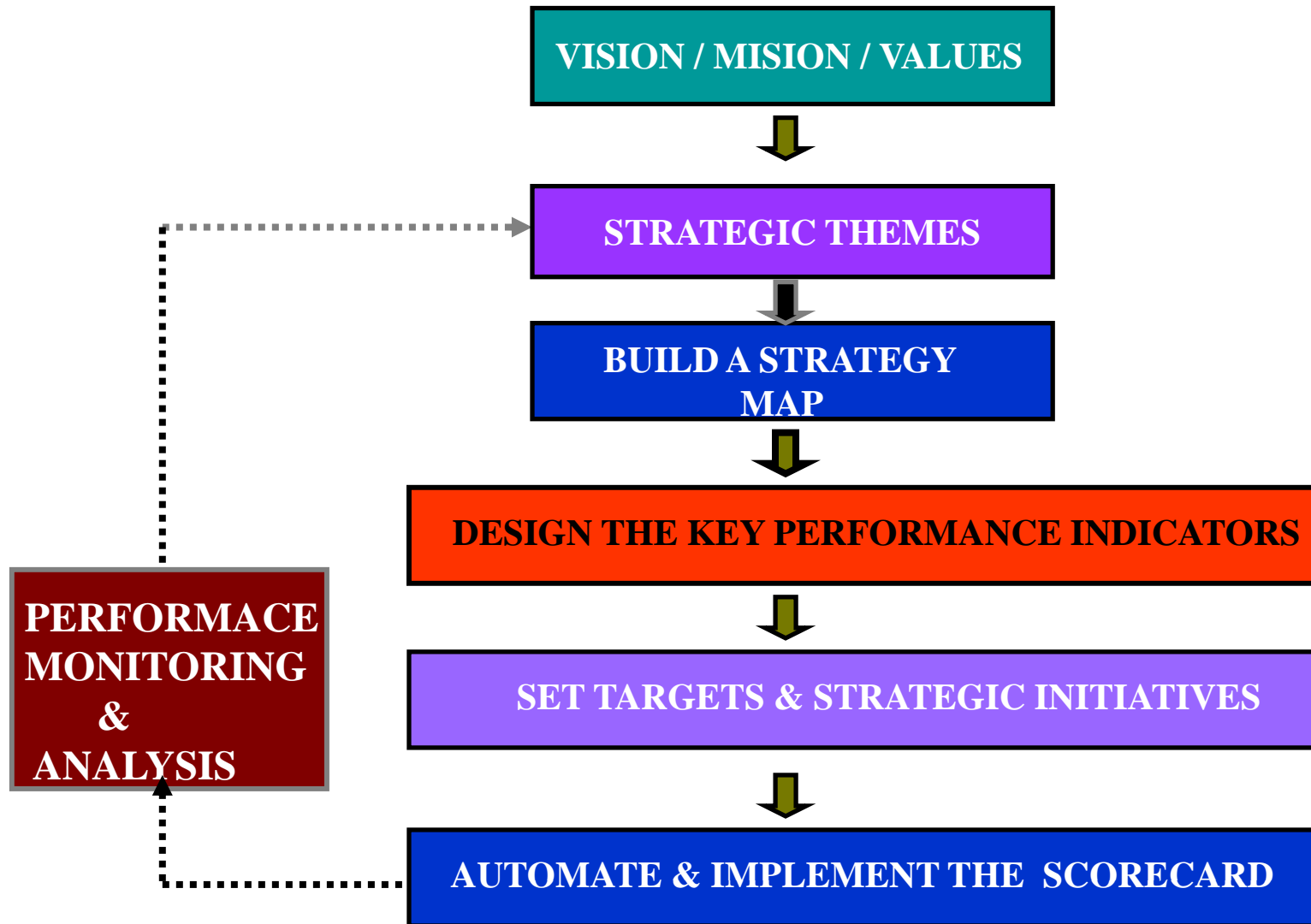
STRATEGIC MANAGEMENT SYSTEM

-Setting Targets

-Prioritizing Initiatives

COMMUNICATION TOOL

BSC as a Tool

STRATEGIC DIRECTION

BALANCED PERSPECTIVES

DASHBOARD

VISION/ MISSION & STRATEGY

OBJECTIVES

MEASURES

TARGETS

INITIATIVES

SCORECARD METHODOLOGY

The Balanced Scorecard

Financial Perspective

Objectives	Measures

Customer Perspective

Objectives	Measures

Internal Business Process Perspective

Objectives	Measures

Learning and Growth Perspective

Objectives	Measures

How do we look to shareholders?

How do customers see us?

What must we excel at?

Can we continue to improve and create value?
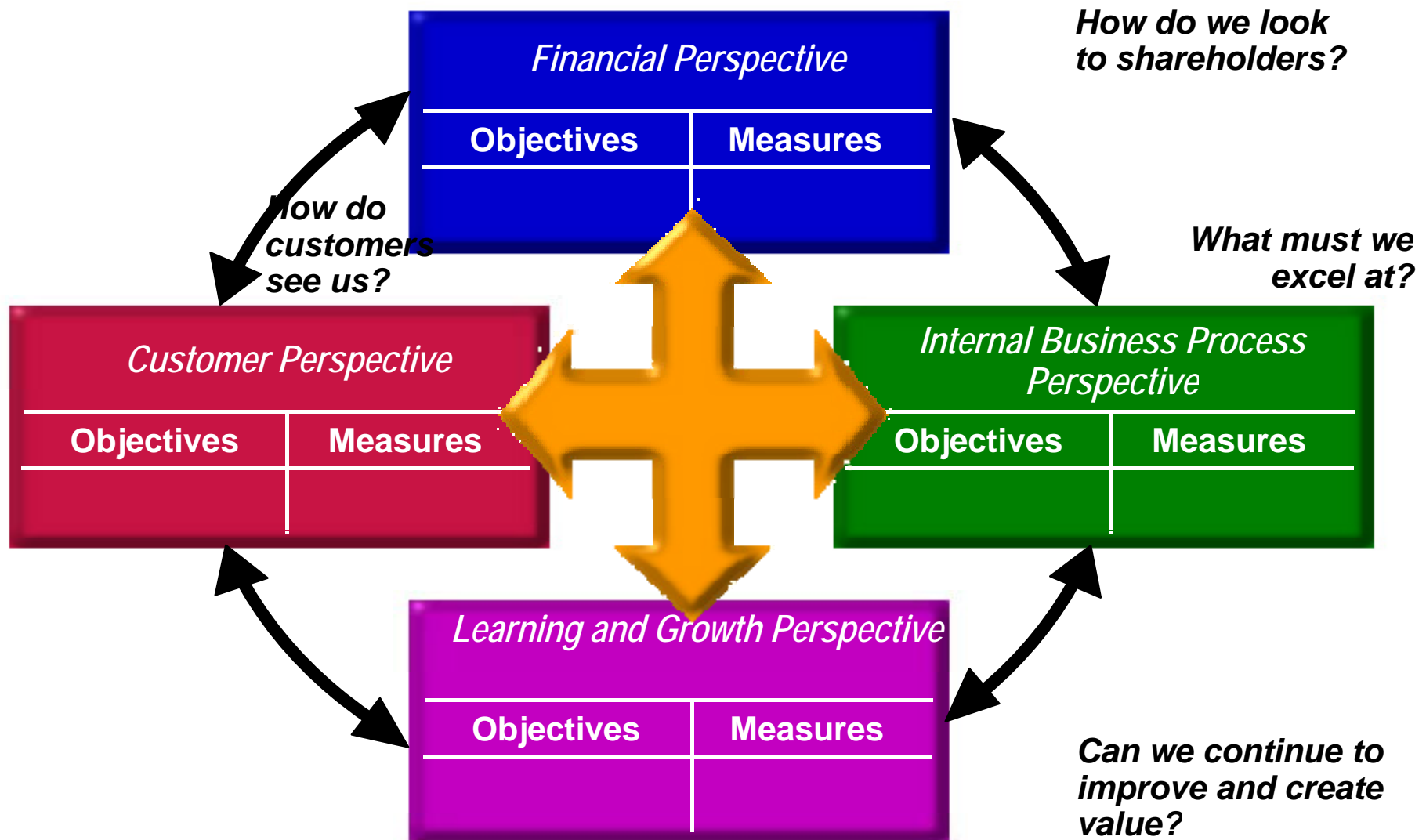
Source: Robert S. Kaplan and David P. Norton, 1994

A Framework to Describe Strategy

BUSINESS STRATEGY

DEFINE
STRATEGIC
OBJECTIVES

IDENTIFY
OUTCOMES/
DRIVERS

WHAT ARE THE FACTORS THAT CREATE THE STAKEHOLDERS VALUE?
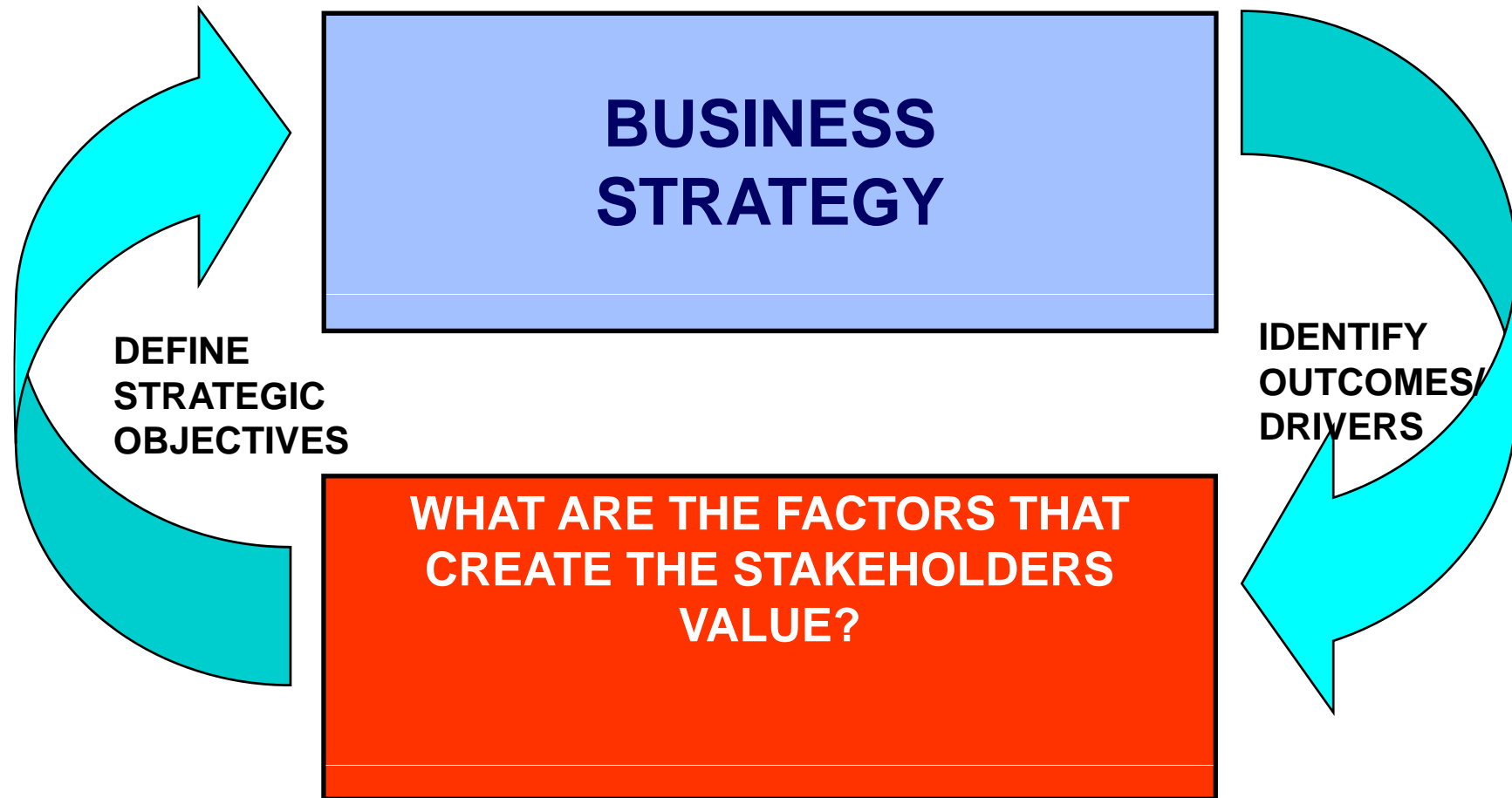
Build A Measurement System

MEASUREMENT SYSTEM

CRITICAL INDICATORS

REPORTING/ REVIEW

DATA SOURCE- KEY METRICS
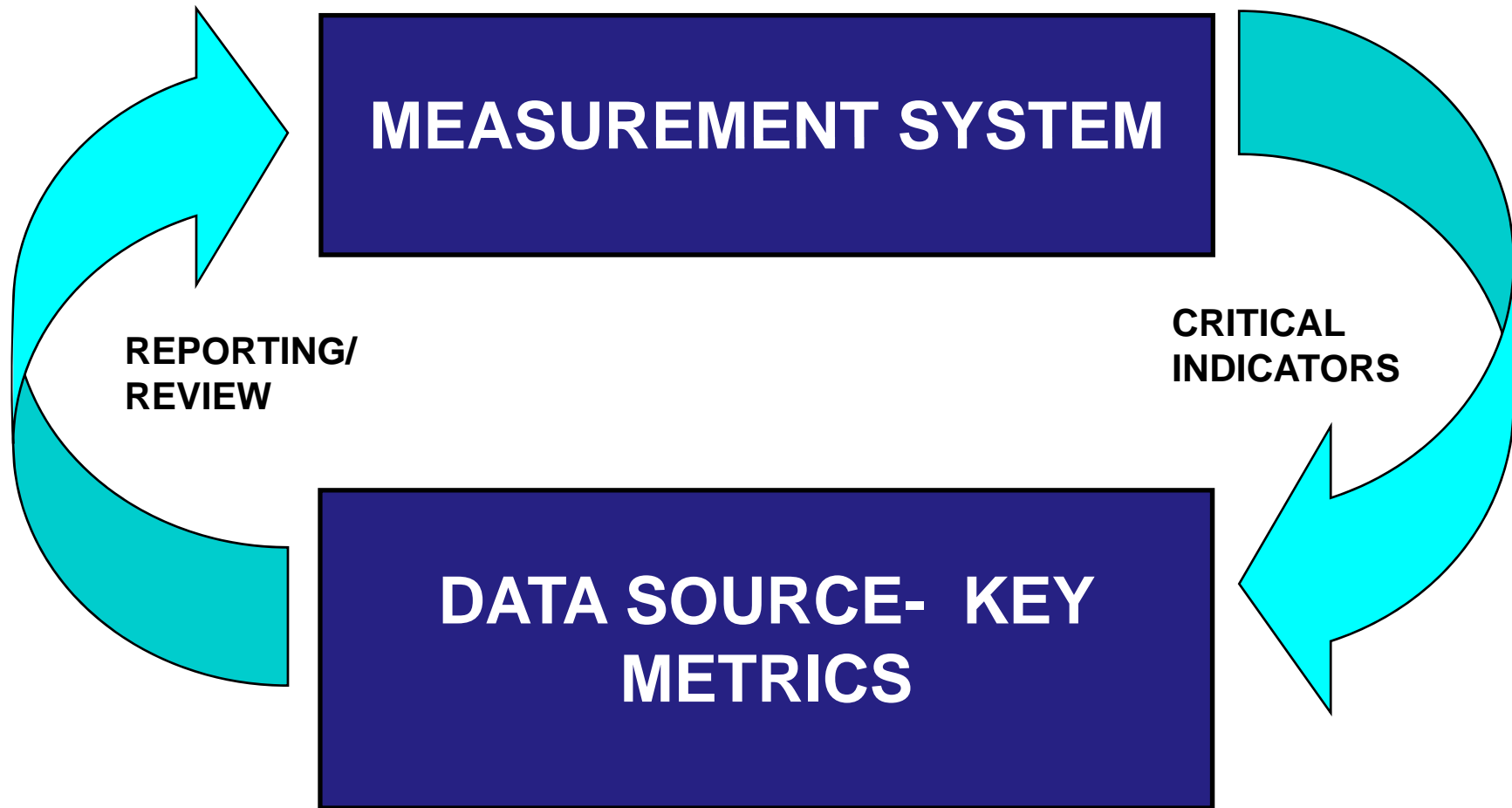
The Balanced Scorecard

Customer Perspective

How do the customers view the company?

Strategic Theme

To deliver efficient service

to internal & external customer

Objectives

- Service Level agreement
- Responsive Quality Service

Measures

- Satisfaction Rating
- Average Time To Resolve

Financial Perspective

How do the shareholders view the company?

Strategic Theme

To Drive out cost

Objectives

- Min. Operating Cost
- Max. Revenue

Measures

- Total Revenue
- Operating Margin
- Profit
- Revenue Per Employee

The Balanced Scorecard

Internal Business Process Perspective

How can the company improve its internal operations to improve the service to the customers?

Learning and Growth Perspective

What should the company do to remain successful in the future?

Strategic Theme

Efficiently deliver of Services

Objectives

- Excellence in practices
- Excellence in deliveries

Measures

- Compliance Rating
- average throughput time for Clinical Services
- Benchmarking ranking

Strategic Theme

Innovate, improve and learn to the maximum
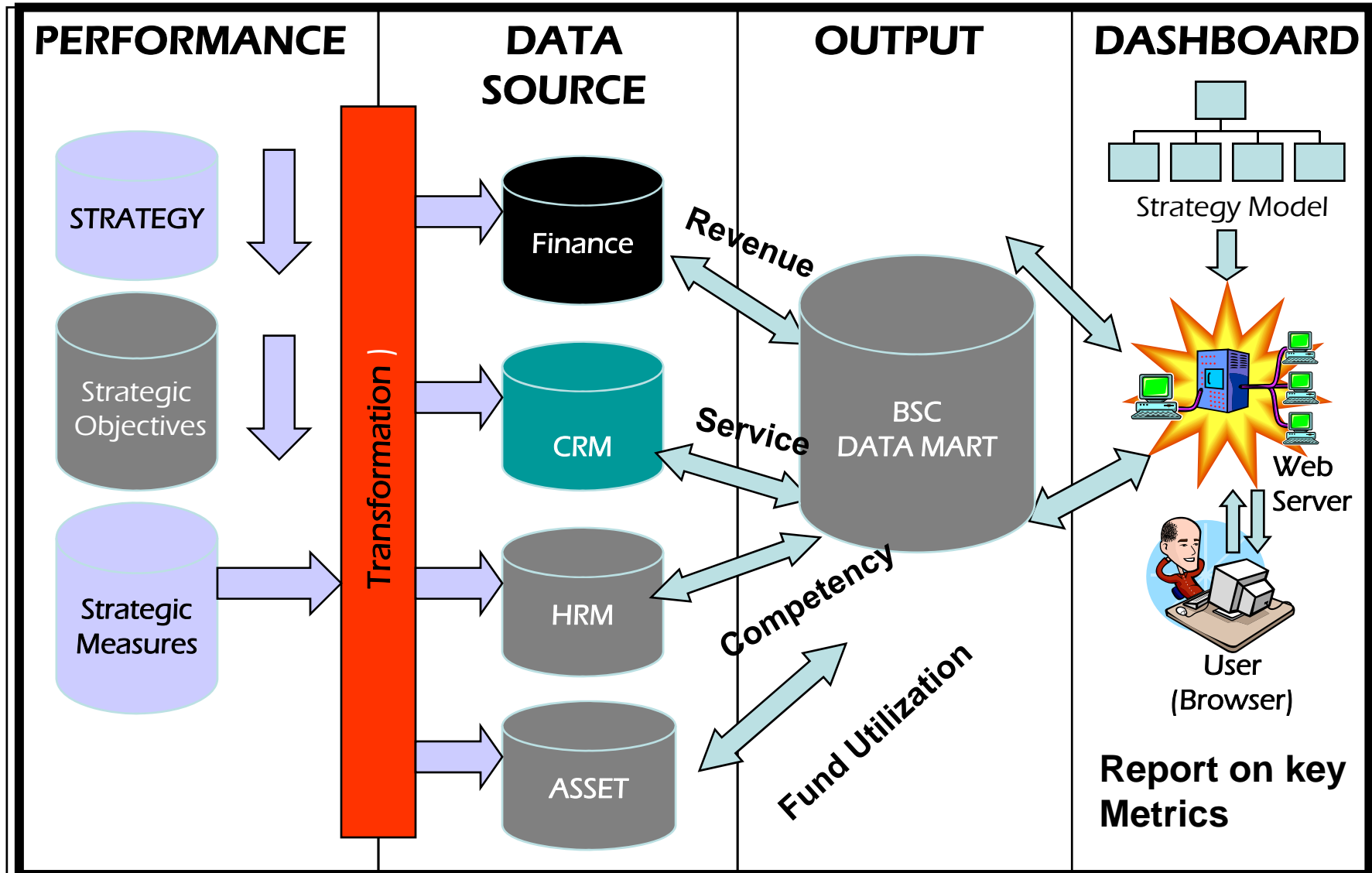
Objectives

- Talent Development
- Alignment

Measures

- Competency Rating Score
- Alignment Index
- Number of ideas / Employee

MANAGING PERFORMANCE WITH SCORECARDS

| PERFORMANCE | DATA SOURCE | OUTPUT | DASHBOARD |

STRATEGY

Strategic Objectives

Strategic Measures

Transformation)

Finance

CRM

HRM

ASSET

Revenue

Service

Competency

Fund Utilization

BSC DATA MART

Strategy Model

Web Server

User (Browser)
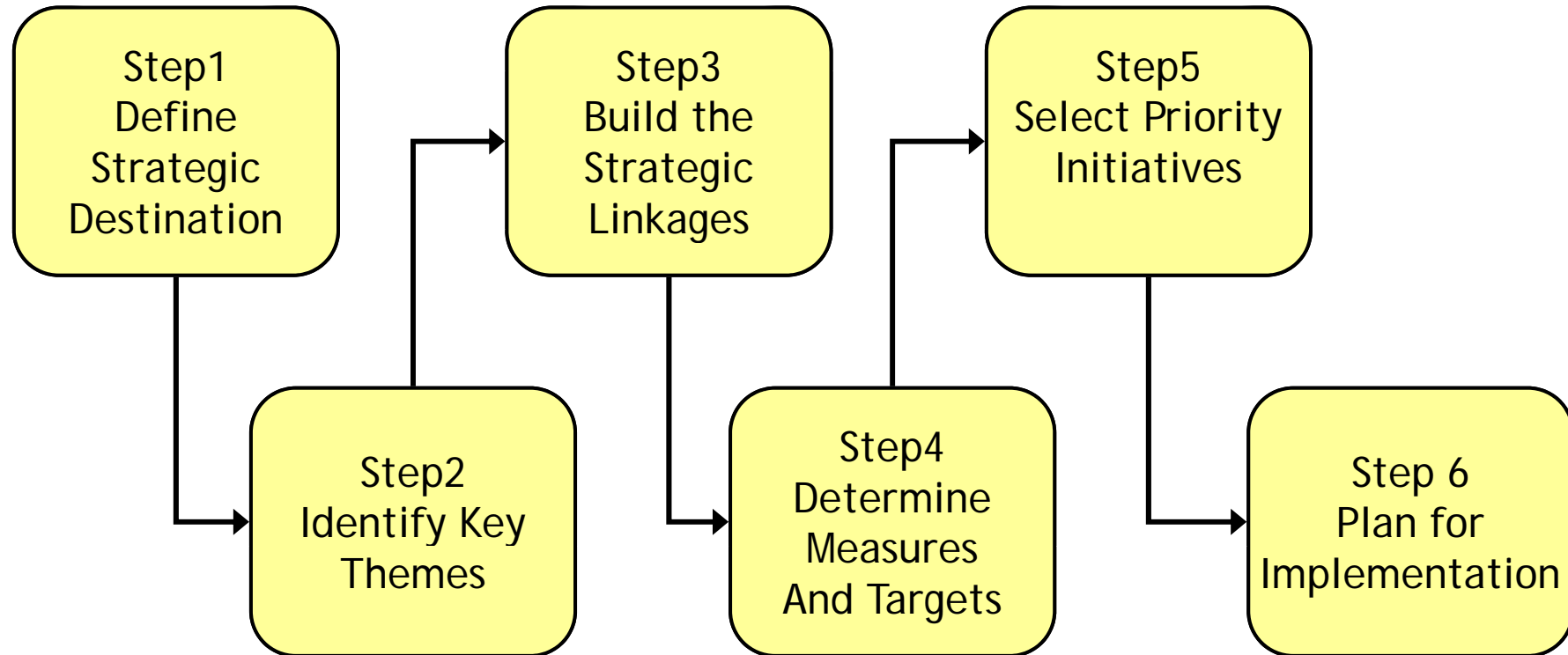
Report on key Metrics

Session 3:
Design:
Building the Strategy Map

Performance Management in Corporate Planning Cycle
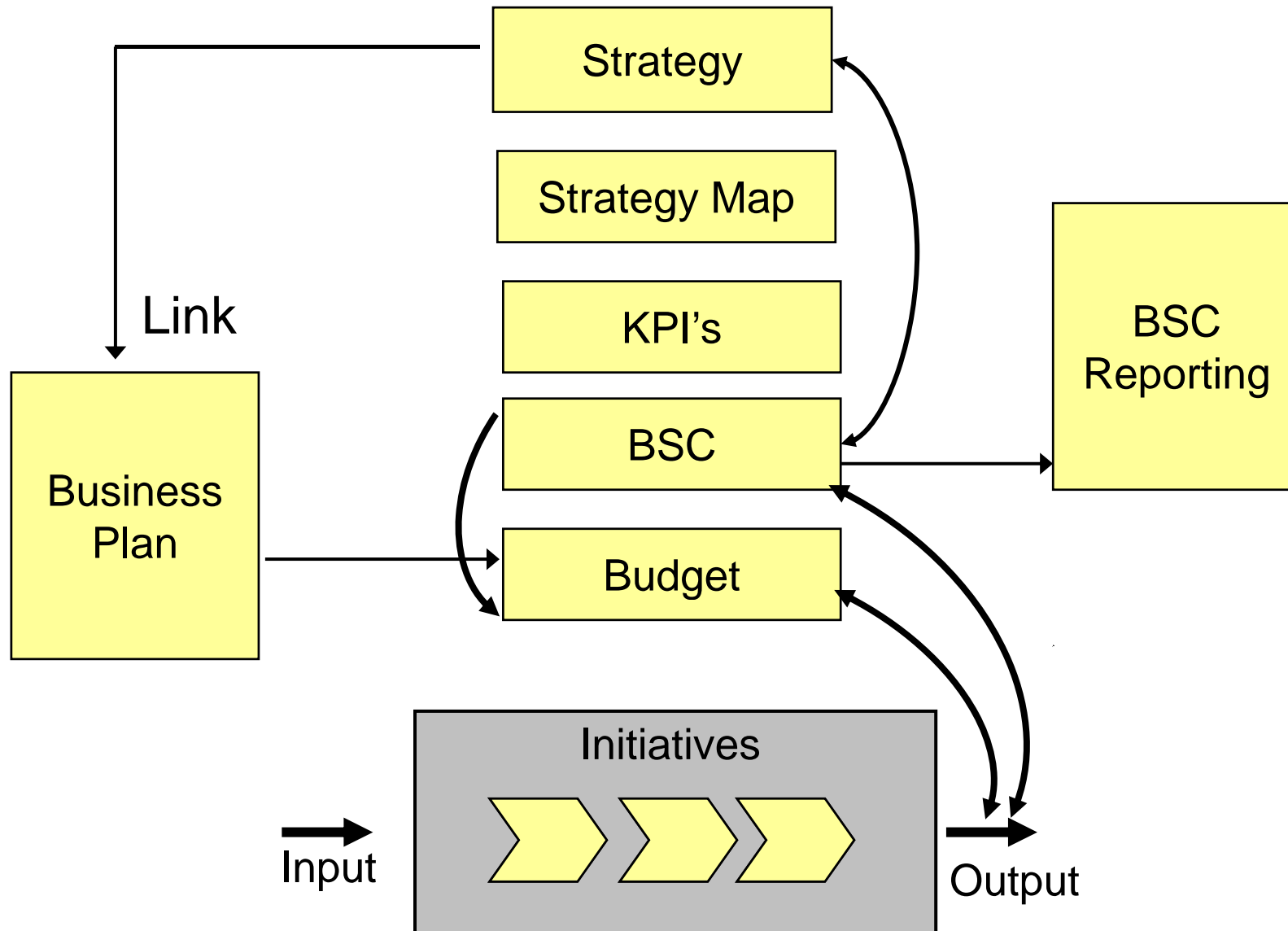
BSC Development Model
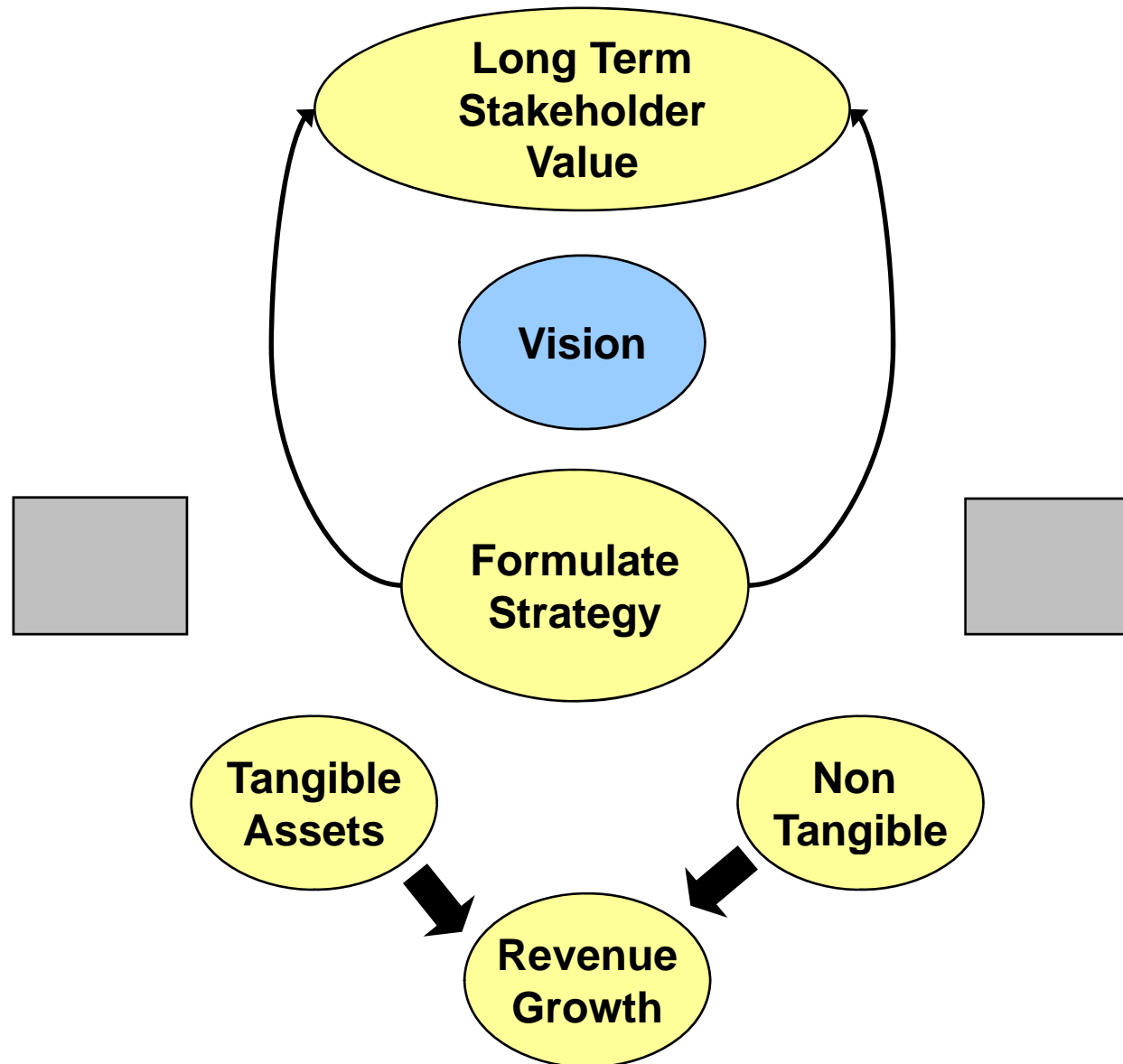
STRATEGY MAP
What is it?

Definition:

The Strategy Map provides the Visual Framework for describing the Strategy in four Perspectives of a Balanced Scorecard.

– Helps to show cause and effect relationship

– Outcome measures & Performance drivers

Strategy A Continuous Process

Strategy

Strategy Map

KPI's

BSC

Budget

BSC Reporting

Link

Business Plan
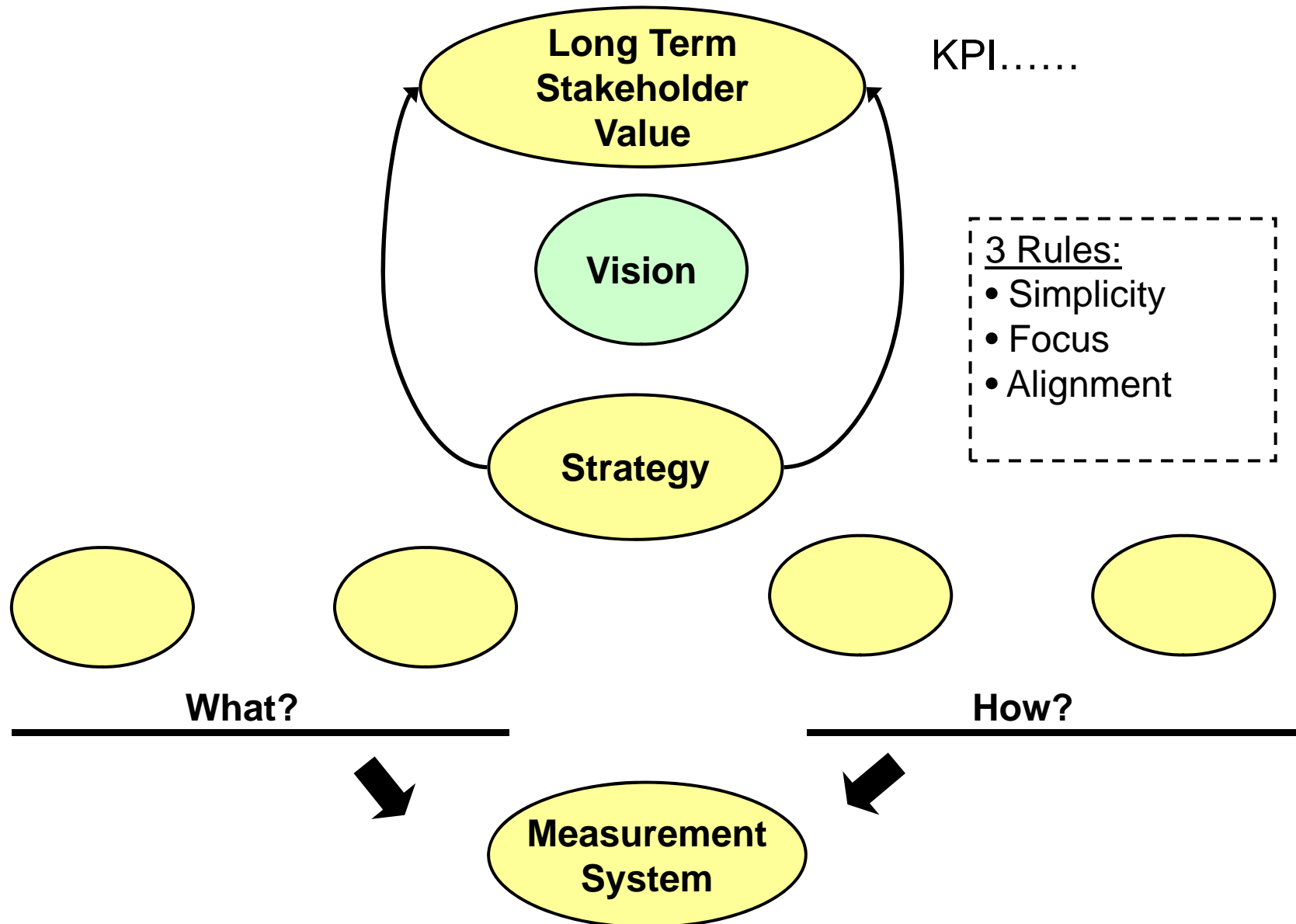
Initiatives

Input

Output

How the Organization Create Values?

How the Organization Create Values?   *...Contd*
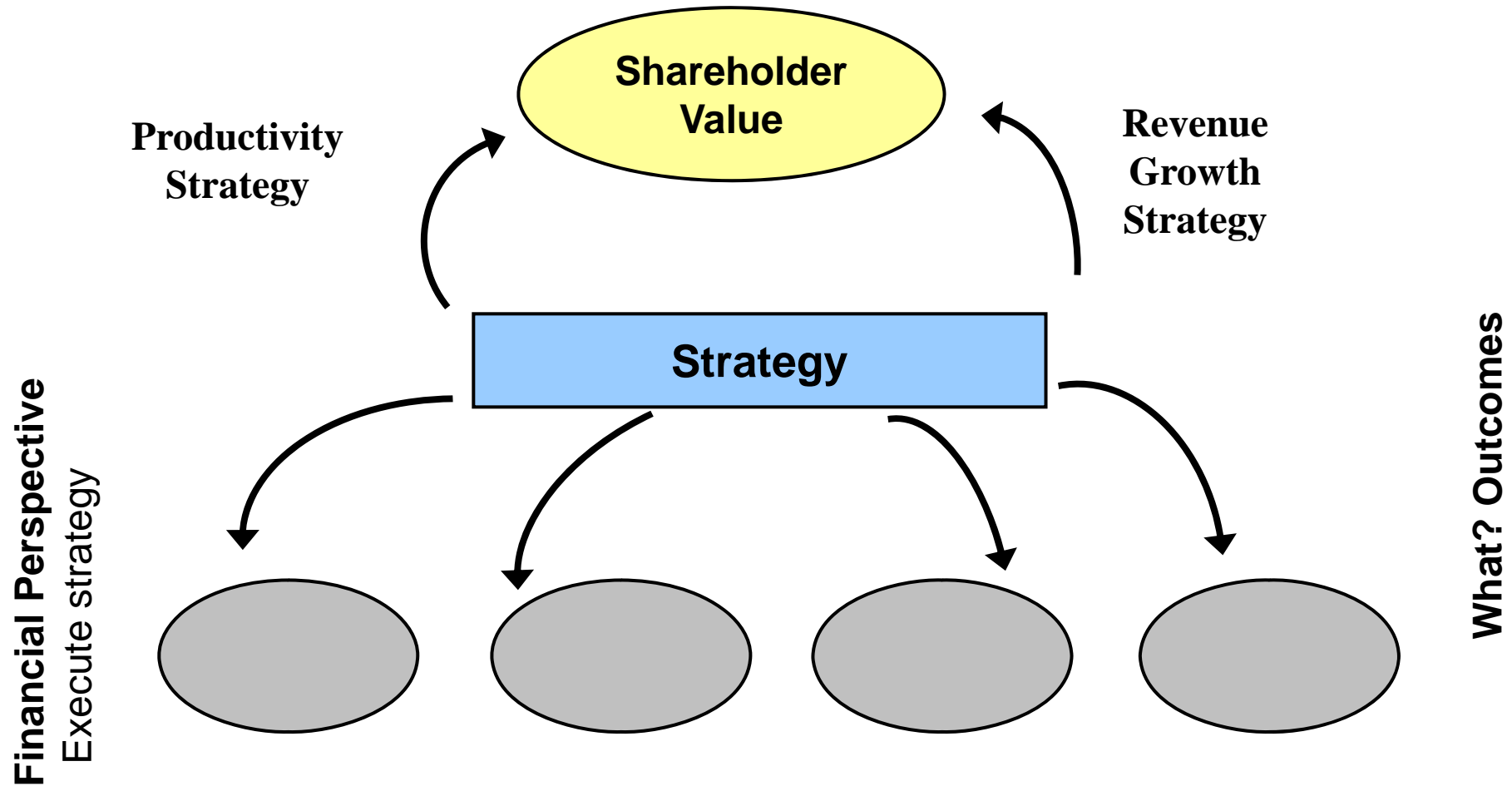
Long Term Stakeholder Value

KPI……

Vision

3 Rules:
- Simplicity
- Focus
- Alignment

Strategy

What?

How?

Measurement System

Corporate Level: Development of Objectives
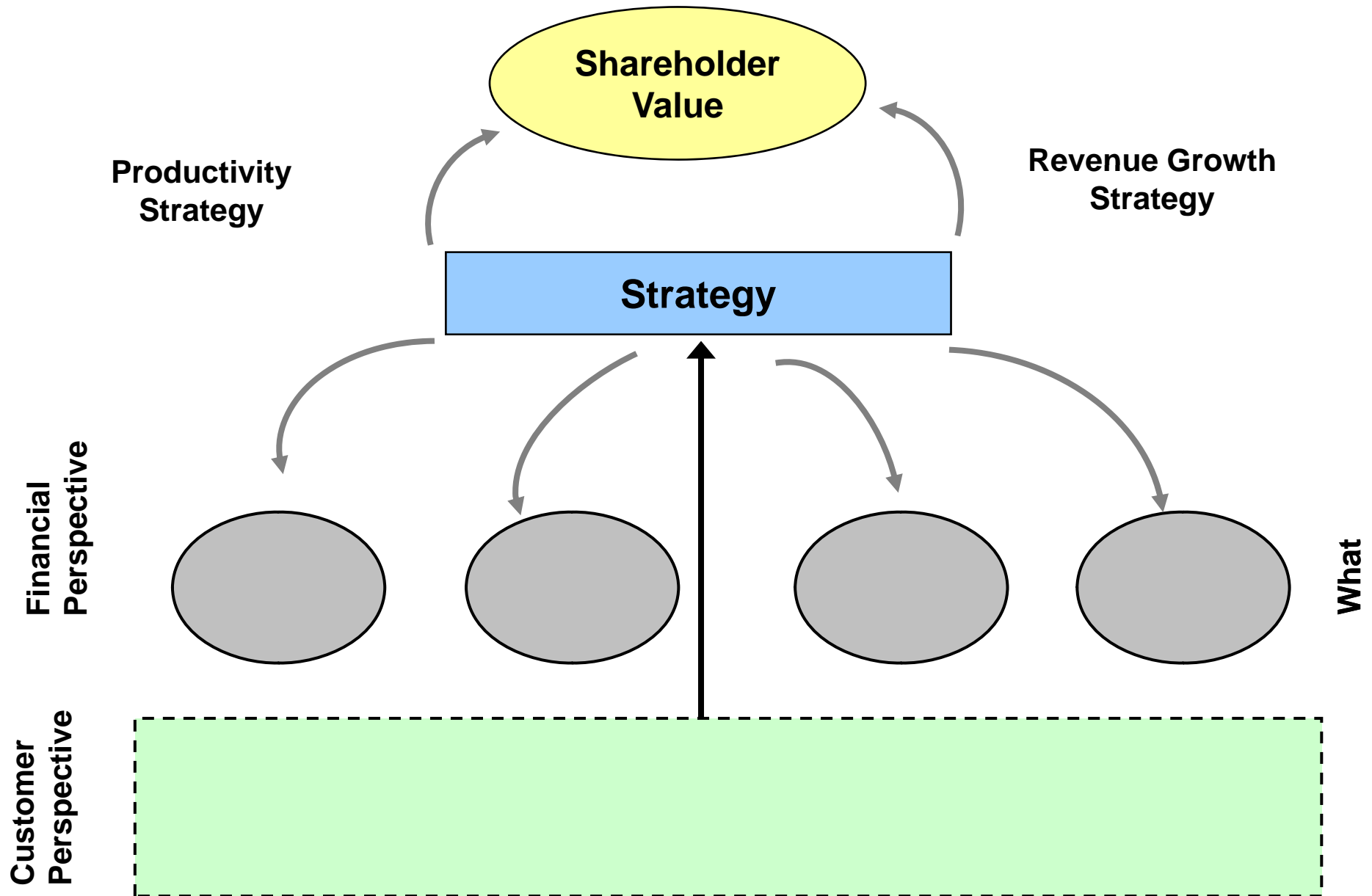
Corporate Level: Development of objectives

Corporate Level: Developing Objectives

Shareholder Value

Productivity Strategy

Revenue Growth Strategy

Strategy

Financial Perspective

Customer Perspective
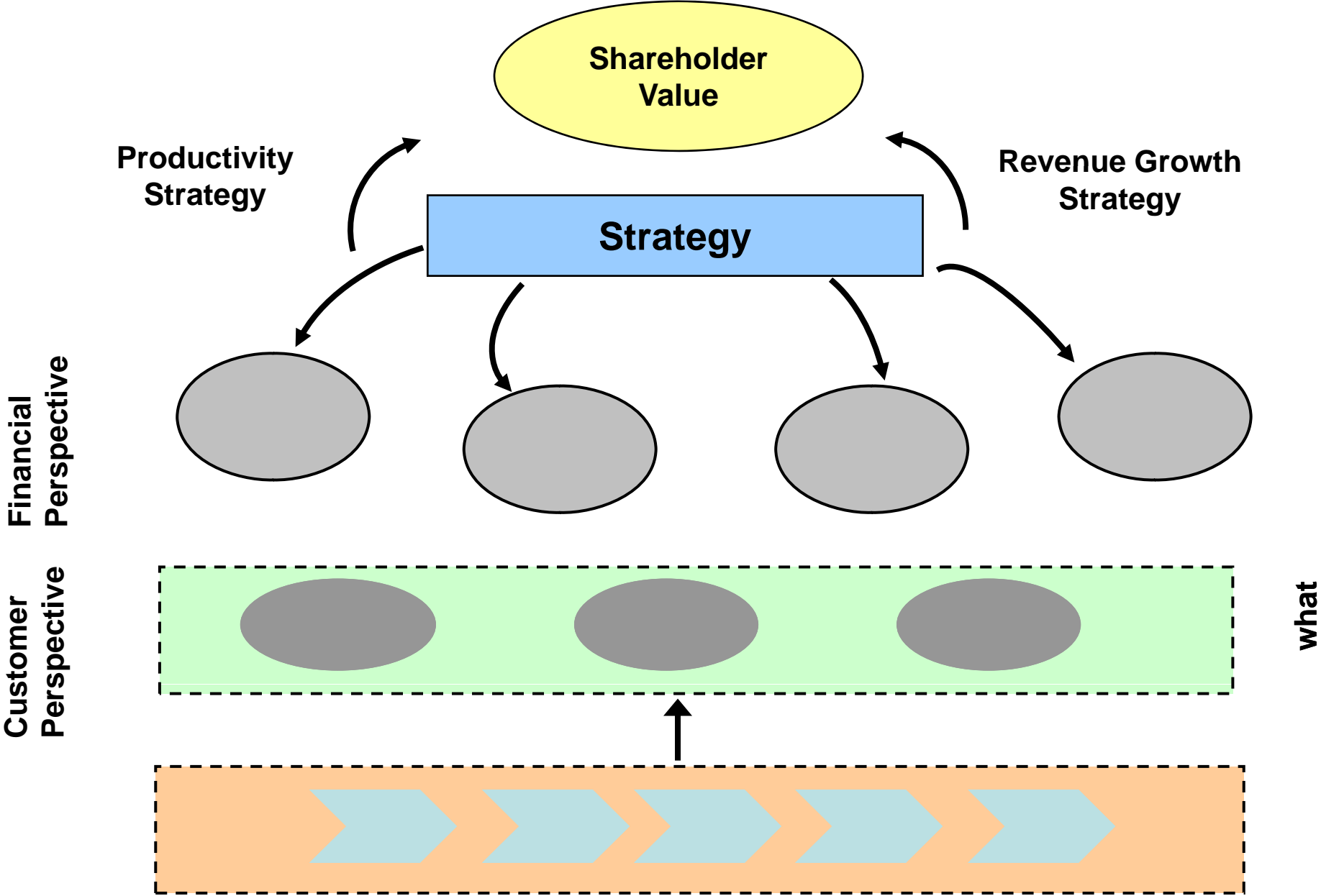
what

Corporate Level: Developing Objectives

Developing the Strategy Map - Process

Develop the Objectives In each perspectives

Assess the Risk and Cause Effect

Objective Statement Template

Review/ Validate

Test the Relationship Design
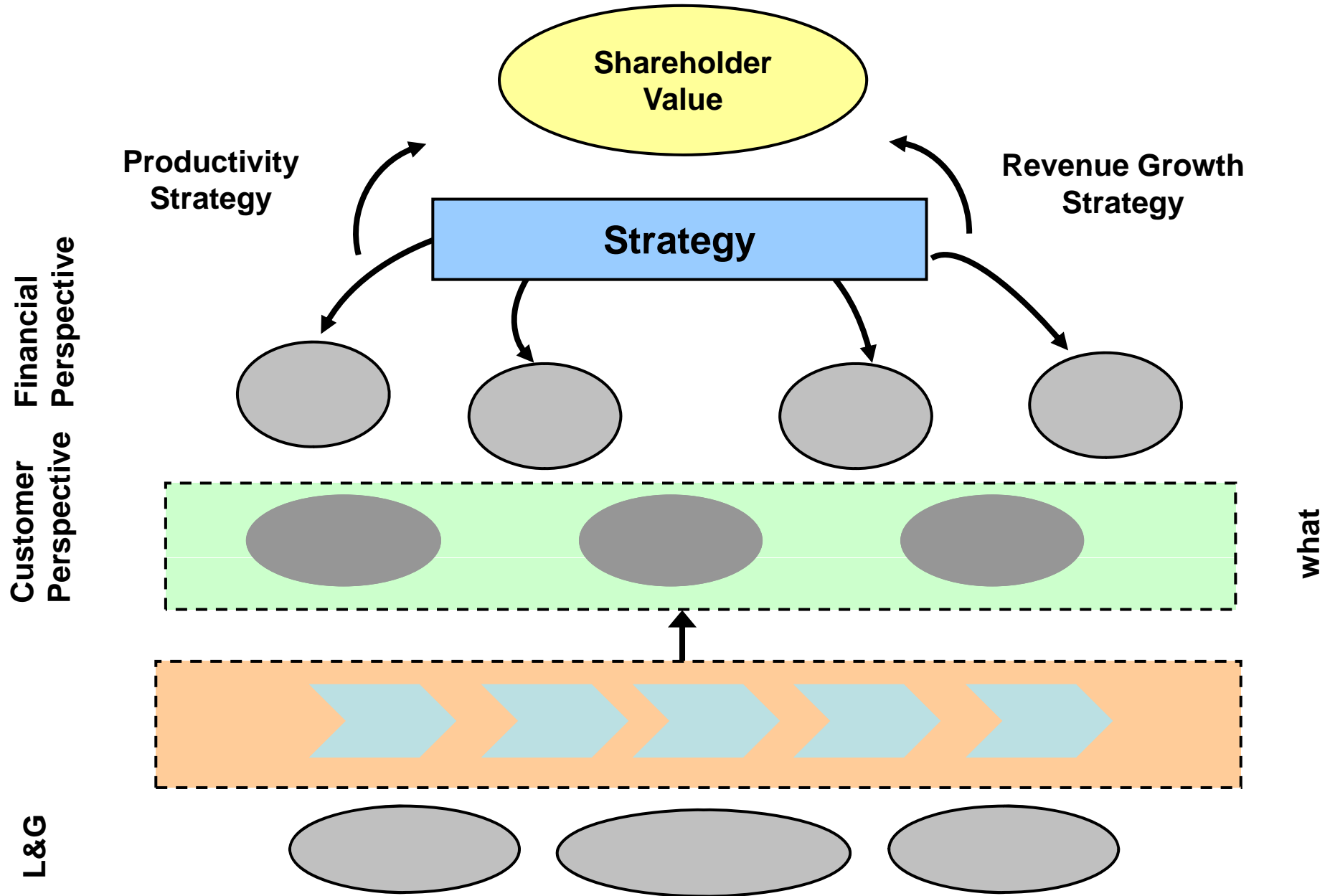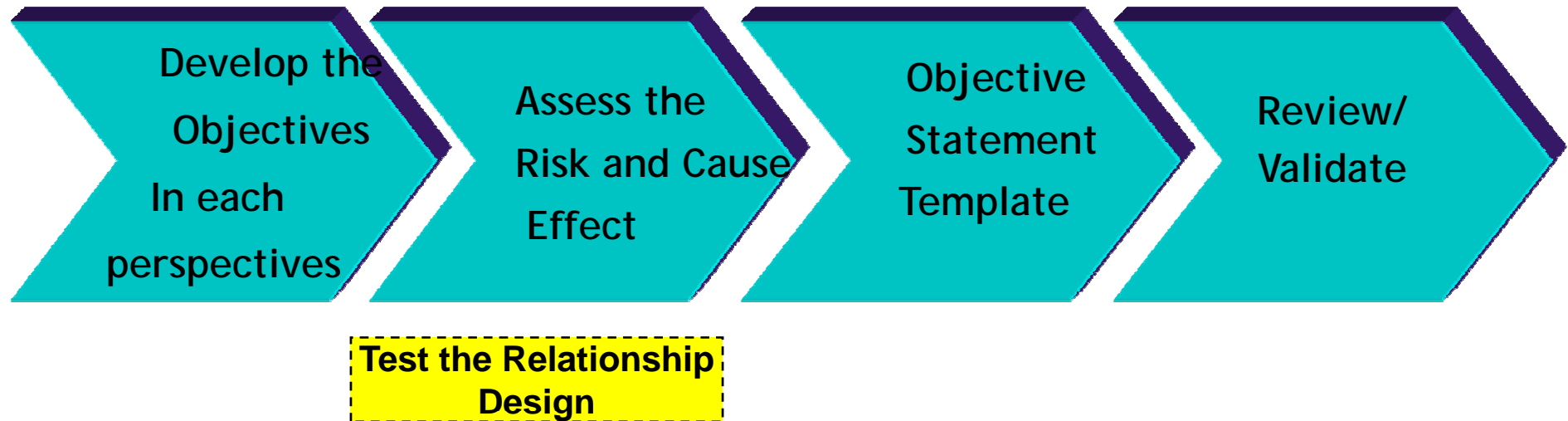
Team Workshop 1 - Your Strategic Destination
& Developing the strategy map

- **Team Discussion**
  - What is the strategic destination for your organization? Take a few minutes here and think about the strategic destination within your own organization

  - Has it been clearly communicated to the organization?

  - Do you know how to make it actionable within your own department?

  - If You Achieve the Destination in Your Strategy Statement, what will your organization look like to your:

  - In each perspective develop objectives in terms of how it helps to execute the strategy
  - Assess the impact of the strategic objectives to the outcomes.
    - Shareholder value
    - Delight the customer
  - Your job is to link the objectives in a manner that tells the cause and effect relationship of the business – Strategy map

Assess the strategic objectives
Weigh the impact on the strategy map

	Short	Medium	Long
H			
Impact on strategic outcomes			
L			

L   Important   H

- What are the right things to Measure?

- What are the relevant KPI's?
  - KPI's attributes
  - Reach consensus
  - KPI documentation
  - KPI's aligned

Session 4:
Design:
Building the Measures

BSC Development Model

Step1
Define Strategic Destination

Step2
Identify Key Themes

Step3
Build the Strategic Linkages

Step4
Determine Measures And Targets

Step5
Select Priority Initiatives

Step 6
Plan for Implementation
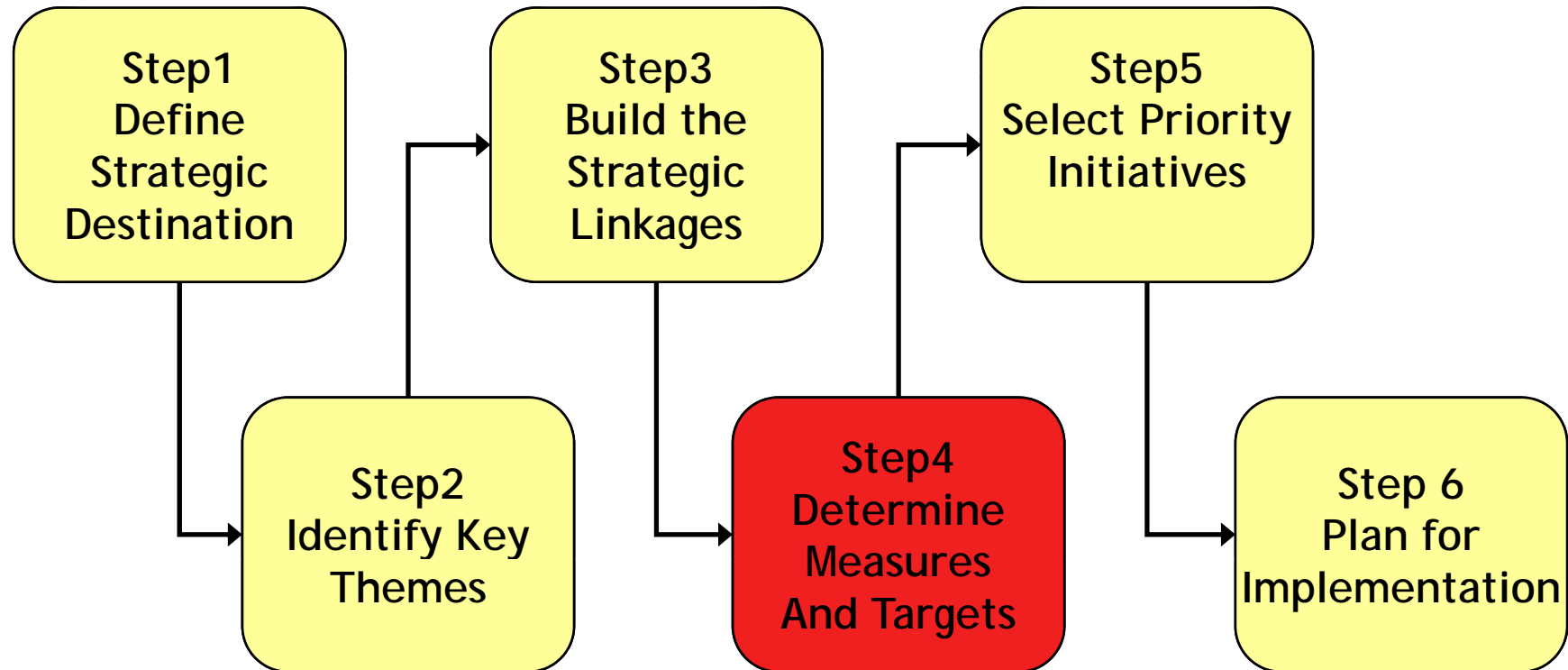
Execution Strategy

Vision

Strategic Themes / Focus areas

Strategic Objectives

Identify Objectives And KPIs

Each KPIs set Target

Strategic initiatives

Scorecard Reporting Process

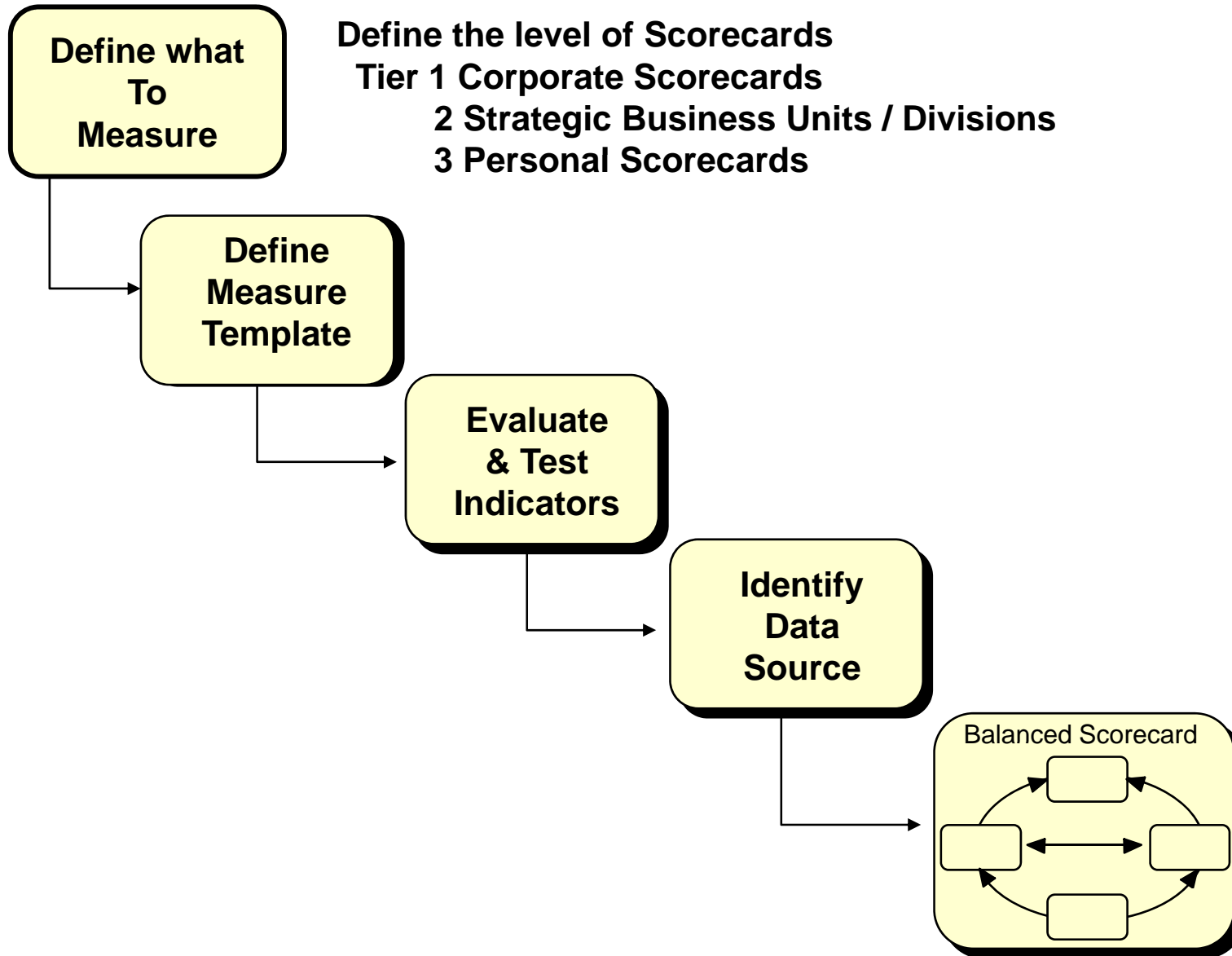MANAGING WITH KPI'S

Have we clearly define Key drivers to Success?

Do we have Critical Measures of Success?

Do we have a system to Track and Monitor Indicators?

Are the data captured Analyzed and Acted Upon?

Linking it all together….

BUILD THE MEASURES

Define what To Measure

Define the level of Scorecards
  Tier 1 Corporate Scorecards
       2 Strategic Business Units / Divisions
       3 Personal Scorecards

Define Measure Template

Evaluate & Test Indicators

Identify Data Source

Balanced Scorecard

The Diagnostic Audit Framework –
….. *Assessing the effectiveness of the Organization's PMS*

Are the right Things being Measured?

Are they being Measured in the right way?

→ **Quality of Measurement practices**

Are the data Captured and analyzed?

Are the data Acted upon?

→ **Quality of Management practices**

→ Organization's Performance
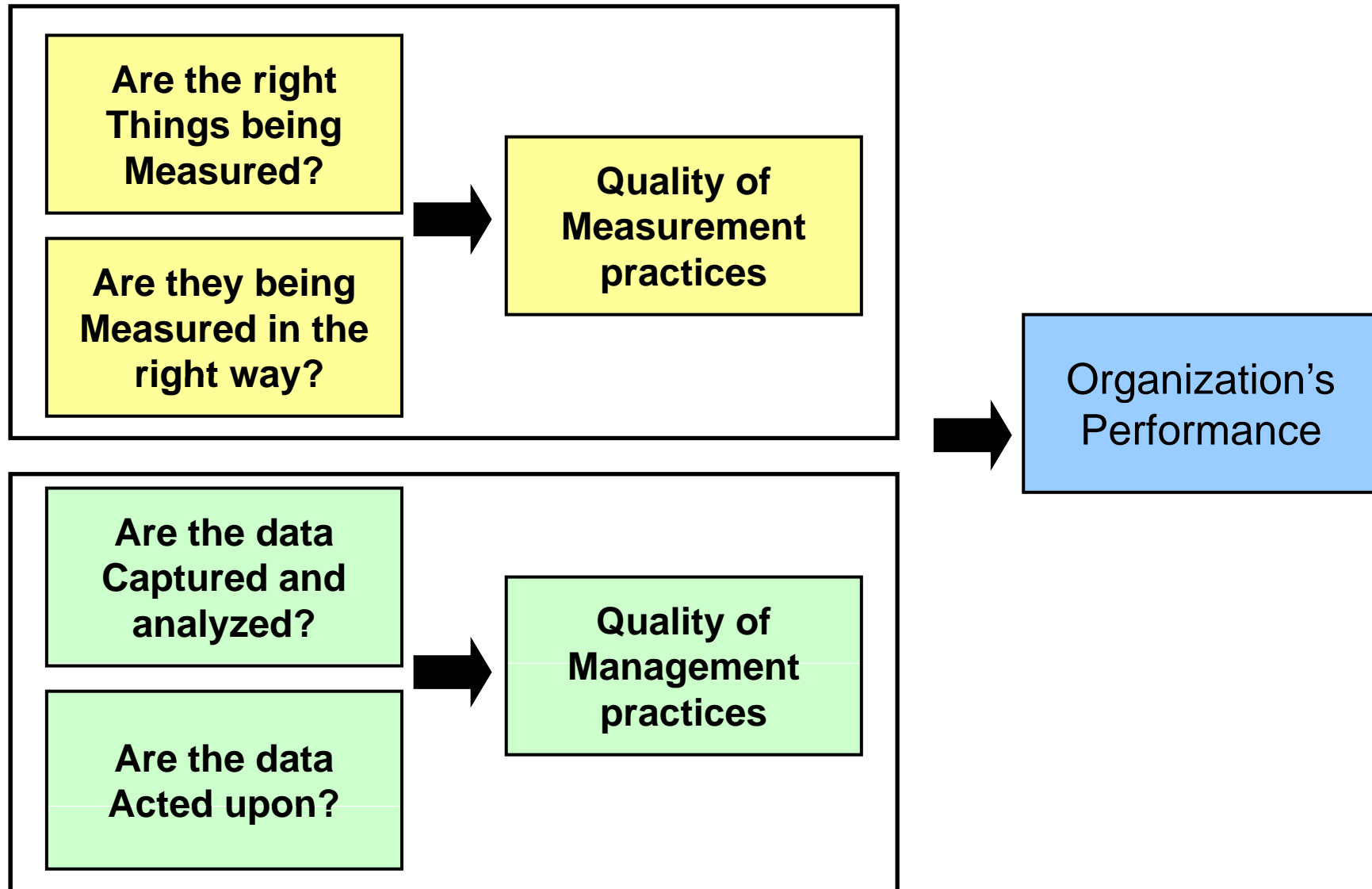
Purpose of Measures

Purpose of Strategic Measures:

1.

2.

3.

4.

5.

Team Selecting Measures
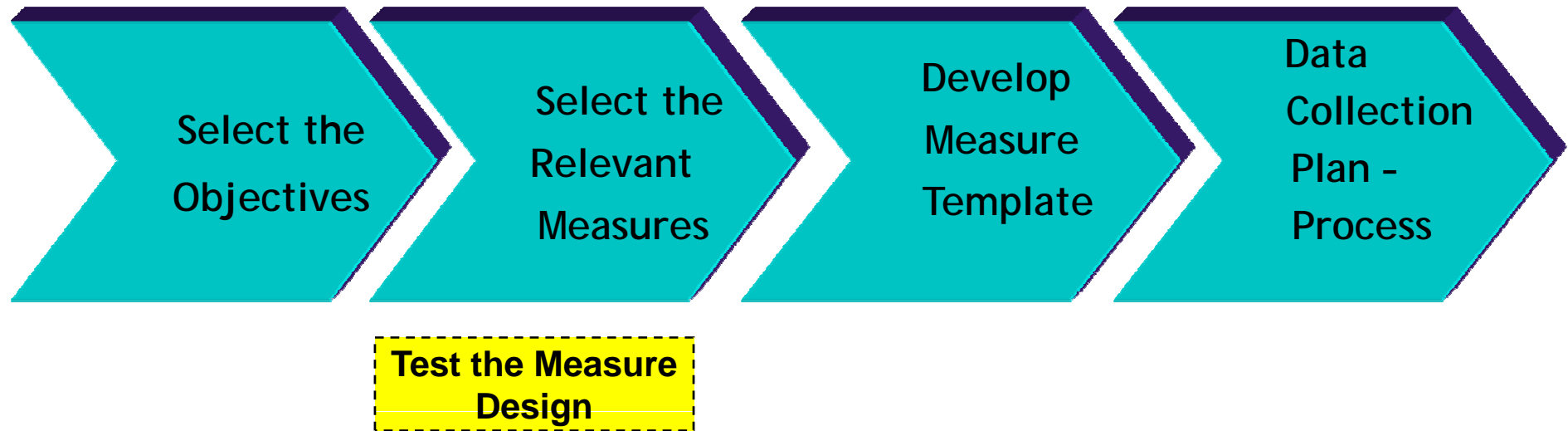
Guidelines in Selecting Measures:

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>

>

>

>

>

Basic Measurement Process

Select the Objectives

Select the Relevant Measures

Test the Measure Design

Develop Measure Template

Data Collection Plan - Process

Articulating Your Measures in a Data Dictionary

Perspective:	Measure No./ Name	Owner:

Strategy:	Objective:

Description:

Lag / Lead:	Frequency:	Unit Type:	Polarity:

Formula:

Data Source:

Data Quality:	Data Collector:

Baseline:	Target:

Target Rationale:	Initiatives

Validate the Measures

Self - Assessment:

   1. Why did we choose this measure?

   2. Is it strategically significant?

   3. How to calculate the measure?

   4. Who is responsible for the results?

   5. Is it simple for a common understanding?

   6. Is there data source to support the measure?

Team Workshop 2
## Assess the Effectiveness of the Measure

- **Team Discussion**

  – Team briefly review the characteristics of good measurement systems

    - Are the right things being measured?

    - Are they being measured in the right way?

    - Are the necessary data captured, collected and sorted?

    - Are the necessary data analyzed, interpreted and acted upon?

  – Will mere awareness of organizational strategies lead to change at all levels of the organization

Team Workshop 3
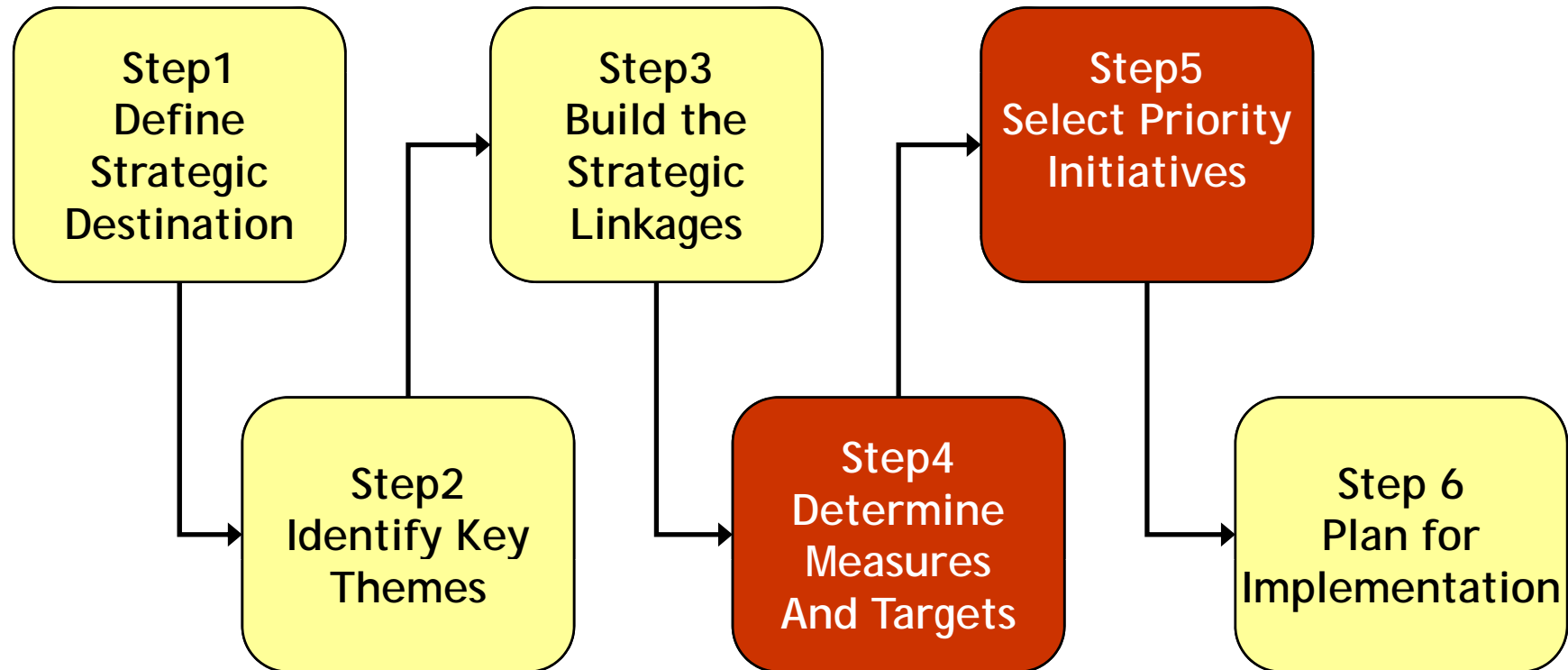# Constructing the Scorecard

- ## **Team Discussion**

  – Team briefly review the strategy map of an Airline Organization's – the *Theme is " Operating Efficiency"*
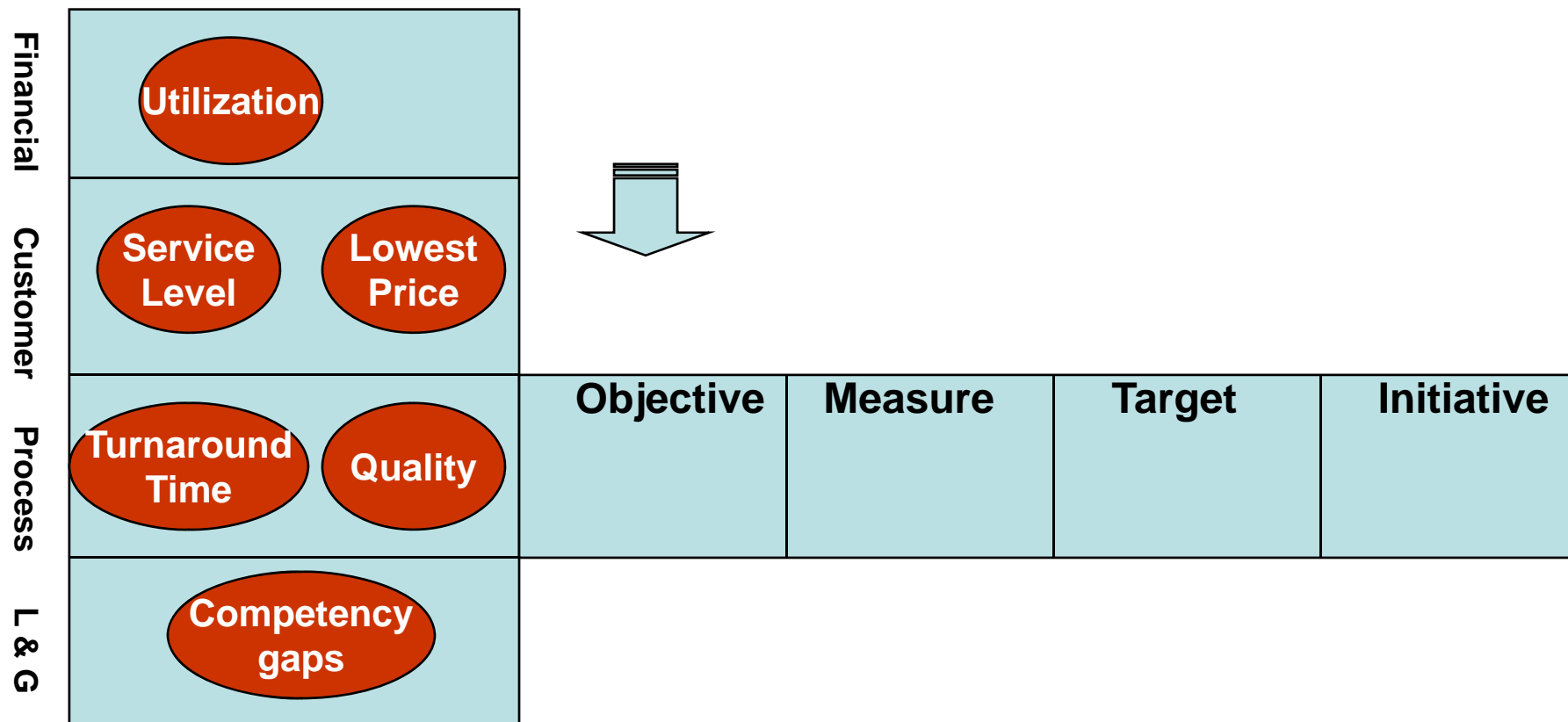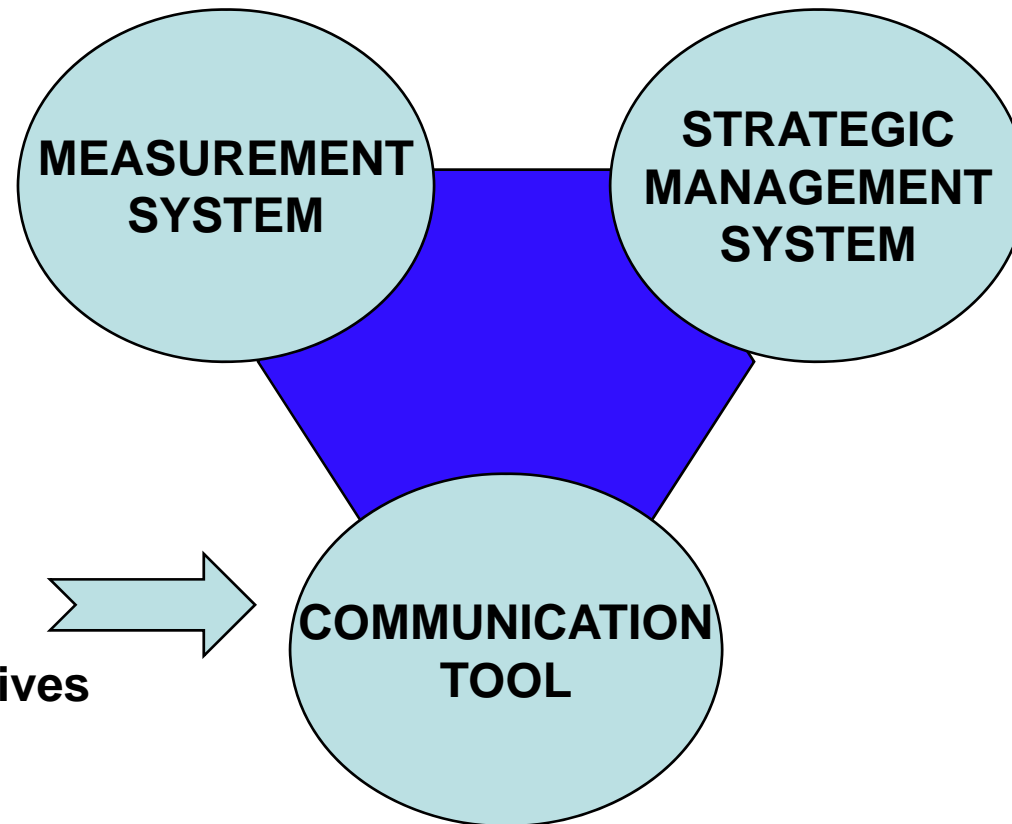
Session 5:
*Setting Targets &
Prioritizing Initiatives:*

BSC Development Model

BSC as a 'Tool"

MEASUREMENT SYSTEM

STRATEGIC MANAGEMENT SYSTEM

COMMUNICATION TOOL

-Setting Targets

-Prioritizing Initiatives

BUILDING SCORECARD
Link Measures To Business Strategy

	OBJECTIVE	MEASUREMENTS	TARGET	INITIATIVE
PROCESS PERSPECTIVE	• To Monitor and improve credit quality in the Loan process.	• **Overdue A/C** • **NPL**	• Current Value • Target	• **Streamline credit process** • **Quality of Care in approval** • **Account Relationship** • **Central processing**

PERFORMANCE TRACKING SYSTEM

Objectives

Reporting Process

Key Performance Indicators

Balanced Scorecard

Key Initiatives

Set Targets
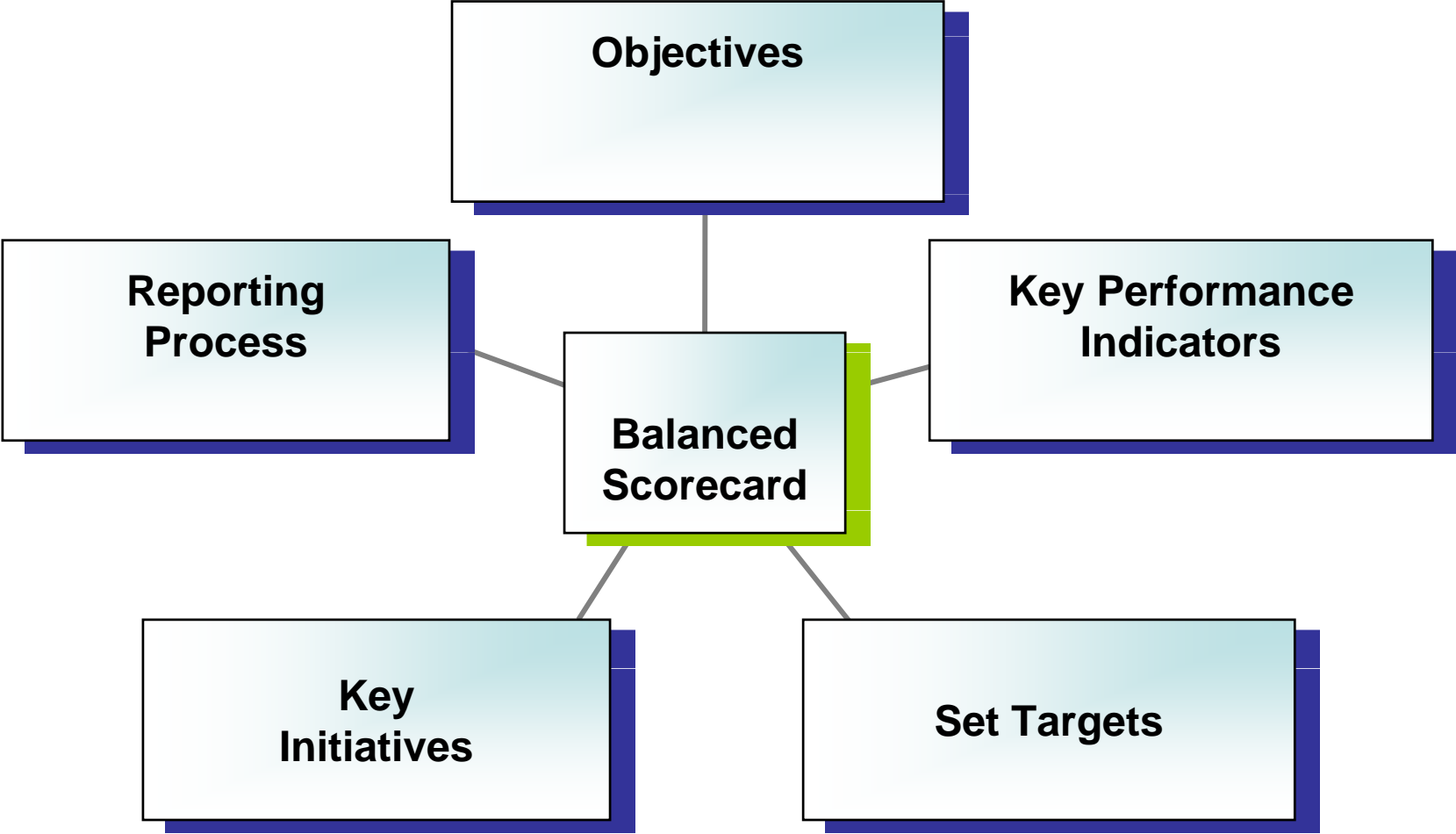
Session 6:
Cascading:

Align the BSC to Strategy

Vision & Strategy

Corporate

Strategy
Map & Scorecard
Provide strategic view

Set the bearing to cascade to next level

Level 1 lay out strategic
Objectives to execute
strategy

Department

Strategy Map
with focus
Areas – Operational
Objectives, measures,
Targets & Initiatives

Identify objectives
& measures that
Contribute to
Organizational goals

Initiatives drives to
Implement strategy

Individual

With focus areas -

DEPLOYMENT OF OBJECTIVES

CEO

OBJECTIVES & KPIs

DIVISION MANAGER

OBJECTIVES & KPIs

UNIT MANAGER

OBJECTIVES & KPIs

TEAMS

OBJECTIVES & KPIs

BALANCED SCORECARD

BALANCED SCORECARD

BALANCED SCORECARD

BALANCED SCORECARD
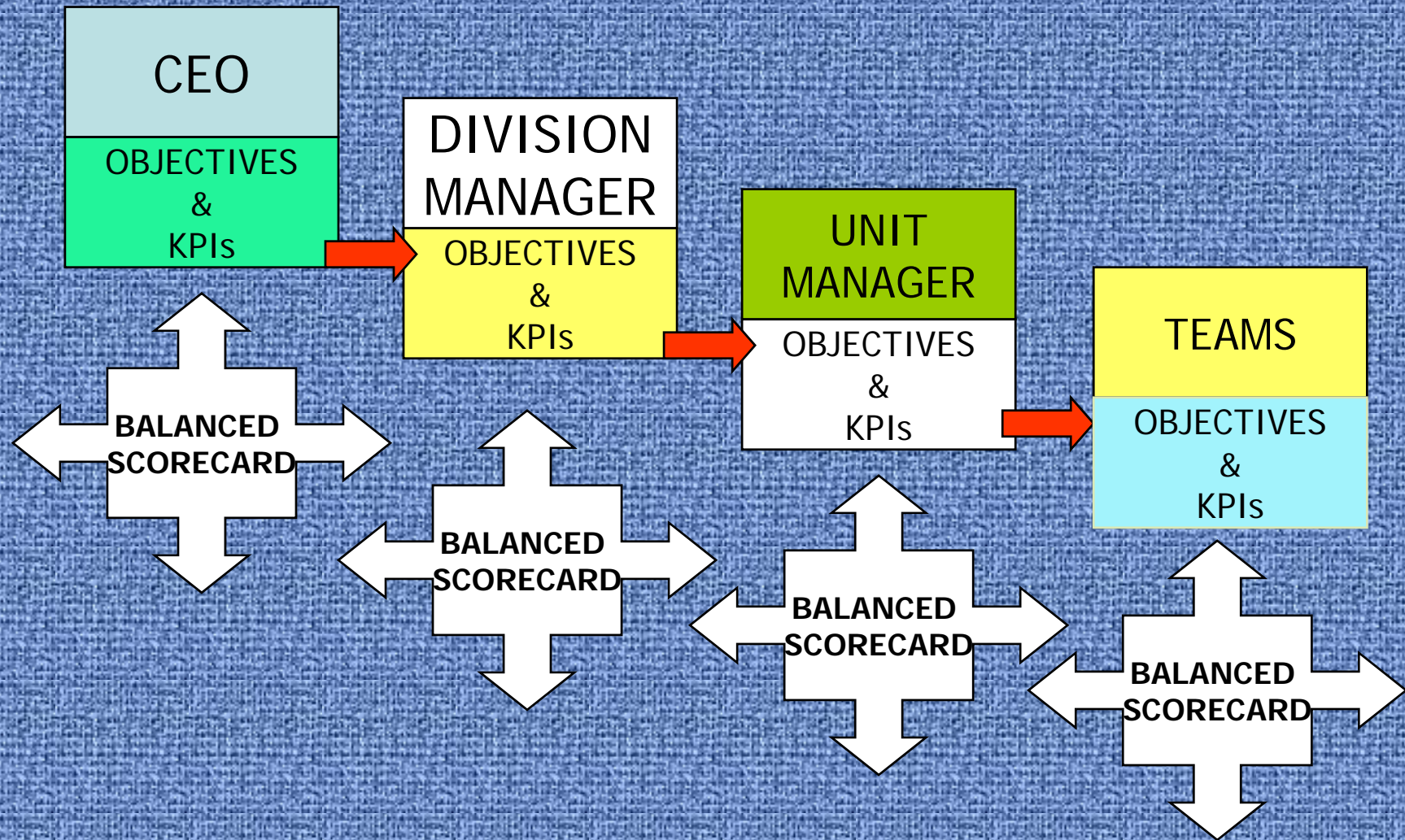
CASCADING THE HIGH LEVEL KPI'S

Corp. Measurement Bank Wide Level 1

- **Revenue**
- **Operating Expenditure**
- **Net development expenditure**
- **Profit**

Operations Level 2

- **Revenue per Unit of Service**
- **Complaints**
- **Response Time**
- **Compliance**
- **Facilities Utilization Rate**

Individual Level 3

Linking it all together…

Session 7:

_Implementation Success__:_
1. The Foundation Elements

2. The Process Issues

_3. The Reporting & Effective
Data Analysis_

The Foundation Success

Self - Assessment: First Step

1. **Why you have decided to build Scorecard?**

2. Why Now?

3. Who will sponsor it?

4. Who will build it?

5. How will you communicate this change initiative?

   - Communication Goals

   - Communication Objectives

   - The Training

6. Is it simple for a common understanding?

Why are you developing a BSC?

- To monitor organizational performance

  ❑ Strategic Level
  ❑ Operational Level
  ❑ Individual Accountability

- To execute strategy
  ❑ Strategy Map
  ❑ Key Performance Indicators
  ❑ Target
  ❑ Initiatives

.

- Have we made the realization that the BSC is more than a *measurement project* and is in fact *a change initiative*
    - *Executive Sponsorship*
    - *BSC Champion*
    - *Balanced Scorecard Team*

- Was our guiding rationale for the BSC *communicated* broadly to all levels in the organization

Issues in Developing Strategy Map?

- The Strategy Map

    ❑ Choice of Objectives to execute strategy

    ❑ The number of objectives each perspectives

    ❑ Identifying the ' Critical Processes'
       that drive the customer perspective

    ❑ Individual Accountability for each objective

    ❑ Assess the risks in each objective

Issues in Developing Measures?

- The Measures

  ❑ Each Measure is critically evaluated
      - Measure criteria
  ❑ Each measure has a 'Measure Lead'
  ❑ A Balance – Lag and lead measures
  ❑ A well defined process for data collection,
     calculation and visual presentation
  ❑ Each measure is supported with a data
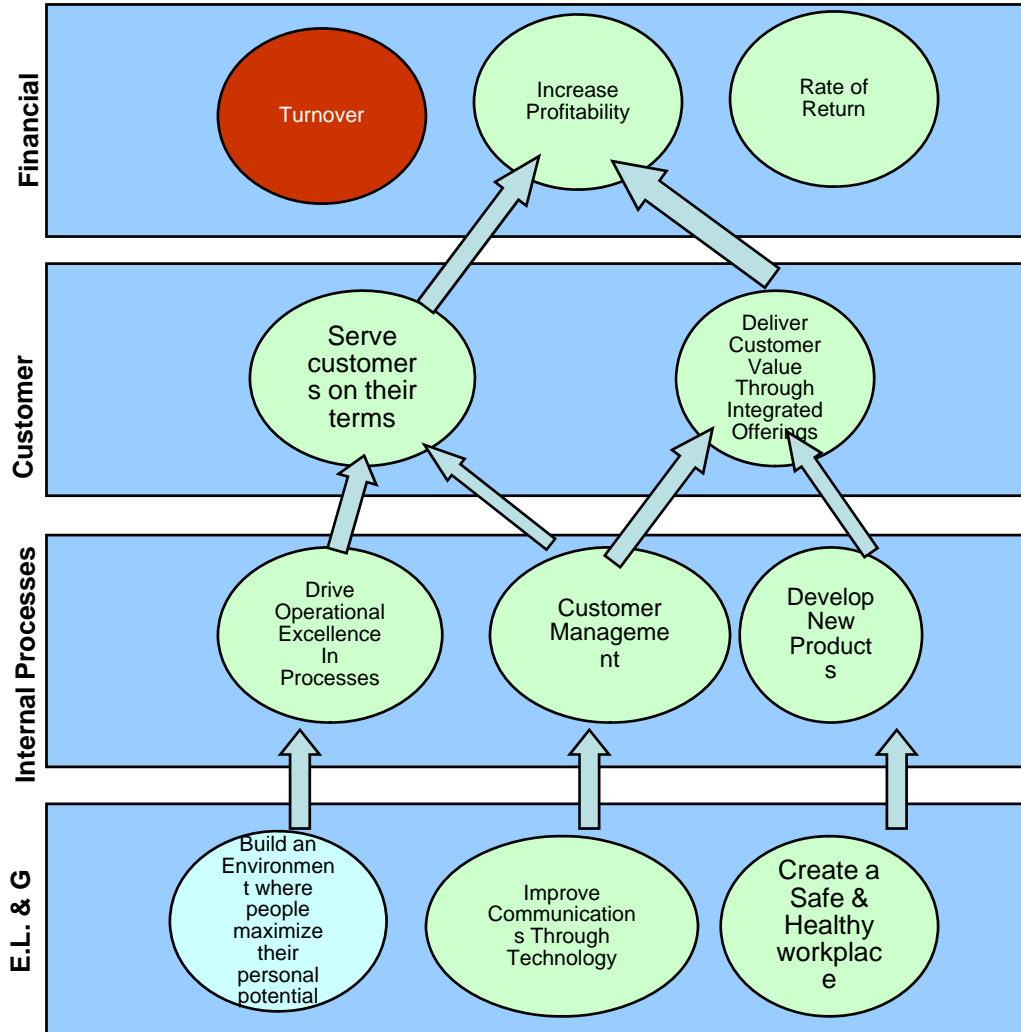   dictionary
  ❑ Validated and approved

Issues in Target & Initiatives

- Setting Targets & Initiatives

    - ❑ Clear guidelines from the CEO the 'Standard of Performance'
        - Aim for best in class performance within three years
        - Industry benchmark
        - Top ten in the industry
        - World class in five years

Issues in Target & Initiatives

- Setting Initiatives

  - ❑ Clear screening process to eliminate initiatives not contributing the strategy
  - ❑ Prioritizing the initiatives – assess the impact economic pay back
    - Initiative template

  - ❑ Clear accountability for each initiative
    - Milestone, deliverables and due dates
  - ❑ At any one time the number of strategic initiatives must be limited

Reporting

Financial
- Turnover
- Increase Profitability
- Rate of Return

Customer
- Serve customers on their terms
- Deliver Customer Value Through Integrated Offerings

Internal Processes
- Drive Operational Excellence In Processes
- Customer Management
- Develop New Products

E.L. & G
- Build an Environment where people maximize their personal potential
- Improve Communications Through Technology
- Create a Safe & Healthy workplace

Objective Owner

Measure Lead

Source

Frequency: Monthly

Issues
What issues have identified as a Result of the performance of this Measure for the business?

Implications
What are the implications of the Issues with details and timeframes And potential impacts?
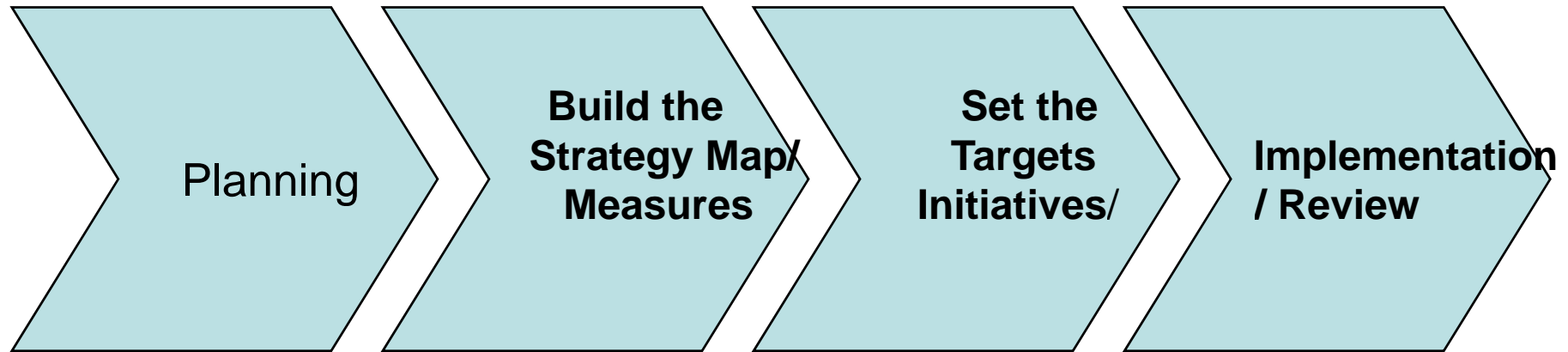
Actions
What do the Top Team need to Consider at the next management Meeting?

Accountabilities
Who should be accountable for Implementing these actions?

A Road Map – First Level Scorecard

Planning → Build the Strategy Map/ Measures → Set the Targets Initiatives/ → Implementation / Review

12 to 16 Weeks