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

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<th>Session 2 Introduction To BSC</th>
<th>Session 3 Strategy Map</th>
<th>Session 4 BSC Strategic Measures</th>
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<td>Session 5 Targets/Initiatives</td>
<td>Session 6 Understanding Cascading</td>
<td>Session 7 Challenges &amp; Issues</td>
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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

Goal Setting - Re-Focus

Business model - Corporate Performance Management
PERFORMANCE MEASUREMENT SYSTEM
Current View

- Vision / Mission
- Business Strategy
- Business Planning
  - Objectives & Measures
  - Balanced Scorecard
- Corporate Measurement Monitoring and Reporting System
- Budget

Business Ideas
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

Level 1
- STRATEGIC OBJECTIVES
- KEY PERF. INDICATORS
- STRATEGIC TARGETS
- STRATEGIC INITIATIVES

Level 2
- OPERATIONAL OBJECTIVES
- KEY PERF. INDICATORS
- TARGETS
- STRATEGIC ACTIONS

Level 3
- INDIVIDUAL OBJECTIVES
- KEY PERF. INDICATORS
- TARGETS
- ACTIONS
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.

The diagram shows a 2x2 matrix with the axes labeled 'Strategy Formulation' on the vertical axis and 'Execution' on the horizontal axis. The quadrants are labeled:

- Top left: Doomed From the Start
- Top right: At Risk
- Bottom left: Missed Opportunity
- Bottom right: Strategic Success
A Gap Between Strategy and Action

Strategy Is a Step In a Continuum

VISION

MISSION

VALUES

STRATEGY

STRAATEGIC OUTCOMES

Satisfied SHAREHOLDERS

Delight CUSTOMERS

Efficient PROCESSES

Motivated WORKFORCE
A Gap Between Strategy and Action

Strategy Is a Step In a Continuum

- **VISION**
- **MISSION**
- **VALUES**
- **STRATEGY**
- **BALANCED SCORECARD**
  - Implementation & Focus
- **STRATEGIC INITIATIVES**
  - What we need to do
- **PERSONAL OBJECTIVES**
  - What I need to do

**STRATEGIC OUTCOMES**
- Satisfied SHAREHOLDERS
- Delight CUSTOMERS
- Efficient PROCESSES
- Motivated WORKFORCE
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’

- Setting Targets
- Prioritizing Initiatives

MEASUREMENT SYSTEM

COMMUNICATION TOOL

STRATEGIC MANAGEMENT SYSTEM
BSC as a Tool

VISION/ MISSION & STRATEGY

STRATEGIC DIRECTION

BALANCED PERSPECTIVES

VISION/ MISSION & STRATEGY

DASHBOARD

OBJECTIVES

MEASURES

TARGETS

INITIATIVES
SCORECARD METHODOLOGY

VISION / MISSION / VALUES

STRATEGIC THEMES

BUILD A STRATEGY MAP

DESIGN THE KEY PERFORMANCE INDICATORS

SET TARGETS & STRATEGIC INITIATIVES

AUTOMATE & IMPLEMENT THE SCORECARD

PERFORMANCE MONITORING & ANALYSIS
The Balanced Scorecard

How do we look to shareholders?

What must we excel at?

Can we continue to improve and create value?

Customer Perspective
- Objectives
- Measures

Internal Business Process Perspective
- Objectives
- Measures

Learning and Growth Perspective
- Objectives
- Measures

Financial Perspective
- Objectives
- Measures

Source: Robert S. Kaplan and David P. Norton, 1994
A Framework to Describe Strategy

1. DEFINE STRATEGIC OBJECTIVES
2. BUSINESS STRATEGY
3. WHAT ARE THE FACTORS THAT CREATE THE STAKEHOLDERS VALUE?
4. IDENTIFY OUTCOMES/DRIVERS
Build A Measurement System

MEASUREMENT SYSTEM

REPORTING/REVIEW

DATA SOURCE - KEY METRICS

CRITICAL INDICATORS
# 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?

**Strategic Theme**
Efficiently deliver of Services

**Objectives**
- Excellence in practices
- Excellence in deliveries

**Measures**
- Compliance Rating
- Average throughput time for Clinical Services
- Benchmarking ranking

**Learning and Growth Perspective**
What should the company do to remain successful in the future?

**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
- STRATEGY
- Strategic Objectives
- Strategic Measures

DATA SOURCE
- Finance
- CRM
- HRM
- ASSET

OUTPUT
- BSC DATA MART
- Revenue
- Service
- Competency
- Fund Utilization

DASHBOARD
- Strategy Model
- Web Server
- User (Browser)
- Report on key Metrics
Session 3:  
*Design:*  
*Building the Strategy Map*
Performance Management in Corporate Planning Cycle
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 ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ➔ ꟾ
How the Organization Create Values?

1. Formulate Strategy
2. Non Tangible
3. Revenue Growth
4. Tangible Assets
5. Vision
6. Long Term Stakeholder Value

Tangible Assets
Non Tangible
Revenue Growth

Long Term Stakeholder Value
How the Organization Create Values?

3 Rules:
- Simplicity
- Focus
- Alignment

Long Term Stakeholder Value

Vision

Strategy

KPI......

What?

How?

Measurement System
Corporate Level: Development of Objectives

Shareholder Value

Productivity Strategy

Revenue Growth Strategy

Financial Perspective

Execute strategy

What? Outcomes
Corporate Level: Development of objectives

- Shareholder Value
- Revenue Growth Strategy
- Productivity Strategy
- Financial Perspective
- Customer Perspective

Strategy
Corporate Level: Developing Objectives

- Shareholder Value
  - Revenue Growth
  - Productivity
  - Strategy

- Customer Perspective
- Financial Perspective

what

Active FINANCIAL PERSPECTIVE

Customer Perspective
Corporate Level: Developing Objectives

- Shareholder Value
  - Revenue Growth
  - Productivity
    - Strategy
      - Revenue Growth Strategy
      - Productivity Strategy

- Financial Perspective
  - Customer Perspective
    - Strategy
      - what

- L&G
  - Customer Perspective
  - Financial Perspective
  - L&G
Developing the Strategy Map - Process

1. Develop the Objectives
   In each perspective
2. Assess the Risk and Cause Effect
3. Objective Statement Template
4. 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 you:

    – 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

- 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

Step 1: Define Strategic Destination

Step 2: Identify Key Themes

Step 3: Build the Strategic Linkages

Step 4: Determine Measures and Targets

Step 5: 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
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:

> 

> 

> 

> 

> 

>
Basic Measurement Process

Select the Objectives → Select the Relevant Measures → Develop Measure Template → Data Collection Plan - Process

Test the Measure Design
Articulating Your Measures in a Data Dictionary

<table>
<thead>
<tr>
<th>Perspective:</th>
<th>Measure No./ Name</th>
<th>Owner:</th>
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</thead>
<tbody>
<tr>
<td>Strategy:</td>
<td>Objective:</td>
<td></td>
</tr>
<tr>
<td>Description:</td>
<td></td>
<td></td>
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</tbody>
</table>

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<thead>
<tr>
<th>Lag / Lead:</th>
<th>Frequency:</th>
<th>Unit Type:</th>
<th>Polarity:</th>
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<tr>
<td>Formula:</td>
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<table>
<thead>
<tr>
<th>Data Source:</th>
<th>Data Quality:</th>
<th>Data Collector:</th>
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<thead>
<tr>
<th>Baseline:</th>
<th>Target:</th>
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<tr>
<th>Target Rationale:</th>
<th>Initiatives</th>
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</table>
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”*

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<tr>
<th>Financial</th>
<th>Customer</th>
<th>Process</th>
<th>Objective</th>
<th>Measure</th>
<th>Target</th>
<th>Initiative</th>
</tr>
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<tr>
<td>Utilization</td>
<td>Service Level</td>
<td>Lowest Price</td>
<td>Turnaround Time</td>
<td>Quality</td>
<td>Competency gaps</td>
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Session 5:
Setting Targets & Prioritizing Initiatives:
BSC Development Model

1. Define Strategic Destination
2. Identify Key Themes
3. Build the Strategic Linkages
4. Determine Measures and Targets
5. Select Priority Initiatives
6. Plan for Implementation
BSC as a ‘Tool”

- Setting Targets
- Prioritizing Initiatives
<table>
<thead>
<tr>
<th>PROCESSES PERSPECTIVE</th>
<th>OBJECTIVE</th>
<th>MEASUREMENTS</th>
<th>TARGET</th>
<th>INITIATIVE</th>
</tr>
</thead>
</table>
|                        | • 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

Balanced Scorecard

Key Performance Indicators

Key Initiatives

Set Targets
Session 6: Cascading:
Align the BSC to Strategy

**Vision & Strategy**

**Corporate**
- Strategy Map & Scorecard
- Provide strategic view

**Department**
- Strategy Map with focus Areas – Operational Objectives, measures, Targets & Initiatives
- Initiatives drives to Implement strategy

**Individual**
- With focus areas -

Set the bearing to cascade to next level

Identify objectives & measures that Contribute to Organizational goals

Level 1 lay out strategic Objectives to execute strategy
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
• 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
**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

1. Planning
2. Build the Strategy Map/Measures
3. Set the Targets/Initiatives/
4. Implementation/Review

12 to 16 Weeks