Balanced Scorecard: Success through Leadership Enablers

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Invited Presentation at Great Lakes TL 9000 SIG Meeting
Alcatel-Lucent, Naperville, Illinois, April 24, 2007

Introduction

Measurement and Management in the Information Age
Need for a Balanced Scorecard (BSC)
Leadership Enablers for BSC Success:
1. Build and Maintain a Cohesive Leadership Team
2. Create Organizational Clarity:
   - Creating Business Strategy
   - Measuring Business Strategy
3. Over-Communicate Organizational Clarity:
   - Managing Business Strategy
   - Hoshin Planning - Alignment & Reviews
   - Building a Balanced Scorecard
4. Reinforce Organizational Clarity Through Human Systems:
   - Reward and Recognition Systems

BSC Case Studies
Recipe for Success
Major References

Personal Background

- Taught Balanced Scorecard Workshop in Costa Rica, India, Mexico, and USA, 2003-present.
- Taught “Quality Management” course, Baldrige based at Stuart Graduate School of Business, Illinois Institute of Technology, Chicago, 1993-present.

Measurement and Management

Competing in the Information Age:
- The Industrial Age (1850 - 1975) - economies of scale and scope
- Financial Control systems to facilitate and monitor efficient allocations of financial and physical capital (GM, DuPont, Matsushita, and GE)
- Key Financial Measure - Return-On-Capital Employed (ROCE) to monitor efficiency and value creation for shareholders.
- The Information Age (last decades of the 20th Century) - no competitive advantage to rapidly deploy new technology into physical assets, and management of financial assets
- Manufacturing and service organizations require new capabilities for competitive success
- Management of Intangible Assets has become more critical

A Balanced Life

God & Prayer

Family & Friends

Play

Balanced Life

Work

The Balanced Scorecard

Customer

Financial Vision & Strategy

Employee

Process
**Measurement and Management**

*New Operating Environment:*
- Cross-functions (integrated business processes)
- Links to customers and suppliers (integrate supply, production and delivery)
- Customer segmentation (customized products and services)
- Global scale (world-wide competition)
- Innovation (shrinking product life cycle)
- Knowledge workers (all must contribute value)

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**The Balanced Scorecard**

- **Financial**
  - Objectives
  - Measures
  - Targets
  - Initiatives

- **Internal Business Process**
  - Objectives
  - Measures
  - Targets
  - Initiatives

- **Customer**
  - Objectives
  - Measures
  - Targets
  - Initiatives

- **Learning and Growth**
  - Objectives
  - Measures
  - Targets
  - Initiatives

Kaplan and Norton, 1996

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**Need for a Balanced Scorecard**

- If you *can’t* measure it, you *can’t* manage it.
- Measurement system strongly affects the behavior of people both inside and outside the organization.
- To survive and prosper in information age companies must use measurement and management systems derived from their strategies and capabilities.

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**Issues with Financial Measurements:**
- Lagging Indicators *(How well did you do)*
- They fail to capture much of value created or destroyed by manager’s actions in the most recent accounting period
- They tell some, but not all, of the story about past actions
- They fail to provide adequate guidance to create future financial value
- Short-term financial results cause companies to overinvest in short-term fixes and to underinvest in long-term value creation, particularly in intangible assets that generate future growth.

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**Non-Financial Measurements:**
- Customer, People and Process indicators
- Current Indicators *(How well are you doing)* - customer satisfaction, growth and retention
- Leading Indicators *(How well can you expect to do in the future)* – Cycle time, defects, and human resource systems development
- Current and Leading Indicators provide adequate guidance to create Future Financial Value
1. **Build and Maintain a Cohesive Leadership Team**

- Select appropriate leaders to manage enterprise-wide measurements for:
  - Customer
  - People
  - Process
  - Finance
- Look for synergistic impact of area measurements upon the enterprise success – Global rather than local optimization.
- Holding these leaders accountable for their behaviors and actions.
- Committing to group decisions agreed upon by the leadership team.

2. **Create Organizational Clarity**

- Why the organization exists
- Which behavioral values are fundamental
- What specific business it is in
- Who its competitors are
- How it is unique
- What it plans to achieve
- Who is responsible for what

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1. **Leadership Enablers for BSC Success**

1. Build and Maintain a Cohesive Leadership Team
2. Create Organizational Clarity
3. Over-Communicate Organizational Clarity
4. Reinforce Organizational Clarity Through Human Systems

Eastman Chemical Company:

**Strategic Intent**

**Vision:** To be the world’s preferred chemical company

**Mission:** To create superior value for -
- Customers
- Employees
- Investors
- Suppliers
- Public

**Guided by:** Company directions

**Driven by:** Quality policy - The Eastman Way

**Focusing on:** Exceeding customer expectations while achieving our major improvement opportunities

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Eastman Chemical Company:

**Strategic Quality Planning steps**

- Define Vision, Mission & Major Improvement Opportunities (MIOs).
- Gather critical planning inputs.
- Develop strategic alternatives.
- Develop Eastman’s overall strategy.
- Develop MIOs and key initiatives for each organization.
- Develop supporting projects and milestones.
- Allocate resources.
- Finalize annual plans.
- Plan and implement projects.
- Review progress and performance.
- Annually assess and improve the planning process.

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**Customer Requirements**

- **Validation**
- **Measurements**
- **Prediction**

**Processes**

- **Design**
- **Results**

Measurement supports executive performance review and daily operations and decision making.
Linkages to Strategy

Key business drivers (key success factors) ─ Strategies and action plans ─ Measures and indicators

Selection of Measurements

- Evaluate current measurements using SMART criteria: Specific, Measurable, Actionable, Realistic, & Time bound (Trend capable)
- Select few critical but effective measurements
- Link them to the key business drivers (success factors) and Strategy
- Base them on stakeholder requirements
- Measurements must be Valid, Reliable, Accessible, and Consistent across the organization
- Set aggressive performance targets for leapfrog goals
- Change measurements as the environment and strategy changes

Measuring Business Strategy

Customer Perspective (General):
- Customer satisfaction
- Customer retention
- New customer acquisition
- Customer profitability
- Market and Account Share in Targeted Segments

Customer Perspective (TL 9000 – 8.2.1.C.1, 5.0, 6.0, 7.0 & 8.0):
- Customer Satisfaction Improvement
- On-Time Delivery (OTD) - Customer Commitments
- Fix Response Time (FRT) - Customer Responsiveness
- Overdue problem report and Fix Response (OFR)
- Number of Problem Reports (NPR):
  - Hardware: Field Replaceable Unit Returns (FRUR)
  - Software: Software Problem Reports (SPR)
  - Corrective Fix Quality (CFQ)
- Service:
  - Defective Transactions (DT)
- Outages:
  - Product Attributable
  - Customer Attributable
  - External Attributable

Measuring Business Strategy

Learning & Growth Perspective (General):
- Employee Capabilities:
  - Satisfaction
  - Retention
  - Productivity
- Information Systems Capabilities:
  - Excellent information on customers, internal processes and the financial consequences of their decisions
- Motivation, Empowerment, and Alignment:
  - Suggestions made and its business impact
  - Personal and organizational goal alignment using Policy Deployment process (Hoshin Planning)

Learning & Growth Perspective (TL 9000 - 6.2.2.C.3):
- Employee Capabilities:
  - Product Quality Training Opportunities
  - Product Quality Training Communication
  - Product Quality Training Availability
Measuring Business Strategy

Internal Process Perspective (General):
- Process Defect Rates (parts per million)
- Yields (ratio of good items produced to items entering the process)
- Waste
- Scrap
- Rework
- Returns
- Percentage of processes under statistical process control

Measuring Business Strategy

Internal Process Perspective (TL 9000 – 8.2.3.C.1, 7.2.3.HS.2, 7.3.1.HS.2):
- Design and Development Process (D&DP) Quality:
  - Map Field Replaceable Unit Returns (FRUR), Corrective Fix Quality (CFQ), Software Problem Reports (SPR) & Defective Transactions (DT) to D&DP for defect origination, detection and delivery
  - Measurement Data Reporting
  - Measurement Planning and Implementation
- Process Measurements:
  - Project Management Milestone Completion & Time Intervals
  - Defects: Incoming, Outgoing & Missed

Measuring Business Strategy

Financial Perspective (General):
- Return on Investment (ROI)
- Operating Income (Revenue - Manufacturing Costs - S&M)
- Growth in Sales
- Operating Return on Sales
- Cash Flow generation
- Cost Reduction/Productivity

Measuring Business Strategy

Financial Perspective (TL 9000):
- Reduced Cost of Ownership:
  - By the Customer
  - By the Supplier
- Reduced Cost Impact of Faults:
  - By the Customer
  - By the Supplier

Measuring Business Strategy

Linking Multiple Scorecard Measures:
- Financial - ROCE (Return-on-capital-employed)
- Customer - Customer Loyalty, On-time Delivery
- Internal/Business Process - Process Quality, Process Cycle Time
- Learning and Growth - Employee Skills
- Appropriate mix of Outcome measures (financial and customer) and Performance measures (process and people)

Tools for Measures

- Customer - Survey Analysis using a Quadrant Chart
- People - Employee Engagement Questionnaire
- People - Employee Education/Training Effectiveness
- Process - Florida Power & Light Quality Improvement (QI) Story
- Finance - Sarbanes-Oxley Compliance Audits
The Quadrant Chart


Employee Engagement Questionnaire
1. Do you know what is expected of you at work?
2. Do you have the materials and equipment you need to do your work right?
3. At work, do you have the opportunity to do what you do best every day?
4. In the last 7 days, have you received recognition or praise for doing good work?
5. Does your supervisor, or someone at work, seem to care about you as a person?
6. Is there someone at work who encourages your development?
7. At work, do your opinions seem to count?
8. Does the mission/purpose of your company make you feel your job is important?
9. Are your associates (fellow employees) committed to doing quality work?
10. Do you have a best friend at work?
11. In the last 6 months, has someone at work talked to you about your progress?
12. In the last year, have you had opportunities at work to learn and grow?

Employee Development

Education and Training (E/T):
- Evaluate Education and Training Effectiveness (Kirkpatrick & Kirkpatrick, 2006):
  - Level 1 - Reaction (Immediate feedback)
  - Level 2 - Learning (Before and after knowledge retention)
  - Level 3 - Behavior (6 months after completion of E/T to increase performance at Dept. level)
  - Level 4 - Results (One year later, assess value of E/T through a supervisor for the enterprise)
- Learning is a process, not a goal
- Each new insight creates another new layer of potential insights

Training Investment/Effectiveness

FPL’s QI Story

- Step 1. Reason for Improvement (theme)
- Step 2. Current Situation (define problem, set target for improvement)
- Step 3. Analysis (identify & verify root causes of the problem)
- Step 4. Countermeasures (to correct root causes)
- Step 5. Results (root causes have decreased)
- Step 6. Standardization (prevent recurrence)
- Step 7. Future Plans (next problem)

Sarbanes-Oxley Compliance Audits

- The CEOs and CFOs of publicly traded companies doing business in the United States are now personally responsible to ensure that corporate financial reports are accurate and complete.
- The business processes that feed data into those reports are effective, complete and reliable - or face substantially increased penalties for non-compliance.
- The Management Reviews include self-assessment surveys information along with audit results, customer feedback and complaints.
3). Over-Communicate Organizational Clarity

Healthy organizations align their employees around organizational clarity by communicating key messages through …

- **Repetition:** Don’t be afraid to repeat the same message, again and again.
- **Simplicity:** The more complicated the message, the more potential for confusion and inconsistency.
- **Multiple Mediums:** People react to information in many ways; use a variety of mediums.
- **Cascading Messages:** Leaders communicate key messages to direct reports; the cycle repeats itself until the message is heard by all.

Managing Business Strategy

**Key Barriers:**
- Vision and Strategy not Actionable
- Strategy not Linked to Departmental, Team, and Individual Goals
- Strategy not Linked to Resource Allocation
- Feedback that is Tactical, not Strategic

Managing Business Strategy

- Hoshin Planning - Strategic Alignment and Reviews
- Targets, Resource Allocation, Initiatives, and Budgets
- Feedback and the Strategic Learning Process
- Implementing a Balanced Scorecard Management Program

Hoshin Planning in Action

<table>
<thead>
<tr>
<th>CEO/President Executive Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice Presidents &amp; Directors</td>
</tr>
<tr>
<td>Deploy Hoshin</td>
</tr>
<tr>
<td>One-year plan (Objectives &amp; Action plans)</td>
</tr>
<tr>
<td>Five-year vision (4 strategic goals)</td>
</tr>
</tbody>
</table>

Sample Users of Hoshin Planning

Managing Business Strategy

- Targets, Resource Allocation, Initiatives, and budgets:
  - Set Stretch Targets
  - Identify and Rationalize Strategic Initiatives
  - Identify Critical Cross-Business Initiatives
  - Link to Annual Resource Allocation and Budgets
Managing Business Strategy

Feedback and the Strategic Learning Process:
- Single-loop feedback process (not appropriate in today’s turbulent environment)
- Strategic Learning Process:
  - Shared strategic framework that communicates the strategy and allows each member to see how their activities contribute to overall strategy
  - A feedback process that collects performance data about strategy
- A team problem-solving process that analyzes and learns from the performance data

Managing Business Strategy

Building a Balanced Scorecard

Managing the Process:
- Select the appropriate organizational unit (Division, Strategic Business Unit [SBU], etc.)
- Identify SBU/Corporate Linkages
- Build Consensus around Strategic Objectives (Interviews, synthesis session)
- Select and Design Measures
- Build the Implementation Plan (Develop and deploy plan)
- Typical time frame to implement a Balanced Scorecard about 16 weeks.

Critical Success Factors for Implementing a Balanced Scorecard

- Link measures to strategy
- Validate the link between measures and strategy
- Set the right performance targets
- Measure correctly

Source: Ittner and Larcker, HBR, November 2003.

4). Reinforce Organizational Clarity Through Human Systems

Organizations sustain their health by ensuring consistency in …
- Hiring
- Managing Performance
- Rewards and Recognition
- Employee Dismissal

Reward System

- Allocate bonus based on:
  - All four categories - (Customer, Employee, Process, and Financial):
    - 25% for each category of measurement
  - Bonus based on Meeting or Exceeding Stretch Goal Results:
    - Meets – 100%, Exceeds - >100% per agreement with the Leadership Team

Employee Motivation: A Case for Recognition

- In the last six months, how many of you received recognition?
- In the last six months, how many of you gave recognition to others?
- Does your company have a systematic recognition process? For how long?
- How many of you think you are getting too much recognition?
Case for Recognition
What Do Employees Really Want?

- Supervisors were asked to identify one thing most important to employees:
  - Money
- Employees were asked to identify most important aspect in the work place:
  - Full appreciation for work done

Source: Aetna Life & Casualty Employee Survey

Employee Motivation

Recognition/Celebration:
- Day-to-day (thank you note, memo, e-mail)
- Informal (team milestone completion - memento)
- Formal (nomination, evaluation, celebration)
- Determine need for employee recognition
- Manage Recognition/Celebration as a Process
- Allocate Budget and Measure Quarterly Results

Employee Motivation

Suggestion System:
- Employees have knowledge
- Create a simple process to gather, acknowledge, and act on suggestions
- Involve employees who gave suggestions during the implementation of their idea
- Recognize & reward employees whose suggestions are implemented with positive impact

Balanced Scorecard - Case Studies

- A Fast Food Chain, USA Performance Measures
- IBM Rochester, USA Causal Relationships
- Sears, USA Employee-Customer-Profit Chain Model

Selection and Staffing

<table>
<thead>
<tr>
<th>New Hires</th>
<th>Education</th>
<th>Work experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supervisor</td>
<td>Support</td>
<td>Performance</td>
</tr>
<tr>
<td>Empowerment</td>
<td>Sustainability</td>
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<tr>
<td>Quality</td>
<td>Shopping Experience</td>
<td>Timeliness</td>
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<tr>
<td>Engagement</td>
<td>Retention</td>
<td>Growth</td>
</tr>
<tr>
<td>Profitability</td>
<td>Cost</td>
<td>Outcome</td>
</tr>
<tr>
<td>Change</td>
<td>More than competition</td>
<td>Growth</td>
</tr>
<tr>
<td>Financial</td>
<td>Customer Satisfaction and Loyalty</td>
<td>Product and Service Quality</td>
</tr>
<tr>
<td>Learning</td>
<td>Internal</td>
<td>Customer</td>
</tr>
</tbody>
</table>

Which Measures Matter

Balanced Scorecard - Sears

- The Employee-Customer-Profit Chain Model at Sears was implemented during Mid 1990s.
- Vision: Sears, a compelling place to Work, to Shop, and to Invest (3 C’s).
- Shared Values: Passion for the customer, Our people add value, and Performance leadership (3 P’s).
- Two dimensions of employee satisfaction had greater effect on employee loyalty and behavior towards customers:
  - Attitude toward the job
  - Attitude toward the company

Recipe for Success

1. Build and Maintain a Cohesive Leadership Team...
2. Create Organizational Clarity...
   - Vision/Mission/Values
   - Strategic Plan & Measures
3. Over-Communicate Organizational Clarity...
   - Hoshin Planning
   - Doing it Right!
   - Successfully implement business strategy
4. Reinforce Organizational Clarity Through Human Systems
   - Rewards and Recognition

Questions???