

How to Implement a Balanced Scorecard in 16 Weeks Revisited

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Commitment of the senior management team (SMT) is critical to successful implementation of a Balanced Scorecard. Even organizations that do not ultimately implement a BSC can benefit from going through the process.

Kaplan and Norton, in their groundbreaking work *The Balanced Scorecard*, indicate that 16 weeks is an adequate timeframe to set up a Balanced Scorecard (BSC). Why, then, does 16 weeks so often become 16 months? And, if BSC processes have revolutionized organizations, why aren't all organizations, with more than say 20 staff, using them?

I suspect the problem lies at the top where the senior management team lacks understanding of, and commitment to, the BSC and does not prioritize it. Many organizations have made half-hearted attempts at implementing a BSC by fitting the project around other often less important fire-fighting activities.

Set out below are 10 lessons based on my observations to help your organization implement a BSC in 16 weeks. These rules will assist with the implementation BSCs and dashboards within a 16-week timeframe.

BSC Implementation lessons

Begin with senior management team commitment and education

Focus on the critical success factors

Follow the 10/80/10 rule

Select a small KPI team

"Just do it"

Use existing systems for the first 12 months

Trap all performance measures in a database so they are available to all

Set your KPIs in ranges to avoid dysfunctional behavior

BSC designs are an art form not a science

Maybe you need to rename

Lesson 1: Begin with SMT commitment and education

The SMT must be committed to the BSC, to drive it down through the organisation. Properly implemented, the BSC will create a dynamic environment. But before it can do this, the SMT must be sold on the concept. The BSC should be treated as the top priority, which may mean the SMT allows some of those distracting fires to "burn themselves out".

As a first step, set up a half day workshop for the entire executive team and for those members of your in-house team who will be required to lead the project. Use the time to receive presentations from experts and organizations with BSCs. After this meeting the SMT will be in a position to either commit to it, or put it back simmering on the company's "aga".

That commitment will involve the SMT putting aside time each week to perform exercises, including giving feedback on suggested measures, being available to the BSC team for interviews, perhaps visiting other BSC sites, and approving BSC investment proposals - all within a tight time-frame so as to keep within that 16 week implementation period.

I sometimes hear it said in organizations that senior staff view the development of the BSC as an end in itself and go through the motions 'to keep the boss happy'. If the SMT is not strategic in its perspective and consequently does not see the BSC as a tool to help it better understand and manage the organization, this will be reflected in a loss of interest when the process of development gets tough, for example, when deciding on which Key Performance Indicators (KPIs) to use and the trade-offs to be made. While the role of the SMT is important, the role of the CEO is critical. The CEO must be the central driver carrying the embryo BSC with them all the time, talking about it frequently, and so on.

Organizations sometimes find that support for the BSC flounders if a new CEO takes the helm before full implementation. It is important to sell, sell, sell the benefits to all new senior team members.

The BSC will help the organization rethink its strategies. Sometimes it may be better to redirect resources from the next strategic plan into developing a BSC.

Benefit of this action: The SMT will get a buzz from being involved in a dynamic project which will enhance understanding of their business and improve their organization's business strategies.

Lesson 2: Focus on the critical success factors

Too often time is spent debating the "perspectives", their names and the design of the scorecard. The SMT loves this time of intellectualizing however it does not create much value. It is easy to get carried away with the debate, spending months ascertaining the perspectives while making little progress on defining the critical success factors (CSFs). The CSFs are the facets "that determine the organizational health and vitality" and where the organization needs to perform well. KRIs, PIs and KPIs are the actual performance measures, which naturally cascade from these CSFs. It is crucial that the SMT focus on providing the project team with CSFs. If this is done well winning KPIs are much easier to find.

So what are the perspectives? Too much time can be spent debating whether there are 4, 5, or 6 perspectives and what their names are. Let me save you some trouble. You will need:

One on the Financials

One on (staff) Learning and Growth

One on Customer Focus

One on Internal Business Processes

One on Staff satisfaction

One on Environment / Community

Kaplan and Norton's Balanced Scorecard

Financial

Utilization of assets

Optimization of working capital

Focus on top 10% of customers, etc. Customer

Seamless service

Increased customer satisfaction, etc. Environment/Community

Supporting local businesses

Green globe 21

Community leadership

Internal Process

Delivery in full, on time

Effective relationship with key stakeholders

Optimizing technology Employee Satisfaction

Positive company culture

Retention of key staff

Increased recognition Learning and Growth

Empowerment

Increasing expertise

Adaptability etc.

This will be a better practice template for the first six to twelve months. After twelve months the SMT and staff will be in a position of experience, knowledge and understanding to fine tune the KPIs and scorecards to better meet the organization's needs.

Benefit of this action: The SMT will invest time scoring actual goals.

Lesson 3: Follow the 10/80/10 rule

Kaplan and Norton recommend no more than 20 KPIs. Hope and Fraser suggest less than 10 KPIs. I believe the 10/80/10 rule is a good guide. 10 key result indicators (KRIs), up to 80 performance indicators (PIs) and 10 key performance indicators (KPIs).

Key Result Indicator tells you how you have done in a perspective

Performance Indicator tells you what to do

Key Performance Indicator tells you what to do to increase performance dramatically

The project team and SMT need to focus and concentrate on identifying those 10 KRIs, 80 PIs and 10 KPIs that really matter. The team will need help differentiating between key result indicators, performance indicators and winning KPIs.

Many people confuse result indicators with KPIs. Sales, net profit, customer satisfaction and return on capital employed are not KPIs as they are a result of many events occurring. These result indicators (net profit etc.) are measures that give a clear picture of whether you are travelling in the right direction. If a problem exists, they show it up but will not tell you what you need to do to correct it.

Result indicators provide useful information to the Board who should not be involved in day-to-day management. The KPIs lie several layers beneath the result indicators. The KPIs of a number of business units and teams may contribute to a single KPI. By focusing on one KPI ("planes in the air over x hours late"), Lord King, Chairman of British Airways, is said to have made a significant change to the company.

No matter how complex your organization: - whether a council, a district health board, or a diverse manufacturer, it is important not to consolidate business unit performance indicators and end up with a vast array of PIs mislabeled as KPIs.

Benefit of this action: The KPI team will immediately focus on the end product, not trying to identify 80 KPIs in 200 performance measures.

Lesson 4: Select a small KPI team

KPIs can be designed successfully by a small team. Kaplan and Norton have seen BSCs designed successfully by an individual when they had an in-depth understanding of the business.

Notwithstanding this possibility, a team approach with between two to four staff is recommended supported by an external facilitator, who if involved right at the beginning, should help the SMT pick a team. Research into personnel records is recommended as many talented staff are found in obscure places, some of which may have already had some KPI experience!! The facilitator is looking for staff that has excellent presentation skills, knowledge of the organization and its sector, a track record of innovation and completion, sound communication skills and the ability to be cheerful under pressure (a recruiting trick of Sir Edmund Hillary). My suggestion is to find a blend of the oracles in the organization and team them up with "top guns", young, fearless and precocious leaders of the future who are not afraid to go where "angels fear to tread".

These staff needs to be committed full time. Management will not complain if the project is completed ahead of schedule. A liaison person needs to be identified for each business unit or service team. This person needs to be knowledgeable about their operation as their role is to be available to provide detailed knowledge about their area of operation to project team members and provide feedback etc.

The SMT should not exclude themselves from the project team. Including an SMT member in the team will lead to a string of cancelled meetings as the senior manager is caught in the fire fighting activities that is very much their reality. With the best willpower in the world SMT members can never be fully focused on just one project.

Characteristics of a good KPI:

Measured frequently e.g. daily or 24/7 (KPIs are not measured monthly)

Acted upon by the CEO and the senior management team on a daily or 24/7 basis

All staff understands the measure and what corrective action is required

Responsibility can be tied down to the individual or team

The KPI has a significant impact on the organization e.g. it impacts most of the core critical success factors and balanced scorecard perspectives

Positive movement affects all other performance measures in a positive way

Benefit of this action: The project will be given a good start and will be protected against procrastination.

Lesson 5: "Just do it!"

The exact structure of result indicators, performance indicators and KPIs is rarely "right first time". Kaplan and Norton agree with Nike and say "Just do it". The facilitator, SMT and KPI project team need to ensure that the project culture is a "just do it" culture.

Whilst the project team will need to do research and up-skill themselves this needs to be balanced with the need to achieve the deadline. A carefully chosen facilitator is the key here. The facilitator should ensure that the team is familiar with the manual "Implementing KPIs, 2nd edition" and with The Balanced Scorecard.

A "just do it" culture brings the belief that the project team can do it. To this end the project team needs to be empowered to make many of the decisions. The SMT can reverse those 6 to 9 months down the track when they better understand the concepts and operations aspects.

A "just do it" culture means that the team will not have to rely on external experts to run the project. CEOs are often wary of large projects that they perceive to be managed by expensive international consulting firms. The last decade is littered with six or seven figure consulting assignments, which have not delivered on the value expectations.

Benefit of this action: Improves your chance of implementing the BSC within the 16 week period.

Lesson 6: Use existing systems for the first 12 months

It is important that existing in-house applications are used for the first 12 months. Much can be done with standard applications such as Excel, PowerPoint, SharePoint Team Services and Access. There is no need to purchase specialized software at this stage. Any such purchases can be done more efficiently and effectively 12 months down the track.

Sophisticated intranet software is most likely available in-house such as SharePoint Team Services which is provided free of charge with FrontPage. These applications will help the team set-up their intranet website so that anyone interested in the development of performance measures can obtain access. They can provide pre-formatted lists with expiration dates to keep announcements current; and a place to collaborate on the development of KPI documentation and reports in real-time.

The team will need to be updating the intranet site frequently themselves. It is too important to be left to a systems administrator who is not part of the project!

Benefit of this action: Focusing on an immediate solution using existing in-house software will avoid the project time scale being compromised by delays in systems development.

Lesson 7: Trap all performance measures in a database so they are available to all

During the 16 weeks a number of performance measures will be found which, while not in the top 10 KPIs, will still be highly relevant to business and service teams.

The project team needs to establish a database to record these measures and communicate them through a KPI intranet home page. It is possible to obtain databases of better practice performance measures and reporting formats which aid efficiency.

During the 16 weeks it is important that the lower order performance measures don't divert the KPI project team efforts while at the same time they are communicated to teams. Documentation of these measures is where such activity stops, so that the KPI team progress according to agreed time frames.

Benefit of this action: creating a comprehensive and user friendly resource for all.

Lesson 8: Set your KPIs in ranges to avoid dysfunctional behavior

Hope and Fraser in their ground breaking work, ("Beyond budgeting: breaking free from the annual performance trap") pointed out that development of KPIs and associated balanced scorecards can soon incorporate the same baggage as the budget process. One study found managers were inclined to either try to "beat the system" or felt pressured to achieve targets at any cost (the same behavior contributing to recent "managed earnings" scandals).

To avoid such situations it is important to set KPIs in ranges and allow these ranges to relate to actual circumstances. In other words you may have a cascading range as you are expecting better performance over time.

It is important to ensure KPIs focus on 24/7, daily or weekly activities. As previously noted monthly, quarterly or annual measures are not KPIs.

Benefit of this action: Establishment of meaningful KPIs which avoid the possible development of dysfunctional behavior issues.

Lesson 9: BSC designs are an art form not a science

Again "just do it". What is required is a reporting regime that thoroughly addresses those performance measures relevant to the CSFs and the six perspectives. The SMT need to leave the proposed formats unchanged for at least six months. All suggested modifications should be recorded and reviewed then.

The team should make good use of the better practice reporting templates sourced during their research before attempting to develop any of their own.

It is recommended that the SMT leave the design of the BSC template to the KPI team trusting in their judgment. The SMT should tell the KPI project team that they will be happy to live with their sculpture knowing that they can always "keep the plinth and recycle the bronze six to twelve months down the track". What you are looking for is a reporting framework that covers the measures in the six BSC perspectives. The key is to seek agreement that suggested modifications will be recorded and looked into at the end of the agreed review period. It will come of no surprise that many suggested modifications will not stand the test of time.

Benefit of this action: Swift adoption of better practice reporting templates.

Lesson 10: Maybe you need to rename

Performance indicators and winning KPIs should ideally be structured within a balanced scorecard. However, right across the world there have been many failed balanced scorecards principally due to "garbage in, garbage out". If you use the right measures, and follow the lessons in this paper the only thing left to do is to find a name for the scorecard. The word "scorecard" may have negative connotations. What about "navigator"; "compass" or other directional terms to help sell the concept and galvanize participation? Changing the name is particularly important where existing management have prior negative experiences with balanced scorecards.

Benefit of this action: A project name that galvanizes the organization

Additional Information:

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