Case study

Even in today's volatile economic climate, many organizations are turning to the balanced scorecard to help steer their organizations in the right direction

By Preston Cameron

It evokes harmony, and simplicity. It sounds almost Zen. What is it? It's the balanced scorecard. It denotes comprehensiveness and totality. It sounds healthy and natural, just like your mother's advice to eat a balanced breakfast. And best of all, it's a scorecard, so you can just check off the boxes, right? Not so fast! Try building one. And not for just any organization — try building one for a public organization or a government agency. Now try to build that same balanced scorecard given the current economic climate. Impossible, you say? Not quite. Consider the following example:

Forward-thinking executives in both the public and private sectors realize they must drive their organizations into new areas of efficiency just to remain viable, let alone enhance value.

In 2000, the Governor of Alabama directed his state agencies to expand their use of performance management tools as a part of his overall plan to increase the accountability of state government to the citizens of the state. The Department of Mental Health and Mental Retardation (DMHMR) was chosen as a pilot agency for implementation. With a budget of nearly $450 million, over 40 local agencies on contract, 14 state-operated facilities, more than 4,200 workers and a clientele of over 170,000 individuals, the agency has been implementing

performance-based management, budgeting, and a balanced scorecard process in an environment of dramatic change. Not only did the agency have operational constraints imposed by the state's legislature, but the judicial courts also joined in to lend their direction.

"With the 2000 settlement of the 30-year *Wyatt v. Sawyer*, a right to treatment lawsuit" says Kathy Sawyer, the Agency's commissioner, "came the additional responsibility of demonstrating the reallocation and reutilization of resources from state-operated facilities to more community-based service availability." The settlement requires the Alabama DMHMR to develop additional community-based services for people leaving state institutions; expand protection of rights for people in state hospitals; enhance agency jurisdiction to ensure that clients in DMHMR facilities and contracted community programs are safe and secure; and develop a community education plan to educate the public about mental illness and mental retardation, including the needs and rights of those served by the DMHMR. And all of this must be achieved despite a decline in available funding as a result of the downturn in the economy.

Organizations that only a few years ago focused on growth, innovation and seizing new opportunities have been forced to shift their mindsets toward cost-cutting, more re-engineering and additional restructuring. Forward-thinking executives in both the public and private sectors realize they must drive their organizations into new areas of efficiency just to remain viable, let alone enhance value. Many of them are attempting to utilize the balanced scorecard to help steer their organizations in the right direction.

The balanced scorecard has come a long way since it was first introduced in 1992 by David Norton and Harvard Business School professor Robert Kaplan. Their philosophy was that financial measures were not adequate for managing complex companies. Stanford, Conn.-based Gartner Group Inc. predicted that by the year 2000, at least 40% of Fortune 1000 companies would implement the balanced scorecard. So, what's their common denominator? Simply put, it's a focus on managing change.

The balanced scorecard provides a means for linking the strategies of different operating units within an organization to the overall mission and vision. It supplements traditional financial measures with criteria that measure performance from a variety of perspectives. But perhaps the most important aspect of a balanced scorecard is that it allows organizations to link long-term strategy with short-term actions.

Hesitant at first to accept the Governor's challenge, the

It was predicted that by the year 2000, at least 40% of Fortune 1000 companies would implement the balanced scorecard.

DMHMR decided that now was as good a time as any other to start the process. With a plethora of demands on the agency, a balanced scorecard approach to managing performance was envisioned as the tool to consolidate those competing demands. In addition, it provided DMHMR management with the opportunity to clearly communicate conflicting requirements and establish accountability.

"Accountability is easier to understand and is clearly displayed via the balanced scorecard," says Anne Evans, the agency's director of policy and planning. "Definitions are standard. Such terms as 'performance goal' and 'departmental objective' are clearly understood throughout the department's four divisions. Through the use of the balanced scorecard, our department is able to clearly demonstrate the shifting and reallocation of state and federal resources. Probably the most important benefit of this process is noting the translation of performance outputs into system-improving outcomes." And in a declining economic environment, the need for accountability and improving processes in the public sector becomes even more critical.

Implementing the balanced scorecard in today's environment

If you're new to the balanced scorecard process, you might be wondering where to begin. If you have already implemented the process, recent events may dictate that you revisit your scorecard to ensure that it's still viable. In any event, there are four key cornerstones to consider in today's economic climate when implementing a balanced scorecard performance management process:

1. Define your measurement architecture.

When you begin implementing a balanced scorecard, you must start at the executive level. A balanced scorecard reflects the values of an organization, so by skipping that first step, you run the risk of not being able to link back to what's most important to that organization. The first step toward improving your performance management program is evaluation. Evaluation is vitally important because it can provide valuable information that demonstrates the success of a program or shows what adjustments need to be made. However, a government agency, for example, must also focus on gathering the right data. It should show whether or not the program is complying with relevant regulations (i.e. Is the agency doing things right?), and whether or not the program is producing the desired results (i.e. Is the agency doing the right things?).

By identifying the top three to five goals that the agency needs to focus on, an organization can start to categorize appropriate measures. Such measures might be linked to such criteria as customer satisfaction, process quality, or growth and innovation. Organizations that don't embrace the balanced scorecard concept frequently struggle to find appropriate measures to link to their respective strategies.

The typical scorecard has four quadrants that measure financial results, process improvements, customer service, and innovation. Each quadrant is weighted to show the relevant importance of the measures, and scorecards may have different measurements and weightings for various divisions within an organization.

2. Build consensus around strategic objectives.

The strategic focus of the balanced scorecard must be translated into operational terms. From a financial perspective, organizations should determine which objectives must be accomplished in order to satisfy the multitude of requirements they face. From a customer perspective, public agencies, for example, need to determine what customer needs must be addressed within their financial objectives and constraints. The next link involves an internal plan to clarify the business processes in which the organization must excel to satisfy customers and meet their financial obligations. Finally, from a learning standpoint, the agency should define how the organization must learn and innovate to achieve service levels with declining financial resources.

"The simplest, yet strongest, example for our agency is evident in the area of public education," says Evans. "The output measured in terms of public service announcements, billboards, training events, brochures, etc., is being translated into the desired outcome of reducing the stigma associated with people who have mental illness."

Obviously, many things have to be in place for this to work. Primary among them is communication. It's not uncommon to find an agency or organization that has a balanced scorecard, ensuring that everyone in his or her organization is aware of it. A well-crafted and well-communicated scorecard can be a great way to get everyone pulling on the same rope. Using the balanced scorecard to build consensus around strategic objectives sends the message that the employees will be measured for doing the things that the organization believes will drive its end results.

3. Select and design your measures.

It is essential to clarify what's important to the organization and where people should spend their time. "It's a form of empowerment in that you're moving beyond measurement and into communication," Evans says. "Once you clarify what you want to achieve as an organization, people will know how they fit in and how they need to respond to make things happen."

The challenge in each quadrant, then, is to pick meaningful data, which can be measured, which are tied to the financial well-being of the company and which minimize the risk of manipulation. This usually involves competing goals such as service delivery growth and reductions in cost of operations. Those who say they don't have the time to define and track multiple measures, have missed the boat. Once you identify the key measures, management is quick to admit that it's usually how they should be running the organization anyway.

Typically, organizations that are involved in creating new performance measurement systems rely heavily on results-oriented measures. Often, however, measures focused exclusively on results represent lagging indicators of performance that afford limited predictive capability to an organization's management team. Effective measurement systems should encompass a blend of both results and process measures so that organizations can not only keep score and measure progress each day, week, or month, but also so they can more reasonably predict what the score will look like.

Using the analogy of a car dashboard as an example, the odometer tracks results — how many miles the car has travelled during any given trip. While this is clearly a useful measure to track, monitor, and review regularly, it does not provide a complete measure of your car's performance. If you chose to drive from Toronto to Vancouver, monitoring only the odometer could certainly put the result of arriving at your destination in question. Many other important processes that allow a car to make such a trip must be tracked and monitored along the way to ensure you reach Vancouver.

If your gas gauge is teetering on the brink of "empty," you could reasonably predict that you would be left stranded somewhere between the two cities. Alternatively, if your oil pressure were low, you could reasonably predict that your arrival in Vancouver would be in jeopardy. While your car's dashboard only has several key indicators, they are a proper blend of process and results measures that allow you the comfort of knowing that should something go wrong, you will be alerted. The dashboard may not prompt you as to what specifically is wrong, but it will help you and your mechanic work to find the root cause of the problem.

4. Develop the implementation plan.

Corporate intranets and other technology tools can help a company make a quantum leap in communicating throughout the balanced scorecard implementation process. Developing a full-blown scorecard based on company strategies and getting it disseminated throughout a large organization can take a year or more. The process typically includes gaining consensus from the majority of people on what the organization will measure. Many organizations think they don't have the time, so they develop a makeshift performance measurement system that is more tactical than strategic in nature. The problem with that approach is that it can steer companies away from measuring the things that really matter.

"The process of 'stepping down' to lower levels of the organization brings with it new issues, such as training, reporting, etc.," says Evans. "This year, the department has begun to formally incorporate into its scorecard the performance goals and actions of the 14 state-operated facilities."

Each facility will be asked to continue to refine and produce its own balanced scorecard. As this process is evolving, the amount of data to be collected continues to grow. Thus, the additional challenge of managing data, tracking data, and reporting progress can become a daunting task. For that reason, organizations without the appropriate technology often have a difficult time capturing and effectively using a balanced scorecard process.

By focusing on the feedback loop and including it into the scorecard implementation plan, organizations can use the scorecard as a way to learn what's working both externally and internally within the organization. They find they are better able to adapt, and more quick to do so, than if they had been using other performance measures. And in today's economic climate, an ability to respond with speed and agility is key for any organization.

Preston Cameron provides innovative thought leadership and expertise in strategy development, business process re-engineering, and performance management to global organizations. He can be reached at oculus_consulting@att.net.