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BALANCED SCORECARD EVOLUTION

A Dynamic Approach to Strategy Execution

PAUL R. NIVEN

WILEY

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*A Dynamic Approach to
Strategy Execution*

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Preface

SHORTLY BEFORE WRITING THESE WORDS, I looked up at the bookshelves lining my office and took in the artful panorama of colors, designs, and intriguing titles. My gaze soon fixed upon the row dedicated to the Balanced Scorecard and strategy execution, and as I reflected on the many titles, it wasn't long before I realized that anyone picking up this new book would quickly arrive at two questions:

1. Why does the world need another Balanced Scorecard book?
2. How is this one different?

LOOKING BACK AND LOOKING AHEAD

To answer those questions let's take a brief tour of the Balanced Scorecard's history. The tool began, humbly enough, as a system for organizations to improve their ability to measure effectively. For centuries the primary measurement of business had been financial. The Balanced Scorecard, while acknowledging the importance of financial yardsticks, represented a breakthrough by supplementing financial metrics with the drivers of future financial success in three distinct, yet related, perspectives of performance: customer, internal process, and learning and growth. The Balanced Scorecard also requires that performance measures used by an organization be derived from its unique strategy. Only then could strategy execution be tracked with rigor and discipline. This first-generation Balanced Scorecard, devoted almost exclusively to improved measurement, was immensely successful and popular, helping organizations around the globe better assess the execution of strategy through a balanced set of measures spanning the Scorecard's four perspectives.

Despite the model's success, a number of early adopters struggled with identifying the best measures to gauge the execution of strategy and often

lamented a lack of context during the selection process. To overcome these challenges and assist in identifying better indicators, some Scorecard pioneers began prefacing the discussion of measures with the broader question of “What must we do well?” in each perspective. The answer to that was known as an objective. For example, a customer perspective objective could be “Provide differentiated solutions.” As time went on, organizations began paying additional attention to objectives and many created graphical representations featuring the objectives as they flowed through the four perspectives. These documents became known as strategy maps, and proved to be a breakthrough evolution for the Scorecard system. Once the objectives were in place on the strategy map they clearly articulated and communicated the organization’s strategy, creating an enhanced context for the measurement challenge and making it simpler to isolate metrics. For our earlier example of “Provide differentiated solutions,” the accompanying measures might then be “Time spent with customers” and “Win rate on new projects.”

The evolution continued through the next several years with the advent of strategic themes, enhanced software systems, and linkages from the Scorecard to vital management processes such as risk management and corporate governance. Additionally, as the Scorecard has grown, so too have the management systems at its boundaries. A number of so-called gurus have created elaborate management frameworks, of which the Balanced Scorecard is but one component. These systems often feature complex diagrams mapping organizational processes and typically suggest that in order to be successful, an organization must engage in each of the sophisticated steps offered.

We now return to the first question presented at the beginning of this preface. One of the chief reasons I decided to write this book, and why the world really *does* need another Balanced Scorecard tome, is because, as the new management frameworks have proliferated, they have frequently crowded out, and even overshadowed, the Balanced Scorecard itself. These complex conceptual structures promise many benefits that practitioners are eager to reap. However, most organizations possess limited resources and thus spread those available means thinly across the entire spectrum of activities, often failing to devote the effort necessary to create a robust Balanced Scorecard that will serve as the foundation of their efforts. The unfortunate product of this diffuse effort is a Scorecard that is unable to fulfill its responsibility as a vital tool in the execution of strategy.

The modern toolkit for strategy execution is vastly overstuffed, making it difficult for organizations to determine which of the many processes, tools, or interventions to pursue in order to execute their strategy. It can quickly become

overwhelming and prove to be a major drain of resources, resulting in a cursory attempt to check off all of the boxes, which undoubtedly leads to suboptimal results. I don't wish to appear a Luddite, rejecting the natural progress of tools with which I've been associated for close to 20 years. I simply recognize, and have seen many times, that without a robust Balanced Scorecard at the core, these sophisticated systems are prone to failure, which inevitably leads to frustration, and ultimately inhibits the indispensable organizational capability of the twenty-first century: strategy execution.

The nature of competition is changing for virtually all organizations today, the methods for creating and implementing strategy are evolving, and the velocity of change is increasing. What has not changed, and what the Balanced Scorecard is still uniquely suited to deliver upon, is the necessity to effectively execute strategy and know, very simply, whether you're winning or losing. To do that, the Scorecard must be cleverly constructed and skillfully utilized. This book, based on two decades of practical experience, intense research, and unrelenting passion, was written to ensure both of those conditions of success are an inevitable outcome of your reading investment.



HOW IS THIS BOOK DIFFERENT?

Most critics agree that a film or novel that goes deep—delving fully into the emotional theme of the work, or the protagonist's unique and compelling journey—is more fulfilling and satisfying than an artistic endeavor that goes wide, broadly skimming the emotional or storytelling surface. A number of books on the subjects of Balanced Scorecard and strategy execution suffer from the latter trait. Their authors attempt to cover every aspect of the model, often without the knowledge or experience to do so effectively. This does the reader a great disservice, as a glossy veneer of knowledge is potentially more harmful than no knowledge at all. In this book I've chosen to focus exclusively on what leading research, real-life experience, and thousands of client implementations around the world have demonstrated to be the *most essential* aspects of successfully developing and utilizing a Balanced Scorecard.

Some pundits will argue that what is most important is not the Balanced Scorecard itself, but the strategic conversations it brings forth throughout the boardrooms and corridors of the organization. There is no doubt that having the right conversations with the right people is vital to success, and in this book I'll discuss that topic at length. However, before you can have the stimulating conversations that lead to strategic learning and new heights of success, you

must have a fundamentally sound Balanced Scorecard from which you can generate the appropriate questions and discussions. This book presents you with the crucial balance of the Scorecard system as both a noun—encompassing the objectives, measures, targets, and initiatives that form its core—and a verb, using the data produced to conduct more focused and strategic discussions throughout the organization, driving unparalleled results.

In addition to my hands-on work with the Balanced Scorecard, this book draws on the latest research in change management and emerging neuroscience (how brain functioning impacts work and life). Successful implementation of the Scorecard system requires the adept utilization of change techniques, and throughout the text you'll find anecdotes and case studies demonstrating how the application of key change principles will enhance your implementation's effectiveness. Complementing the tenets of change management are insights from leading researchers in neuroscience who are applying their findings to the workplace. In this book, more than my previous texts, you'll also find increased emphasis on how to design, create, and facilitate the workshops that lead to the most robust Balanced Scorecards. Those sections, and many others, benefit greatly from the latest findings in neuroscience.



WHO WILL BENEFIT FROM THIS BOOK?

This book is aimed primarily at three audiences: those developing a Balanced Scorecard for the first time, those who have developed a Scorecard but are not getting the results they need, and those creating or struggling with any type of corporate performance management system.

For those new to the Balanced Scorecard system, the text will provide you with the absolute essentials you must master if you hope to achieve the results that only a Balanced Scorecard can produce. After nearly two decades of experience with the system, I've witnessed and utilized every tip and technique that can increase the odds of success, while developing strategies to eliminate the many pitfalls that can await those undertaking this endeavor. My experience and research have been distilled into vital landmarks to ensure yours is a successful Balanced Scorecard journey.

Current Balanced Scorecard users will also profit greatly from detailed study of the book's contents. Over the years I've met people who, upon learning a bit about my work, will say something to the effect of, "Oh we tried the Balanced Scorecard but it didn't work." This statement never ceases to pique my curiosity and thus I begin asking some basic questions about their experience.

It's not long before we simultaneously discover that their poor results were not due to some inherent shortcoming of the Scorecard itself, but, inevitably, of a failure along the implementation path. If you either have a Balanced Scorecard in place at your organization but are not using it faithfully, or had one that you've abandoned for any number of reasons, you possess a tremendously valuable asset being sadly neglected. It's like having a Ferrari sitting idle and collecting dust in your garage. Fortunately, the Balanced Scorecard system can be easily restored. Most organizations struggle with the same issues: lack of executive sponsorship, no guiding rationale for the Balanced Scorecard (which is often viewed by change-weary employees as a threat), the failure to assign responsibility for managing the Scorecard program to a person or group, poor meetings that barely scratch the surface of the Scorecard's strategic learning potential, disregarding the importance of change-management techniques, and of course poorly designed objectives, dysfunctional measures, inappropriate targets, and unrealistic initiatives. These and many other elements of Scorecard scaffolding are covered extensively throughout the book.

Finally, if you have this book in your hand or are reading the preface online and think it doesn't apply to you because you employ some other form of performance management system, think again. Much of the knowledge shared in these pages is based on change management and neuroscience principles that will enhance the success of any type of performance system, regardless of the moniker.

HOW THE BOOK IS ORGANIZED

Balanced Scorecard Evolution contains a dynamic mix of new and previously published material. The book introduces a multitude of new topics based on my global consulting practice, research, and the latest findings in change management and neuroscience. You'll also find important information from my previous books that is necessary to provide a complete account of any Balanced Scorecard implementation.

The text is composed of nine chapters designed to provide extensive insights on both creating and using the system. In the opening chapter, we'll explore the origins of the Scorecard and learn exactly what the system is, and is not. There are many misconceptions about the Balanced Scorecard, and this opening chapter will clarify the errors and ensure you have a solid understanding of this dynamic framework. Chapter 2 provides an exhaustive array of information on what you must do before creating your Balanced Scorecard system. Among the

foundational elements covered are: Why and how you must answer the “Why the Balanced Scorecard?” question; where to build the first Scorecard; and how to secure executive sponsorship, create an office of strategy management to run the program, develop a detailed implementation roadmap, and build a communication plan. The raw materials of every Balanced Scorecard—mission, vision, and strategy—are the subject of Chapter 3. Among many important topics, you’ll learn how to create a powerful Balanced Scorecard even without the benefit of a guiding strategy in place. Balanced Scorecard deliverables of objectives, measures, targets, and strategic initiatives are customarily created in workshop settings. Chapter 4 provides extensive tips, tools, and techniques for staging both effective and engaging workshops that lead to robust Scorecard products.

In Chapter 5 we transition to the core aspects of the Scorecard model itself, then delve deeply into strategy maps—powerful communication tools that articulate and describe strategy, bringing it to life for your entire workforce and beyond. I’ll share how to create effective and truly strategic objectives, and provide extensive examples from my client roster and beyond. At the heart of the Balanced Scorecard are performance measures. In Chapter 6 we’ll utilize the latest research and practice to ensure the measures created accurately capture the essence of strategic objectives and can be used to reliably gauge strategy execution. Chapter 6 also provides extensive information on performance targets, and the strategic initiatives you’ll assemble to drive Scorecard success.

To deliver its vast potential, the Scorecard must be actively called upon in strategy execution review meetings to ignite passionate conversations that spark strategic insights. In Chapter 7 you’ll discover how to plan for and facilitate meetings so good, people will actually want to attend! Modern organizations rely on the unique talents of every employee to power results, and in Chapter 8 I’ll outline how cascading—creating Balanced Scorecards at lower levels of the organization—can unleash the immense power of alignment in your organization. The book’s final chapter provides a comprehensive summary of the many change management tools and techniques outlined throughout the text, along with a number of handy checklists you can draw upon throughout the process.

I hope you enjoy and benefit from this journey we’re about to share.

Paul R. Niven
San Diego, California
April 2014

Acknowledgments

WHEN PEOPLE ASK ME WHAT I enjoy about the consulting profession, I answer without hesitation, “*The fun and convenient air travel.*” Well, of course that’s not really what I say. What I do love about my job is the fact that every time the phone rings with a prospective client, it could be anyone from any industry, in any part of the world, reaching out from the other end of the line. Since launching The Senalosa Group, I’ve had the pleasure of working with a broad array of organizations, including: prestigious companies in the Fortune 100 here in the United States, small nonprofits in the developing world, and government organizations on several continents. All have been kind enough to tell me (and later show me via Scorecard results) that I helped them in some way, and I’m gratified by that. But, as I quickly point out to them, it is I who should be expressing gratitude—for the opportunity to work with dedicated professionals who are as eager as I to expand the boundaries of Balanced Scorecard knowledge. Outlined below are some of the many people I’ve had the honor to work with and learn from; individuals whose lessons and insights extensively shaped this book.

From NOW Foods, my thanks to Beth Pecenka, Al Powers, El Richard, Jim Emme, Michael Lelah, Dan Richard, Don Wilbur, and Randy Kjell. Their commitment to excellence and integrity is truly inspiring. At Breg (right here in San Diego County) I’d like to thank CEO Brad Lee for his enthusiasm and drive. Working with the following individuals from Goodwill of Orange County (California) was one of the highlights of my consulting career. How I enjoyed our stimulating workshops! Many thanks to: Kim Seebach, Joan Dornbach, Dan Rogers, Corrine Allen, Phillip Runnels, Randy Taylor, Don Voska, Frank Talarico, and Noel Crabtree. At the Compliance and Enforcement department of the New Jersey Department of Environmental Protection, I’m deeply indebted to Knute Jensen, Maria Franco-Spera, Wolf Skacel, and William Davis for their sincere dedication to the ideals of the Balanced Scorecard. From AWAL IT Services, many thanks to Tariq M. Alghamdi for his hard work and commitment. Much gratitude to Nicole Suydam of the Second Harvest Food Bank in Irvine,

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In addition to the clients noted above, I have benefited tremendously from my friendship and collaborations with the following people. Strategy execution author and consultant Sandy Richardson has been a great friend and supporter, and I thank her for many spirited conversations on Performance Management and beyond. Readers of my past books will notice an enormous upgrade in the quality of exhibits appearing in this text. That is due entirely to the creativity of Kim Schanz from Eyegate Design here in San Diego. Thanks very much for your patience, Kim, as I continued to add exhibit after exhibit to your inbox. To Boubacar Diallo of Plan International in West Africa, I salute you for your commitment to sharing Balanced Scorecard principles. Boubacar traveled all the way from Africa to Southern California to study Scorecard implementation practices with me. I'm happy to report a friendship bloomed during that visit. Maryam Hussain of Avanza Solutions has been an ardent supporter and kind enough to share my work to many readers in the Middle East region through the journal *Techronicle*. I've been very fortunate to enjoy a long and satisfying partnership with the software firm Corporater. Many thanks to Tor Inge Vasshus, Eric Peterson, and Madhavan Gopalarathnam for your help and support. Speaking of partners, it's been my great pleasure to work with Wael Zein and Fadi Makki of Addima and Bassam Samman of CMCS in promoting Balanced Scorecard use throughout the Middle East and Africa. Chris Richard of Emera (formerly of Balanced Scorecard Hall of Fame utility New Brunswick Power) was a terrific client to work with, and has become an even better friend. Chris and I have had many long conversations about the Balanced Scorecard and his insights contributed greatly to this book. Finally, and most importantly, I thank my wife Lois for her inexhaustible reserve of love and support.

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What Exactly Is a Balanced Scorecard?

ORIGINS, AND A BRIEF HISTORY, OF THE BALANCED SCORECARD

Although its conceptual roots run deep, through work conducted by management thinkers and practitioners from Peter Drucker to Abraham Maslow, including French accounting scholars who developed a similar approach in the 1930s, the Balanced Scorecard as we know it today was invented by two men, Robert Kaplan and David Norton.

The world was introduced to the concept in a 1992 *Harvard Business Review* article, "The Balanced Scorecard—Measures that Drive Performance."¹ That article was based on a research project conducted by Norton's consulting firm, which studied performance measurement in companies whose value creation was highly dependent on intangible assets.² As strident advocates for the power of measurement to drive focus and accountability, Kaplan and Norton were convinced that if organizations were to derive the maximum value from their investments in intangible assets, those same intangibles had to be integrated into their measurement systems. At the time, virtually all organizations were measuring financial results, and many were also collecting data on generic customer metrics, such as satisfaction and market share, along with measures

of quality and efficiency. With the inclusion of measures tracking intangible assets such as employee skills and engagement, it appeared that management could now confidently cover their measurement bases.

A significant problem existed, however. Many companies that collected data from these diverse areas failed to link the measures together in a meaningful and coherent pattern, instead choosing to select an ad hoc group that simply represented different aspects of the firm's operations. Despite their efforts, most received few benefits. In fact, some early adopters of quality metrics, for example, actually saw their share prices fall dramatically. Kaplan and Norton provided two immediate and profound enhancements. First, they codified the collection of metrics, calling it a Balanced Scorecard and provided a succinct taxonomy that ensured consistency in application. Rather than simply collecting measures that spanned a firm's operations, Kaplan and Norton created the four-perspective framework of:

1. Financial
2. Customer
3. Internal processes
4. Learning and growth

Organizations now possessed a vocabulary for balanced measurement that was previously absent. The measures chosen to populate each perspective were not selected at random but, in Kaplan and Norton's second major contribution, directly translated from the organization's strategy, which endowed them with context for discussion, analysis, and learning. Now, instead of relying on generic financial and nonfinancial indicators, companies could analyze their unique strategic path and create performance measures that would clearly indicate whether or not they were in fact executing their chosen strategy. This seemingly simple, and in hindsight obvious, pronouncement was the breakthrough that was to set the Balanced Scorecard on an astonishing trajectory of acceptance and success. Executives the world over had lamented the difficulty of executing strategy but, with the Balanced Scorecard, Kaplan and Norton put strategy at the center of the firm's orbit by embedding it directly into the measurement process.

Not all was perfect in Balanced Scorecard land, however. Some early adopters struggled with the selection of appropriate performance measures, and received scant benefits from their investment in the Scorecard system. Key to their frustration was finding context for the selection of measures that would gauge strategy execution, and this quickly led to another milestone