Balanced Scorecard: Success through Leadership Enablers

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Personal Background

- **Managed Balanced Scorecard Measurements** - Customer, Employees, and Processes, *1985-present*.
- **Taught Balanced Scorecard Workshop in Costa Rica, India, Mexico, and USA, 2003-present**.
- Managed USA Malcolm Baldrige Quality Award **Customer Satisfaction** Category at AT&T Bell Laboratories, *1990-1994*.
- Taught “**Quality Management**” course, Baldrige based at Stuart School of Business, Illinois Institute of Technology, Chicago, *1993-present*.
- **Judge, International Asia Pacific Quality Award Program**, 2004-Present.
- Received **ASQ Grant Medal (2001) & Lancaster Medal (2005)**.
Introduction

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
   - Critical Success Factors for BSC
4. Reinforce Organizational Clarity Through Human Systems:
   - Reward and Recognition Systems

BSC Case Studies

Major References
A Balanced Life

- God & Prayer
- Work
- Play
- Family & Friends
The Balanced Scorecard

Vision & Strategy

Customer

Financial

Employee

Process
Sample Users of Balanced Scorecard

SEARS  
Good life. Great price.

BT  
Hilton  
Qwest
Spirit of Service™

RICOH

CATERPILLAR®

Disney

Pfizer

Lloyds TSB

CHEMICAL BANK™
We think you’ll like the chemistry.

Cornell

Ford

GE

Mercedes-Benz

Northwestern Mutual
FINANCIAL NETWORK®

INDIANA UNIVERSITY

SIEMENS

Dupont
The miracles of science®

Ingersoll-Rand

NCR
Transforming Transactions into Relationships

**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.
- Leaders must communicate need for measurements and how the measurements will be used.
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

1). Build and Maintain a Cohesive Leadership Team

Cohesive teams build trust, eliminate politics, and increase efficiency by...

- Knowing one another’s unique strengths and weaknesses
- Openly engaging in constructive ideological conflict
- Holding one another accountable for behaviors and actions
- Committing to group decisions
2). Create Organizational Clarity

- Vision
- Mission
- Values

Integrated Business Plan

Balanced Scorecard (Goals/Strategies/Objectives/Plans)

One-Year Plan

Hoshin Planning
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
Measuring Business Strategy

Customer Perspective (General):

- Customer Satisfaction
- Customer Retention
- New Customer Acquisition
- Customer Profitability
- Market and Account Share in Targeted Segments
Measuring Business Strategy

Learning & Growth Perspective (General):

➢ Employee Capabilities:
  ✓ Satisfaction (Action plans for improvement)
  ✓ Retention (Management versus Non-Management; New versus Experienced)
  ✓ Productivity (Effective Meetings, Effective Teamwork, etc.)

➢ Information Systems Capabilities:
  ✓ Excellent Information on Customers, Internal Processes and the Financial Consequences of their Decisions

➢ Motivation, Empowerment and Alignment:
  ✓ Number of suggestions made and its business impact
  ✓ Personal and organizational goal alignment using Policy Deployment process (Hoshin Planning)
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
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
Tools for Measurements

- 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

Focus on an Opportunity
(Must Improve)

Keep Up the Good Work
(Hold the Gains)

Low Importance
Low Priority
(Maintain Current Status)

Possible Oversupply
(Reassign Resources)

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?

Training Investment/Effectiveness

Training 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 reoccurrence)
- Step 7. Future Plans (next problem)

Marshall-Qualtec, Inc. 1997 (FPL - First US Deming Prize winner)
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.

Business Process Owners and Senior Management complete periodic self-assessment surveys.

The Management Reviews include self-assessment surveys information along with audit results, customer feedback and complaints.
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
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.
Hoshin Planning in Action

CEO/President
Executive Staff

Vice Presidents & Directors

Department A
Group 1
Group 2

Department B
Group 1
Group 2

Five-year vision
(4 strategic goals)

One-year plan
(Objectives & Action plans)

Implement, Review, and Adjust Hoshin

Catchball
Sample Users of Hoshin Planning
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
Which Measures Matter

Ittner & Larcker, HBR, Nov. 2003

Selection and Staffing

Employee Satisfaction

Employee-added Value

Customer Satisfaction

Customer Buying Behavior

Sustained Profitability

$ Shareholder Value

New hires
Education
Work experience

Supervision
Support
Fairness

Empowerment
Accountability

Quality
Shopping Experience
Timeliness

Frequency
Retention
Referral

Each outlet
Over time
Better than competition

Growth
Earnings
Free cash flow
Causal Relationships – IBM Rochester’s Balanced Scorecard

People and Skills → Products and Channels

Product and Service Quality → Customer Satisfaction and Loyalty

Customer Satisfaction and Loyalty → Financial and Market Share

Learning   Internal   Customer   Financial

Employee-Customer-Profit Chain, Sears, USA

A Compelling Place to **Work**

Employee Attitude and Behavior

A Compelling Place to **Shop**

Customer Impression

A Compelling Place to **Invest**

Revenue Growth

+ 5.0 % → + 1.3 % → + 0.5 %

THE BALANCED SCORECARD IS NOT A SUBSTITUTE FOR GOOD MANAGEMENT. IT IS ONLY A TOOL. IT REQUIRES GOOD MANAGEMENT.
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
Major References


King, B. (1989), Hoshin Planning Symposium, ASQ, February, Milwaukee, WI.


Muchas Gracias!