Article 2: Putting it into practice

by Ray Robertson, Director, Strategic Reward

In the July 2005 issue of Stakeholder, we explored the beginnings of balanced scorecard. The scorecard devised by Kaplan and Norton comprises four perspectives: financial, internal business processes, customer, and learning and growth. But how do organisations actually go about designing and implementing balanced scorecard? Research studies (Ref1) into the practices of experienced users of balanced scorecard found that success depends on three things: customisation, employee awareness and links to reward.

Customise design

Balanced scorecard design should come directly from an organisation's vision, strategy and values. But what if these are vague, perhaps in the minds of the leadership team, rather than written and communicated? For these organisations the process of developing balanced scorecard has as much influence on strategy as strategy has on balanced scorecard (Ref2).

Virtually all organisations form a team of senior managers or directors, which has responsibility for developing the initial version of balanced scorecard. The team often co-opts middle-level managers from business areas who are knowledgeable about specific processes and requirements. Rather than start from scratch, most teams modify the Kaplan and Norton scorecard model, using new measurement categories that represent the interests of important stakeholders, for example customers, or corporate values such as teamwork and innovation.

This "customisation" principle applies to selecting performance measures for each scorecard perspective too. While Kaplan and Norton (Ref3) found in relation to customer outcomes for example, a core set of measures which included customer retention, customer satisfaction and customer profitability, across many organisations, there is considerable variation in the type of performance measures in all perspectives. Crucially, people affected by balanced scorecard must be able to influence the performance measures in it. For the leadership team that's usually taken for granted. But when balanced scorecard is cascaded through the organisation, everyone should understand the connection between scorecard and what they are expected to do in their daily work. When people don't understand the connection, balanced scorecard or any other performance measurement system, will eventually fail. Giving business units considerable scope to translate a company scorecard into a unit scorecard, while maintaining a common focus throughout the organisation, helps communicate to employees what matters most, in terms they understand. Tesco's version of balanced scorecard, for example, called "Steering Wheel", guides managers in everything they do. (diagram right)

Raise employees' awareness

So, if balanced scorecard highlights key areas of business focus, it's not just an important measurement tool - it's a powerful communications one too. This is especially the case when balanced scorecard is intended to introduce a new set of values - values focusing on aspects such as customer value, innovation, environmental safety and employee development.

The first communications challenge is to create general awareness of the balanced scorecard among all employee groups that are affected. Publishing the scorecard with company or business unit targets and progress towards them, in prominent places in the organisation or in company

journals, is a good way of doing so. Some organisations actually publish targets and performance in public areas, for example, reception. That says a lot about the importance they attach to delivering scorecard measures. Team briefings and one-to-one employee-manager meetings are particularly useful for making scorecard "real" for small groups of people and individuals. But organisations need to know the degree of awareness, and that's when carrying out some employee research is useful. Employees might be asked to respond to statements such as:

- **I am aware of the performance targets in the company's balanced scorecard**
- **I don't know our department's performance targets**
- **Our team uses balanced scorecard to discuss team performance, but does not fully accept it**
- **Our business unit is totally committed to balanced scorecard**

Data from this type of research has an impact on the third success factor - link balanced scorecard and reward - and how fair it's perceived to be.

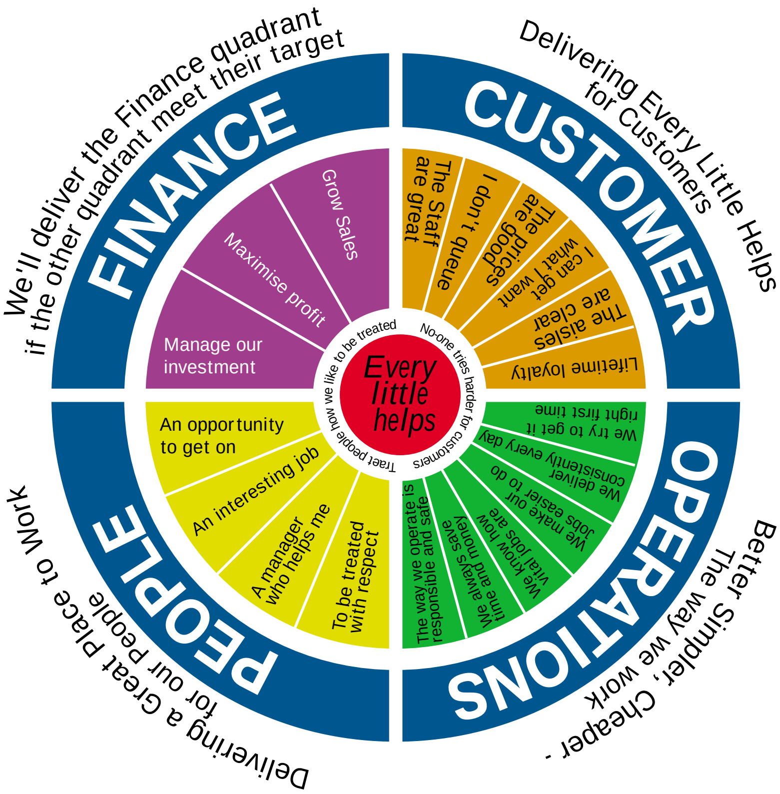
Balanced Scorecard Bonus Plan

Business Measures	Weight	80 (Minimum)	90	100 (Target)	110	120 (Exceptional)	Score
Profit	40%	80	90	100	110	120	48
Customer Satisfaction	20%	80	90	100	110	120	20
Productivity	30%	80	90	100	110	120	33
Employee satisfaction	10%	80	90	100	110	120	9
						Total Score	**110**

Link scorecard and reward

While organisations continually look for ways to refine their strategy and improve performance, one of the best ways to get employees' attention about "what matters most" is to link reward and results. That's why many users of balanced scorecard make reward linkages quickly, usually when balanced scorecard is introduced rather than at a later date when performance measurement has been "perfected". Short-term incentives are generally the most effective pay delivery tool for rewarding the successful achievement of scorecard objectives.

In the example above, performance on all perspectives - which are weighted differently - is linked to bonus. A bonus pool is generated only when the target profit is reached (100). The total score (weighted average across all four measures) is 110. This is linked to a payment scale, starting from 100, which pays a bonus of 1% of salary for each 1% above a total score of 100. The maximum bonus is 20% of salary. Other schemes generate a bonus pool only when the target profit has been exceeded. A proportion of the amount above target, say 50%, forms the bonus pool. Assuming there are four performance measures, 25% of the bonus pool is paid out for exceeding the profit target. An additional 25% of the pool is paid out for reaching each of the other three measures, but if one of these isn't achieved, that 25% is reinvested in the business. S



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Raymond Robertson
Director
Strategic Reward
Ray can be contacted at
team@strategicreward.com