Balanced Scorecard
Diagnostics

Maintaining Maximum
Performance

PAUL R. NIVEN
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To the many organizations, especially those I am privileged to have worked with, dedicated to the use and ongoing evolution of the Balanced Scorecard.
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Preface

The Balanced Scorecard drumbeat has grown increasingly loud and clear over the past 14 years, supplying a soundtrack of performance management wisdom to accompany us on our journey into the new and uncharted territory of the knowledge economy. The tool’s beginnings were humble enough, based on the notion that our traditional performance measurement systems—featuring an overwhelming reliance on financial metrics—were ill-suited to meet the demands of a modern business world characterized by value creation stemming from intangible assets such as employee know-how, deep customer relationships, and cultures capable of innovation and change. The notion was simple, but the ramifications profound. Organizations around the globe quickly began to embrace the Balanced Scorecard system. The idea of four distinct yet balanced perspectives of performance resonated with an enthusiastic audience weaned on shaky financial yardsticks used to quantify results for the past hundred years.

Co-created by Robert Kaplan and David Norton, the Balanced Scorecard has grown tremendously both in stature and adoption since its inception; it has been hailed as one of the 75 most influential business ideas of the 20th century and relied on in thousands of organizations spanning every conceivable type and size across the globe. It began as a measurement system, translating an organization’s strategy into an interconnected set of financial and nonfinancial measures used to communicate strategy, build alignment, inform decision making, power performance management, and prioritize resource allocation. The early adopters of the model derived benefits from this measures-based application but then took it to another level by forging linkages between the Balanced Scorecard and critical management processes such as budgeting, compensation, and, more recently, corporate governance. With that, the label of strategic management system was thrust on the Balanced Scorecard, and its legions of practitioners continued to grow. With the advent of strategy maps in the late 1990s, Kaplan and Norton
wrote yet another innovative chapter in the deceptively simple creation’s life, and it gained a place in the pantheon of management concepts.

But wait, stop the music. Recent findings suggest that as many as half of all Balanced Scorecard users aren’t achieving the results they hoped for, and a significant number still rate their performance measurement systems as “adequate.”1,2 So where have we gone astray? Is the Balanced Scorecard system fundamentally flawed, or are the application and implementation practices of certain organizations resulting in these unflattering statistics? This book purports that the Scorecard system remains a robust framework, very capable of helping organizations navigate the challenging seas they face in an ocean of competition and changing dynamics. If anything, the theoretical constructs on which the model is based have grown stronger, as evidenced by the many enhancements made to the model over the past years: from measurement to strategic management to communication and strategy execution.

The trouble, I would posit, lies in the methods used to implement the Balanced Scorecard. Many organizations have been lured by the seductive simplicity of the Scorecard model, believing it could be easily implemented and produce breakthrough results with a minimum of care and feeding. Unfortunately, that is not the case, as the Balanced Scorecard above all other descriptors represents a change initiative: a change in the way you measure, and if utilized to full advantage, a change in the way you manage. As we all know, change is difficult, and hence it is not uncommon for organizations to struggle during their Scorecard implementation period and ultimately question the success of their decision. Troubled implementations stem from any number of deficiencies: a lack of executive sponsorship to reinforce the Scorecard’s value within the organization, tired metrics reflecting the past with no regard to the drivers of future success, and management systems that continue to reward unbalanced, largely financial, performance, to list but a few. This is a high-stakes game with significant implications for your success; organizations spend thousands of hours per year on their performance management systems, and therefore they must derive payback from this enormous investment of human and financial resources.

I wrote my first book, Balanced Scorecard Step by Step: Maximizing Performance and Maintaining Results (Wiley, 2001), to fill a perceived void between Balanced Scorecard theory and practice. Once again I sense an emerging void—between those questioning the efficacy of the Balanced Scorecard, based on unsuccessful implementation attempts, and what I perceive as the reality: that the Balanced Scorecard framework remains sound, but must be instituted with rigor and discipline if you expect to garner results. This book has been written to provide the tools and techniques necessary to ensure that you’re maximizing the benefits of your Balanced Scorecard system.
Over the past 10 years, first as a practitioner and later as a consultant, researcher, and author, I’ve had a front row seat from which to view the growth of the Balanced Scorecard from New Age measurement device to powerful communication tool to transformative strategic management system. Working with organizations on several continents, I’ve witnessed highly successful Balanced Scorecard programs built to withstand the considerable vicissitudes of our challenging markets, and those whose foundation is so weak that a subtle wind of trouble could send it toppling down. Those experiences as a participant observer revealed several implementation practices I deem as essential if you hope to effectively install the Balanced Scorecard and have it produce the breakthrough results it has generated for many well-chronicled success stories. Those essentials form the basis for this book, and I believe they are capable of both transforming troubled Scorecard implementations and further strengthening successful initiatives.

WHAT YOU WILL FIND IN THIS BOOK

Breaking new theoretical ground in the Balanced Scorecard field was not my purpose in writing this book; that task is proficiently attended to by many scholars and researchers pushing the academic envelope of the framework. My aim is to provide you with time- and field-tested principles you can use to assess your Balanced Scorecard implementation, along with ideas and recommendations for building a system that will provide results today and sustain that success for many years to come.

The nine-chapter text begins with an examination of the current state of the Balanced Scorecard framework. You’ll learn why it has risen to such heights of prominence, receive a refresher course on Scorecard fundamentals, and have the chance to ponder whether the Balanced Scorecard is here to stay. Any guesses as to my answer? You’ll have to read on to find out. Chapter Two is titled “First Things First,” and examines the foundational elements that must be in place if you hope to effectively employ the Balanced Scorecard. Included in the discussion are determining why the Scorecard is right for your organization and the critical importance of executive sponsorship to this and any change initiative. At the end of Chapter Two, and each succeeding chapter, you’ll find self-assessment questions that can be used to critically examine your implementation efforts. I encourage you to take the time to carefully reflect on these queries and use them as the basis for group discussions focused on propelling your Scorecard initiative forward. The theme of “Before You Measure” continues in Chapter Three, as we delve into a critical examination of your Balanced Scorecard team, training and education regimen, and communication planning.
Chapter Four signals a dramatic transition from laying the groundwork for Scorecard success to reaping rewards through the development of a strategy map. You’ll be provided with provocative questions you can apply to the objectives appearing in each of your four perspectives and will also discover how personalizing your map can often spell the difference between user apathy and acceptance. The chapter also supplies diagnostics to review the number of objectives on your map and examines the cause-and-effect linkages that tell your strategic story. Measures, targets, and initiatives are the subject of Chapter Five. Testing your current performance measures, questioning the number of measures appearing on your Scorecard, and the vital concept of using measure results to learn—not punish—will all be extensively covered. Many organizations find it difficult to set appropriate targets, thus you will find direction on target setting and sources of target information. The chapter concludes by reviewing how initiatives may be mapped to Scorecard objectives, ensuring that your resources—both human and financial—are directed toward the execution of strategy.

For many organizations, the high-level Corporate Scorecard is simply the first in a series of aligned Scorecards providing all employees with the opportunity to demonstrate how they contribute to overall results. This concept of cascading is the topic of Chapter Six. Cascading principles will be supplied, along with tools to gauge the degree of alignment among Scorecards spanning your organization. In Chapter Seven, we examine the linkage between the Balanced Scorecard and budgeting, compensation, and corporate governance. I’ll share proven techniques to effectively forge these linkages and outline how many companies are using the Balanced Scorecard to gauge the performance of their Boards.

Sharing Balanced Scorecard results is our focus in Chapter Eight. Here we’ll look at reporting mechanisms—software and lower-tech methods—and also investigate how the Balanced Scorecard can become the centerpiece of your management review process. The book concludes in Chapter Nine with a case study of Aliant, a Canadian telecommunications company that exemplifies many of the principles shared throughout the book.

Eleanor Roosevelt once remarked, “Learn from the mistakes of others. You can’t live long enough to make them all yourself.” Growth and development in all facets of life result from a willingness to acknowledge our shortcomings and work diligently to overcome them. So it is with the Balanced Scorecard. My hope is that you will employ the principles and lessons found in this book to learn from those who have walked this path before you, and in so doing fortify your Balanced Scorecard for many years to come.

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San Diego, California

October, 2004
NOTES

1. Edward A. Barrows, Jr., “Assessing Your Balanced Scorecard’s Performance,” 

2. Andy Neely, Chris Adams, and Mike Kennerley, The Performance Prism (London: 
   Prentice-Hall, 2002).

3. Quoted in: Jef Nance, Conquering Deception (Kansas City, MO: Irvin-Benham, 
   2000).
Acknowledgments

I feel so fortunate to have had the opportunity to write this, my third book on the subject of the Balanced Scorecard, a topic that first ignited my passion a decade ago and continues to fuel a spirit of inquiry and discovery within me. Of course, an endeavor of this nature is never a singular task, but reflects the work, experience, wisdom, and advice of countless individuals all sharing a fundamental belief in the principles espoused in this text.

Let me begin by thanking some of the many people I’ve had the great pleasure to serve in a consulting capacity over the past years, and who graciously provided me with a real-world laboratory in which to test my Scorecard hypotheses and theories. From Anheuser-Busch in St. Louis, my thanks go out to Thomasine Joyce. From the U.S. Navy, Captain Bill Wilcox, Commander Mike Sumrall, and Captain Ray Berube. Stan Romanoff at Brother Industries, David Taran and Stephen Pilch of Divco West Properties, Bill Mao and Annette Hess at the Orange County Transportation Agency, Peter Murphy and Sue Patel from EpicData, John Wilcox of WorldVision, and Tom Lynch and Vicki Lynn from the Worcester Polytechnic Institute. Special thanks go out to the many people I’ve had the privilege to work with at Aliant in Halifax, Nova Scotia, Canada. In particular, Jay Forbes, David Rathbun, Allan MacDonald, Dennis Barnhart, Jennifer Dicks, and David Blades.

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The Current State of the Balanced Scorecard

THE ROAD AHEAD

Note to self: Always turn off my e-mail program before working on the book. I've provided myself that reminder because my train of thought was just interrupted by a popup box in the corner of my screen. It gently notified me that a new e-mail was awaiting my immediate attention. Much like the ring of a telephone, the temptation overwhelmed me and I took a quick peek to see who had contacted me. It was a gentleman in Zimbabwe requesting additional information about the Balanced Scorecard. I'm happy to help him and will do so later in the day. Once I reply to his request, I'll file it along with those I've received from China, Fiji, South Africa, Singapore, Finland, the U.K., from small manufacturing firms in the Midwest, and large conglomerates in New York City, from civic governments in California, and nonprofits in Washington, D.C. As the roll call of nations and organization types outlined suggests, the Balanced Scorecard has become a full-fledged worldwide phenomenon. And this phenomenon knows no boundaries; it stretches around the globe and has affected virtually every type of organization known to exist.

There is little doubt that the Balanced Scorecard has joined the pantheon of successful business frameworks; that elite group possessing the dual, and highly elusive, qualities of broad-based appeal and proven effectiveness. The sheer breadth and volume of Scorecard implementations are testament to this fact. Popularity, however, does not guarantee successful outcomes for those treading this road, and in fact it has been suggested that a majority of all Balanced Scorecard initiatives fail.¹ The most commonly cited issues derailing Scorecard implementations are poor design and difficulty of implementation.² The purpose of this book is to assist you in clearing those hurdles with proven tools and tech-
niques forged at the crucible of cutting-edge theory and practical experience. Pitfalls await those who are unprepared at any juncture in this journey, from poor planning to ineffective team design to inappropriate objective and measure selection, and many more. During our time together, we’ll carefully study the essential elements of Balanced Scorecard implementation, offering tools you can use to ensure that your Balanced Scorecard will help you achieve success today and sustain that success for the long term.

Before we begin to critically examine your Scorecard implementation, however, it’s important to step back and cast a trenchant eye on the tool itself. In this chapter, we’ll review exactly why the Balanced Scorecard has reached an exalted position as the strategy execution choice of literally tens of thousands of organizations; what it is about this seemingly simple tool, above all others, that quickly captures the attention of senior executives and shop-floor employees alike; and finally, why it remains vitally relevant when hundreds of other potential business panaceas have come and gone.

WHY THE BALANCED SCORECARD HAS RISEN TO PROMINENCE

The reasons for the Scorecard’s ascendance are many and varied, but principally I believe the tool’s longevity can be traced to an ability to solve several fundamental business issues facing all organizations today. In the pages ahead, we’ll look at four pervasive issues that are undoubtedly affecting your business even as we speak: (1) a traditional reliance on financial measures, (2) the rise of intangible assets, (3) the emerging pattern of reputation risk, and finally, (4) the difficulty most organizations face in executing strategy. Some of these issues are age old and have been the nemesis of organizations for decades—relying on financial measures and attempting to implement strategy. The others—a rise in intangible assets and the emergence of reputation risk—are new, and their effects are just now being perceived, evaluated, and monitored. What unites these potentially vexing agents of organizational distress, and serves as inspiration for all of us, is the proven ability of the Balanced Scorecard to overcome every one of them.

Financial Measures: Is Their Time Running Out?

When the uninitiated ask me to describe the Balanced Scorecard “in a nutshell,” I get the ball rolling by asking them how most organizations measure their success. A short and reflective pause is typically followed by the confident suggestion of “revenue” or “profits.” And they’re right, most organizations—be they private, public, or nonprofit—gauge their success primarily by the measurement of financial yardsticks. It’s been that way for literally thousands of years, and at the turn
of the 20th century, financial innovations, such as the development of the return on equity formula, proved critical to the success of our earliest industrial pioneers, including DuPont and General Motors.

The decades have come and gone, with financial measurement continuing to reach dizzying new heights as the number-crunching savvy among us introduced increasingly sophisticated metrics for the analysis of results. The corporate world readily embraced these developments and, as the prodigious growth of our generally accepted accounting principles (GAAP, in accounting parlance) will attest, financial metrics became the de facto standard of measuring business success. But, as is often the case, too much of a good thing can lead to some unintended consequences. The unrelenting drive to achieve financial success as measured by such metrics as revenue and shareholder value contributed to a round of recent corporate malfeasance unlike anything ever witnessed in the long and storied history of commerce.

Leading the ignominious pack of corporate bad boys is, of course, Enron. Once the seventh largest company in the United States, where did their insatiable thirst for growth and financial success lead them? Right into bankruptcy court, dragging thousands of suddenly poorer and justifiably angry shareholders down the path with them. If we use history as a guide, we’ll find that Enron is not the first to apparently run afoul of the law in its tireless pursuit of fortune. A cautionary tale comes in the form of Samuel Insull. Upon migrating to the United States from England in 1881, Insull, through an association with Thomas Edison, co-founded the company that would eventually become General Electric. From his base in Chicago, he assembled a portfolio of holdings that would make any would-be financial impresario envious: Commonwealth Edison, People’s Gas, Indiana Public Service Company, and several more. At one point, he held 65 chairmanships, 85 directorships, and 11 presidencies.3 Sadly, the good times were not destined to roll on forever, and the 1929 crash brought his empire down in a tumultuous thud. Humiliated, and seen as the personification of corporate greed, Insull fled the United States but was later dragged back to stand trial for securities fraud. He was ultimately, and surprisingly, acquitted, but gone were his fortune and reputation. He died, penniless, in a Paris subway station on July 16, 1938.

Since the dawn of the corporation with Sweden’s Stora Enso in 1288, companies have walked the delicate line of providing prodigious societal benefits and causing immeasurable harm through questionable, and sometimes unconscionable, acts. Recognizing the need to keep corporations in check, Theodore Roosevelt, the 26th president of the United States, once remarked: “I believe in corporations. They are indispensable instruments of our modern civilization; but I believe that they should be so supervised and so regulated that they shall act for the interests of the community as a whole.”4 As the President who took a first step toward bringing big business under federal control by ordering antitrust proceedings against the Northern Securities Company, Roosevelt would likely have welcomed the