How to implement a balanced scorecard in 16 Weeks not 16 months

By David Parmenter

Robert S. Kaplan and David P. Norton, in their groundbreaking work *The Balanced Scorecard*, indicate that 16 weeks is an adequate time frame to set up a Balanced Scorecard (BSC). Why then does 16 weeks so often become 16 months? And, if BSC processes have revolutionised organisations, why aren't all organisations, with more than, say, 20 employees, using them?

I suspect the problem lies at the top, where the senior management team lacks understanding of, and commitment to, the BSC, and does not prioritise it. Many organisations make half-hearted attempts at implementing a BSC by fitting the project around other, often less important fire fighting activities.

Set out in Exhibit 1 are 11 lessons based on my observations to help your organisation implement a BSC in 16 weeks.

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**Lesson 1: Appoint an external project facilitator**

A suitably skilled external project facilitator is the key to success. Without this position being filled, dangers lurk everywhere. The external project facilitator should be free of any proprietary applications, be well versed in performance measures, have well-rounded consultancy skills, have the credentials so that the senior management team (SMT) will listen and follow advice, and be able to motivate those they come in contact with. Their role will be full time for the first three weeks and then part time as the project team takes over. It is important that the external project facilitator’s role takes a backseat as soon as possible, as a mentor would, as the project team gains confidence. Toward the end of the project there may be only a catch-up meeting once every two weeks, with key documentation being reviewed via e-mail in the intervening period.
Lesson 2: Begin with senior management team commitment and education.

The SMT attitude is crucial—any lack of understanding, commitment, and prioritizing of this important process will prevent success. It is common for the project team and the SMT to fit a KPI project around other competing, less important fire fighting activities. The SMT must be committed to the KPI project, to driving it down through the organization. Properly implemented, the BSC will create a dynamic environment. But before it can do this, the SMT must be sold on the concept. The BSC should be treated as the top priority, which may mean the senior management team allows some of those distracting fires to “burn themselves out.”

As a first step, set up a half-day workshop for the entire executive team and for those members of your in-house team who will be required to lead the project. The desired outcome being an understanding of the issues, the benefits, why current performance measures in use are never going to create the desired change and a short list of the organisation’s current critical success factors. After this meeting, senior management will be in a position to either commit to the KPI project or put it back to simmer.

That commitment will involve the senior management team putting aside time each week to perform exercises, including giving feedback on suggested measures, being available to the BSC team for interviews, perhaps visiting other BSC sites and approving BSC investment proposals – all within a tight time frame so as to keep within that 16 week implementation period.

I sometimes hear it said in organisations that senior staff view the development of the BSC as an end in itself and go through the motions “to keep the boss happy.” If senior managers are not strategic in their perspective and consequently, do not see the BSC as a tool to help them better understand and manage the organisation, this will be reflected in a loss of interest when the process of development gets tough; for example, when deciding on which key performance indicators (KPIs) to use and the trade-offs to be made. While the role of the senior management team is important, the CEO must be the central driver carrying the embryo BSC with him all the time, talking about it frequently and so on.

Organisations sometimes find that support for the BSC flounders if a new CEO takes the helm before full implementation is complete. It is important to sell, sell, sell the benefits to all new senior team members.

The BSC will help the organisation rethink its strategies. Sometimes it may be better to redirect resources from the next strategic plan into developing a BSC. Senior managers will get a buzz from being involved in a dynamic project that will enhance understanding of their business and improve their organisation's business strategies.

Lesson 3: Start off with a six perspective balanced scorecard template
The traditional scorecard needs modifying to encompass two additional areas, staff satisfaction and environment/community perspectives. These were underestimated in the original groundbreaking work of Robert Kaplan and David Norton.

Having a separate employee satisfaction perspective emphasizes the importance of measuring the key drivers such as the amount and regularity of recognition (e.g., how many recognitions have been made this week, the past two weeks, this month). It will also support the need for more regular staff satisfaction surveys performed on a rolling sample basis.

The environment/community perspective will help create a major asset to the HR team, helping the organization become an employer of choice. Long-term successful linkages with the community, both local and national, are extremely valuable. Also, initiatives in this area feed into positive customer perceptions. The speeches that a CEO of NZ Food manufacturer makes on socially responsible business most definitely creates a positive perception of the company by consumers and thus is directly linked to increased sales from the supermarket shelf. As the Jungle Book song points out, “The hip bone is connected to the thigh bone.”

Too often, time is spent debating the “perspectives,” their names and the design of the scorecard. The senior management team loves this time of intellectualising; however, it does not create much value. It is easy to get carried away with the debate, spending months ascertaining the perspectives while making little progress on defining the critical success factors (CSFs). So what are the perspectives? Let me save you some trouble. You will need the six set out in Exhibit 2.

Exhibit 2: Balanced scorecard perspectives

Using the suggested six perspective names will give you a good practice perspective template for the first six to twelve months. After twelve months, senior management and staff will be in a position of experience, knowledge and understanding to fine-tune the perspective names to better suit the organisation’s needs. This will allow the senior management team to invest time in scoring actual goals.

Lesson 4: Focus on the critical success factors.
Ascertaining an organization’s critical success factors (CSFs) is a major exercise, and one that is often only obliquely tackled. CSFs identify the issues that determine an organization’s health and vitality. When you first investigate CSFs, you may come up with 30 or so issues that can be argued are critical for the continued health of the organization. The second phase of thinning them down is easy, as the more important CSFs have a broader influence cutting across a number of BSC perspectives. Better practice suggests that there should be only between five and eight CSFs.

Once you have the right CSFs, finding the KPIs is much easier, as they will reside within these CSFs. This process is performed by mapping the relationships, see Exhibit 3, and is explained in detail in the KPI book. The CSFs that have the most influence, in Exhibit 3 it is the CSF with four arrows going out, are the ones to focus on first. The all of the organisation’s KRIs and KPIs will be measuring performance within these CSFs.

**Exhibit 3: Relationship mapping of CSFs**

Short listing the CSFs – by relationship mapping

- Retention of key staff
- Increased recognition
- Increase repeat business
- 4 OUT

Lesson 5: Follow the 10/80/10 rule.

Kaplan and Norton recommend no more than 20 KPIs. Hope and Fraser suggest fewer than 10 KPIs. I believe the 10/80/10 rule is a good guide, see Exhibit 5. 10 key result indicators (KRIs), up to 80 performance indicators (PIs) and result indicators (RIs) and 10 key performance indicators (KPIs).

The project team and SMT need to focus and concentrate on identifying those 10 KRIs, 80 PIs & RIs and 10 KPIs that really matter. The team will need help differentiating between key result indicators, performance indicators and winning KPIs.

Many people confuse result indicators with KPIs. Sales, net profit, customer satisfaction and return on capital employed are not KPIs, as they are a result of many events occurring. These examples are key result indicators as they are measures that give a clear picture of whether you are travelling in the right direction. If a problem exists, they show it, but will not tell you what you need to do to
correct it. In Exhibit 4, the KRI s are the outside skin of an onion, The PIs and RIs are the layers of rings, and the KPIs are the core.

Key Result indicators provide useful information to the Board of Directors, who should not be involved in day-to-day management. The KPIs lie several layers beneath the key result indicators. The KPIs of a number of business units and teams may contribute to a single KPI.

Exhibit 4: The four performance measures

Exhibit 5: The 10 /80/10 rule

No matter how complex your organisation, whether a council, a hospital or a international conglomerate, it is important not to consolidate business unit performance indicators and end up with a vast array of PIs, 200 plus which are mislabelled as KPIs. This leads to a lack of focus, under achievement and the disbanding of the balance scorecard within the organisation.

**Lesson 6: Select a small KPI team.**

KPIs can be designed successfully by a small team. Kaplan and Norton have seen BSCs designed successfully by an individual with an in-depth understanding of the business.

Notwithstanding this possibility, a team approach with between two to four staff is recommended, supported by an external facilitator, who, if involved right at the beginning, should help senior management pick a team. The facilitator is looking for staff who have excellent presentation skills, knowledge of the organisation and its sector, a track record of innovation and completion, sound
communication skills and the ability to be cheerful under pressure. (a recruiting trick of Sir Edmund Hillary). My suggestion is to find a blend of the oracles in the organisation and team them up with “top guns”, young, fearless and precocious leaders of the future who are not afraid to go where “angels fear to tread”.

Once selected, this team must have a direct reporting line to the CEO, see Exhibit 6. Any layer in between means that the SMT and CEO have not understood “SMT commitment.” The external project facilitator needs to convince management that these staff must be committed full time to the KPI project. The liaison person, in each business unit or service team, needs to be knowledgeable about his or her area of operation, so as to be available to provide detailed knowledge to project team members and provide feedback, etc.

Exhibit 6: The reporting lines for a KPI project

Senior managers should exclude themselves from the project team. Including a senior management team member will lead to a string of cancelled meetings as the senior manager is caught in fire fighting activities. With the best willpower in the world, senior managers can never be fully focused on just one project.

Lesson 7: “Just do it!”

The exact structure of key result indicators, performance indicators, result indicators and KPIs is rarely “right the first time.” Kaplan and Norton agree with Nike and say “Just do it.” The facilitator, senior management and KPI project team need to ensure that the project culture is a “Just do it” culture. This means that the team will not have to rely on external experts to run the project. The project team need to be empowered to make many of the decisions. Senior management can reverse them six to nine months down the track when they better understand the concepts and operations aspects.
Lesson 8: Use existing systems for the first 12 months.

It is important that existing in-house applications are used for the first 12 months, to avoid the diversion of a major purchase. Much can be done with standard applications such as Excel, PowerPoint, SharePoint Team Services and Access. There is no need to purchase specialised performance measure applications at this stage. Any such purchases can be done more efficiently and effectively 12 months down the track. The appropriate timing for implementing these applications will, however, vary from organization to organization. Some organizations may well have a resident application that performs this task well or may already know which application they will use for this task and thus can invest in the appropriate systems earlier.

Sophisticated intranet software is of great assistance and is most likely available in-house, such as SharePoint Team Services. These applications will help the team set up its intranet website so that anyone interested in the development of performance measures can obtain access and contribute. They can provide pre-formatted lists with expiration dates to keep announcements current and a place to collaborate on the development of KPI documentation and reports in real time. The team will need to update the intranet site frequently themselves. It is too important to be left to a systems administrator who is not part of the project, and will get around to updating the project intransit pages when workload permits!

Lesson 9: Trap all performance measures in a database and make them available to all teams.

During the 16 weeks, a number of performance measures will be found, which, while not in the top 10 KPIs, will still be highly relevant to business and service teams. The project team needs to establish a database to record these measures and communicate them through a KPI intranet home page. The suggested fields are discussed in the KPI book.

The database should show not only what all the current teams’ measures are but also any discarded measures. The project team can then help the teams, business units, and divisions with consistency and completeness (e.g., one measure devised by one team can and should be used by others, where appropriate). During the 16 weeks, it is important that the project team purge the database on a regular basis to eliminate duplication and ensure consistency (e.g., the KPI team can suggest to one team “you may like to look at measure Y as teams A, B, and C are choosing to use it”).

Lesson 10: KPI reporting formats are an “art form”, not a science.

What is required is a reporting regime that thoroughly addresses those performance measures relevant to the CSFs and the six perspectives. It is recommended that the SMT leave the design of the reporting formats (24/7, daily, weekly, and monthly reports) to the KPI team, trusting in their judgment. The SMT should tell the KPI project team that they will be happy to live with their sculpture knowing that they can always “keep the plinth and recycle the bronze 6 to 12 months down the track.” It may require constant reminding by the external project facilitator to ensure this
The key is to seek agreement that suggested modifications will be recorded and looked into at the end of the agreed review period. It will come as no surprise that many suggested modifications will not stand the test of time. The KPI book has a range of reporting templates that might be useful.

Lesson 11: Maybe you need to rename

KRIs, PIs, RIs, and KPIs should ideally be structured within a balanced scorecard framework. However, across the world, there have been many failed balanced scorecards, principally due to “garbage in, garbage out.” The word “scorecard” may have negative connotations to management. What about “navigator,” “compass” or other directional terms to help sell the concept and galvanise participation? Changing the name is particularly important where existing managers have prior negative balanced scorecards experiences.

Writer’s biography

David Parmenter is the CEO of waymark solutions. He runs speaking tours in Australia, Asia and Europe. John Wiley & Sons Inc. published two of his books in 2007: Key Performance Indicators — developing, implementing and using winning KPIs and Pareto’s 80/20 Rule for the Corporate Accountant — better practices from winning finance teams. David has also worked for Ernst & Young, BP Oil Ltd, Arthur Andersen, and Price Waterhouse. David is a fellow of the Institute of Chartered Accountants in England and Wales. He can be contacted at parmenter@waymark.co.nz or telephone +64 4 499 0007

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