



Building a Balanced Scorecard - Linking Strategy to People

By Randall Rollinson, President, LBL Strategies, Ltd.

In many companies implementing a strategic plan often results in a gap; one between strategy coming down from the top of the organization *and* employee recognition of how their daily activities contribute to achieving it. The gap appears because a strategic plan is, by its nature, a series of long-term goals and objectives, while most managers are trained to gauge progress achieved in short-term actions of day to day operations.

These short-term evaluation criteria have been, historically, largely centered around financial performance. Financial criteria most often center importance on managing physical and financial assets. However, today's competitive rewards are being reaped by those organizations that best manage their *intellectual assets* – their “brain trust”. Jack Welch, while CEO of General Electric, spoke about this phenomenon: “The only ideas that count today are ‘A’ ideas. There is no second place. That means we have to get everybody in the organization involved. If you do that right, the best ideas will rise to the top.”

The balanced scorecard concept was devised to supplement traditional financial measures with criteria measuring performance from three additional perspectives including Customer, Internal Business and Learning and Growth.

Too often strategic goals have been framed using “pie in the sky” language, such as “We will become the number one on-time supplier in the industry”. Depending on the size of the organization, such an outcome is dependent upon literally dozens of activities being done by potentially hundreds of people over many months. There are simply too many things that can go wrong with implementing strategy when the connection between goals and measurement of performance is not made crystal clear down to the individual level in the organization.

The balanced scorecard approach is not just a more comprehensive set of measurement criteria. It is profound insight into strategic management by incorporating four new management processes.

Translating the Vision

Translating and infusing the big picture into everyday operations has been the desired end result of strategic planning from its earliest manifestation on the American corporate scene. To hourly employees who work and live from paycheck to paycheck, the typical corporate strategy seems disconnected and irrelevant to their daily existence. Their perceived sense of powerlessness to affect the outcome can be overwhelming. They feel – “Why should I care about the big picture? Success at the top doesn’t ever reach me”.

The balanced scorecard process achieves intended results when all levels of an organization work together to clarify the vision through determination of performance measures which they can clearly understand their connection to. By translating the high-minded phrases of corporate vision statements into everyday talk – real people talk – then a shared understanding of the corporate vision takes root within the organization. Once members of the organization can relate goals to tasks they have confidence in completing, then a consensus starts to build and shared vision begins to form.

An effective technique for pushing forward to consensus is to have a broad-based group of employees develop measures for each of the four balanced scorecard evaluation perspectives – Financial, Customer, Internal Business and Learning and Growth.

Communication and Linking

A frequent characteristic of strategic planning has been an intense period of initial promotion within the organization – then nothing! A critical commitment demanded by the balanced scorecard process is continuous communication – from the top to the bottom of the organization and back up. Like a whirlpool continually going around.

Participation in group thinking and gathering of information needed to complete the balanced scorecard system also serves as a powerful internalization process – participants start to buy into the strategy because they had a hand in establishing its very specific operational elements.

During the consensus-building process, it may become apparent that some education is necessary. For example, it is one thing to tell your shipping department to reduce in-transit damage complaints. However, what if they are not up to date with the latest palletizing techniques? Obviously, some education is called for here.

Once all employees understand the overall strategic direction and performance measures being used, it is essential that managers and employees of each organization subdivision create team objectives and select agreed-upon measures of performance.

An increasing number of balanced scorecard users are attempting to link the business-unit objectives and performance measures to very specific financial rewards. For example, an organization could link 60% of team bonuses to a set of weighted financial criteria and 40% on indicators of customer satisfaction, employee satisfaction and achievement of some “quality of life” criteria such as reducing workplace accidents.

Business Planning

In many organizations the team charged with coordinating the strategic planning process is often separate and potentially removed from the group designated to guide the budgeting and resource allocation process.

Budgets are commonly made up of financial measures that bear little connection to strategic goals, particularly since the budget implementation process is typically over a fiscal year, while some very worthy strategic goals may require years of concentrated effort to succeed. The integrated nature of the balanced scorecard approach demands that the management team work with performance criteria from all four evaluation groups, not just the financial measures. This forces the comptroller and management team to gain insight into the marketing director's job and vice versa.

By defining the **key drivers** of revenue and profit growth, the balanced scorecard process permits managers to become more comfortable committing to aggressive strategic goals. The balanced scorecard planning process also makes it quite obvious which current programs are successfully working toward the agreed-upon outcomes, and which should be jettisoned.

Feedback and Learning

Seeking new information from the marketplace and using it to evaluate the soundness of your strategic direction is a necessity for well-run organizations in today's turbulent economy.

It is necessary to be able to use a reliable stream of information to both assess the current goals and to search for new, more worthy goals to shoot for. Chris Argyris described this process as *double-loop learning* – learning that changes people's assumptions and responses.

Finally, the balanced scorecard process provides feedback regarding the validity of the hypotheses that underlay the strategic outlook. Responses predicted at the beginning of the process are continually checked for validity each time a performance measurement is conducted. When new learning occurs, necessary changes are made at the strategic and operational levels of the organization.

Randall Rollinson is President and Chief Strategy Officer for LBL Strategies, Ltd. He is the lead instructor in the Certificate in Strategic Management Program www.csmlearning.com and a certified Strategic Management Professional and a Registered Education Provider for the Association for Strategic Planning <http://www.strategyplus.org/>. He can be reached at rrollinson@lblstrategies.com and 773-774-0240.

