Demonstrating the Value of Your BSC Program

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Scorecard practitioners often say that the Balanced Scorecard isn't a program, it's a process. Yet before it evolves into a process, it begins life as a program. And like any program, it requires executive sponsorship, a committed team, and a well-crafted project plan. All these things help ensure that it gets the proper care and feeding during its first 12 to 18 months of life, while it is taking root. But there's one more criterion that's critical to the ongoing success of any such program: demonstrating its tangible benefits. Indeed, any BSC program that fails to generate results in that first year or so is certain to go down in memory as just another failed "flavor of the month" management idea.

If you're a BSC champion, change agent, or program manager, how do you track the benefits of your BSC program? You might conduct what we call a baseline Strategy-Focused Organization assessment. This enables you to compare the program's results after a significant period of time—say, six, 12, or 18 months—with that initial assessment. Another way is to regard the BSC report itself as a basis for tracking and evaluating the benefits of the BSC program—since it is, by definition, measuring your performance against goals. When the BSC is properly designed and implemented, its value is evidenced by the trends in the measure data values that are embedded in the BSC report. In this regard, the BSC is really a built-in benefit-tracking device. To demonstrate the benefits of your BSC program, follow these important steps.

Define the "Future State" Business Model

Before building a strategy map or scorecard, every organization must identify its vision in the form of a clear change agenda. In essence, executives must be able to answer the question, "What changes must we make to our business model over the next few years to achieve our strategy?"

This discussion should produce a list of critical strategic "shifts" that define the specific changes required. Consider, for example, a pharmaceutical company whose strategic priority involved changing its product mix over the next three years so that new products would account for 20% of revenue, up from 5% at the outset. Executives realized that major changes would be required to support this overarching shift. Faster time-to-market, increased sales effectiveness, and a more systematic approach to working with market influencers were just a few objectives defined in the company's future-state business model. This exercise proved useful in building the scorecard, which identifies the actions required to achieve these changes. The strategy map and scorecard were designed as a tracking tool to evaluate whether the critical changes were being implemented.

Defining your future state ensures that the BSC is a means to an end, and not vice versa. All too often, organizations position the BSC as the "big idea," instead of positioning the *change agenda* as the primary force motivating BSC adoption. If employees learn of the BSC adoption before they hear about the change in strategy, they will invariably be skeptical about the rationale for changing the way they approach their jobs. So developing a list of strategic shifts is just as critical for communicating the game plan to employees as it is for aligning the executive team and providing a foundation for the scorecard design. It is far more effective at rallying the troops than a BSC tutorial.

Identify the Critical Few Bellwether Measures

Most scorecards represent a blend of a company's current-state and future-state business models, in which existing priorities (such as quality and service) coexist with newer priorities (e.g., innovation and risk management). As these new priorities grow in importance, associated measures can provide an indication of whether the new strategy is being achieved. For example, when Cadbury-Schweppes Americas Beverages (CSAB) adopted a new regional strategy to "create brands people love," it continued to focus on the operational activities that enabled it to compete in the low-margin, high-volume beverage business. However, its new innovation strategy called for a new indicator, "percentage of revenue from products introduced in the last 12 months." By consistently tracking this measure and making it a focus of the monthly strategy review meeting, CSAB achieved significant improvements in its first year of scorecard use. And thanks to the scorecard reporting system, the improvement could be traced back to the initial baseline established at CSAB's first BSC meeting.

Track and Communicate Long-Term Performance Trends

As you start collecting, analyzing, and reviewing the scorecard data frequently, makefuture-state priorities the focus of every leadership team meeting.

Over the years, we've observed that when meetings are held less than once a month, the scorecard tends to be upstaged by operational reviews; executives are no longer focused on it and forget its overriding purpose.

Assign accountability to the entire team. While one person may be the "owner" of a particular BSC objective, that person should not be held individually accountable for the results, as most strategic indicators are well beyond the direct control of any one person. Individual team members are responsible for preparing the data and information necessary for the strategy review meetings, but the entire team shares the credit (or blame) for actual performance.

After 12 to 18 months of scorecard reporting, it's time to reflect on the organization's performance results—that is, the BSC program's benefits—since the implementation began. Depending on how the data has been reported, you will probably want to export all of the data values from past reports, on a measure-by-measure basis, to develop a retrospective analysis comparing today's results with your baseline numbers. If some of the data is too sensitive for a broad audience, consider indexing—adjusting each data value so it can be represented relative to its original value, which is set at 100%. And avoid making frequent changes to scorecard content (objectives, measures, or initiatives); otherwise, you'll erase the baseline needed to compare performance and analyze trends over time.

Once leaders focus regularly on a set of critical indicators, positive patterns usually emerge; this is only logical, since most strategic indicators are supported by initiatives that help drive their improvement. At the manufacturing company whose performance is indexed in *Figure 1,* executives suspected a link between production efficiency and profitability (EBITDA). Indeed, 18 months after BSC implementation, the connection was definitively established by the scorecard report data. The process improvements and focus on efficiency contributed to an astounding 181% improvement in EBITDA performance. This information enabled the CEO to silence any remaining skeptics. The BSC had clearly helped focus the organization on the requisite changes for improvement.

While all positive business results can't be directly attributed to BSC implementation, the BSC is an important enabler of those results. Conversely, the BSC can serve to reveal a fundamentally flawed strategy or organizational structure. Consider the insurance company that adopted a financial planning strategy that failed to bear fruit after two years and millions of dollars. The BSC provided the data—and the forum for discussion—that allowed the leadership team to recognize the strategy's flaws. It's hard to quantify the savings realized by this early course correction, but many executives credited the scorecard with serving its purpose: as a litmus test of the strategy and an early warning system.

Although the BSC's impact may not be seen overnight, the changes it engenders will be evident over time. By its very nature as a measurement framework that enables organizations to benchmark their progress, the BSC is likewise equally suited to measuring its own benefits—and, more broadly, the benefits of any strategic transformation. ■

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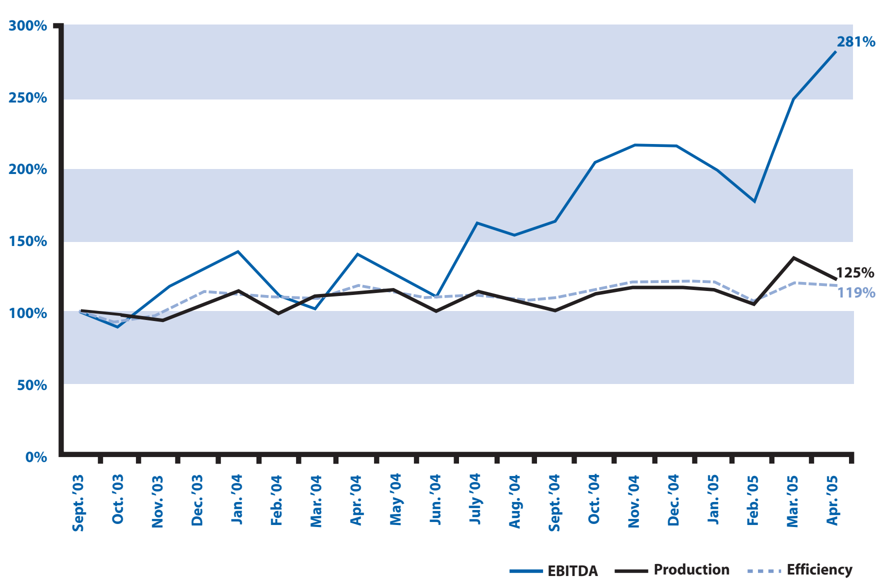
Figure 1. Performance Summary for Paper Manufacturer



BSC implementation began in October 2003. All data values are indexed to performance values at BSC inception.

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