




**BALANCED
SCORECARD
INSTITUTE**
Strategy Management Group

Improve Financial Performance Using A Balanced Scorecard To Link Non-Financial Drivers To Financial Results

*Financial Executives International – San Francisco Chapter
October 2008*

**Howard Rohm, President and CEO
the *Balanced Scorecard Institute***

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Agenda

Today's presentation is designed to help you better understand:

- How non-financial performance can drive financial results – examples
- How to use a balanced scorecard as a framework for understanding how non-financial actions “drive” financial results
- The importance of aligning vision, strategy, and operations to communicate strategic intent to all employees and stakeholders
- The success factors and challenges of developing and using balanced scorecard systems

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**“The Main Thing
is to Keep
The Main Thing,
The Main Thing”**

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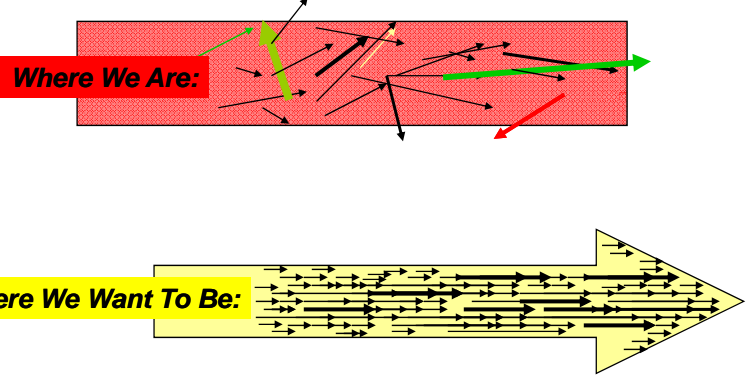
Close Your Eyes And Concentrate

***With your eyes closed, use your left index finger to
point to the North***

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Vision Is The First Main Thing



Where We Are:

Where We Want To Be:

Vision (a "shared picture of the future") leads to Strategy

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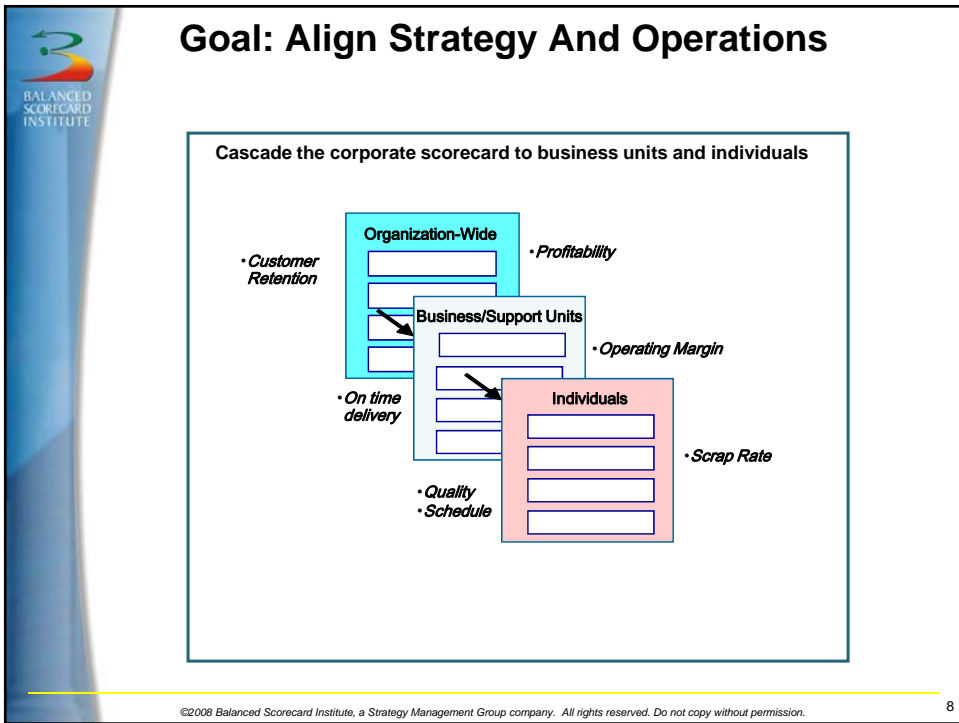
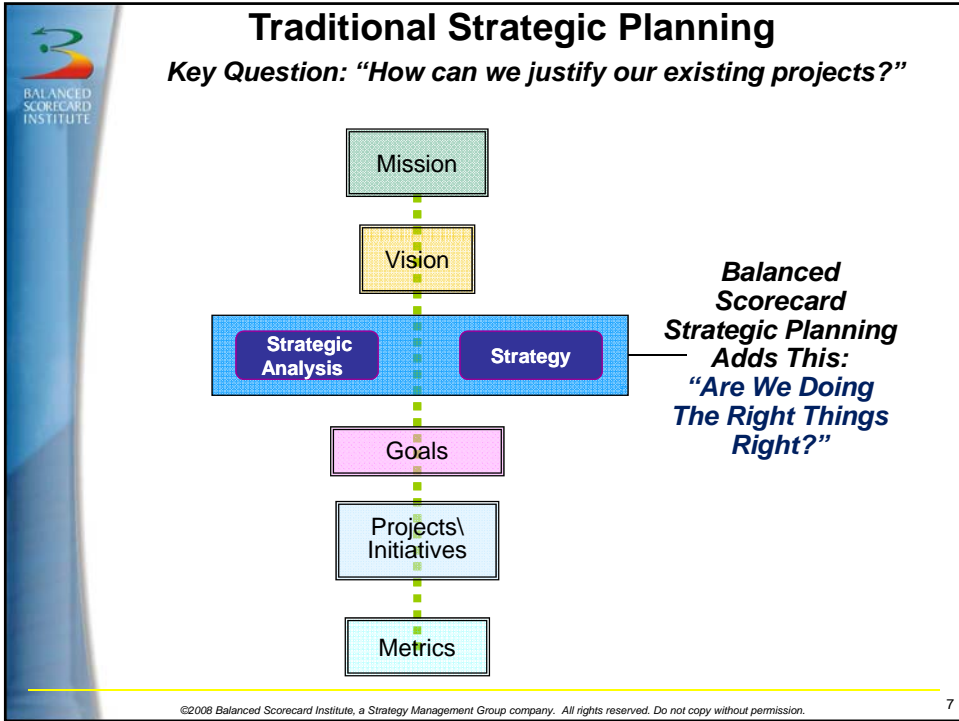
Strategy Is The Second Main Thing


*"People and their managers are working so hard to be sure **things are done right**, that they hardly have time to decide if they are **doing the right things.**"*

Stephen R. Covey

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Understand The Balanced Scorecard

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“Balanced Scorecard” Means Different Things to Different People

Integrated Strategic Planning & Management System:


- Integrates strategic planning, management, and budgeting into a holistic system
- Includes “changing hearts and minds” (change management)
- Communicates vision and strategy, and makes them actionable
- Owned by everyone in the business

Strategic Management Scorecard:

- Starts with existing strategy and builds a scorecard dashboard
- Owned by a strategic management office

KPI (Key Performance Indicator) Scorecard:

- Measures (mostly operational, lagging measures) scorecard
- Developed and owned by the planning/evaluation office



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“Balanced Scorecard” Means Different Things to Different People

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Integrated Strategic Planning & Management System:
Professional Grade

Strategic Management Scorecard:
Medium Duty

KPI (Key Performance Indicator) Scorecard:
Light Duty



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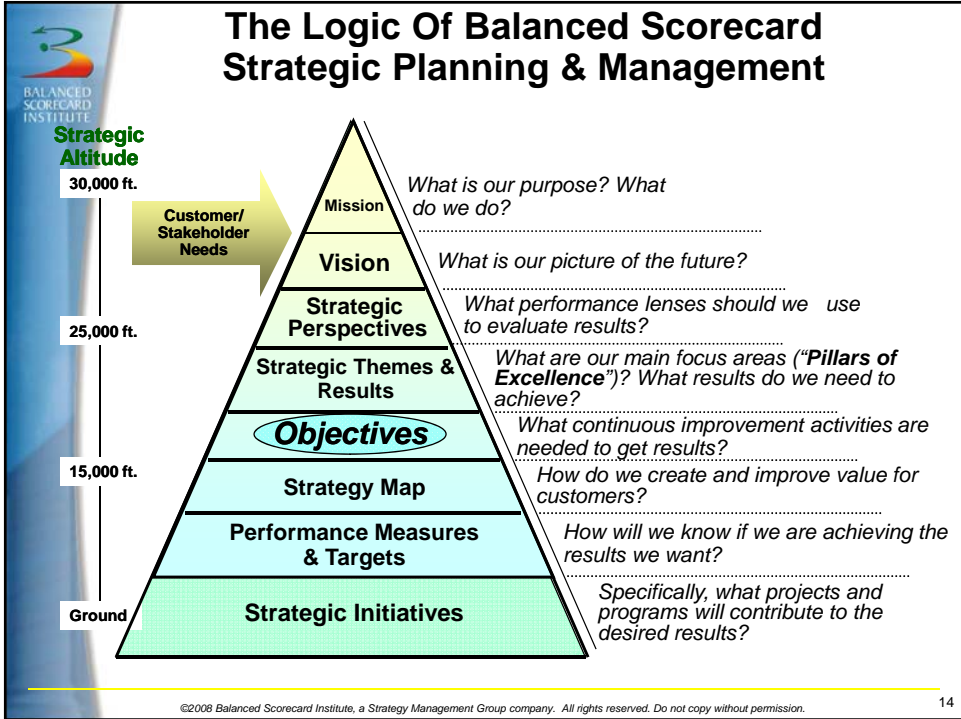
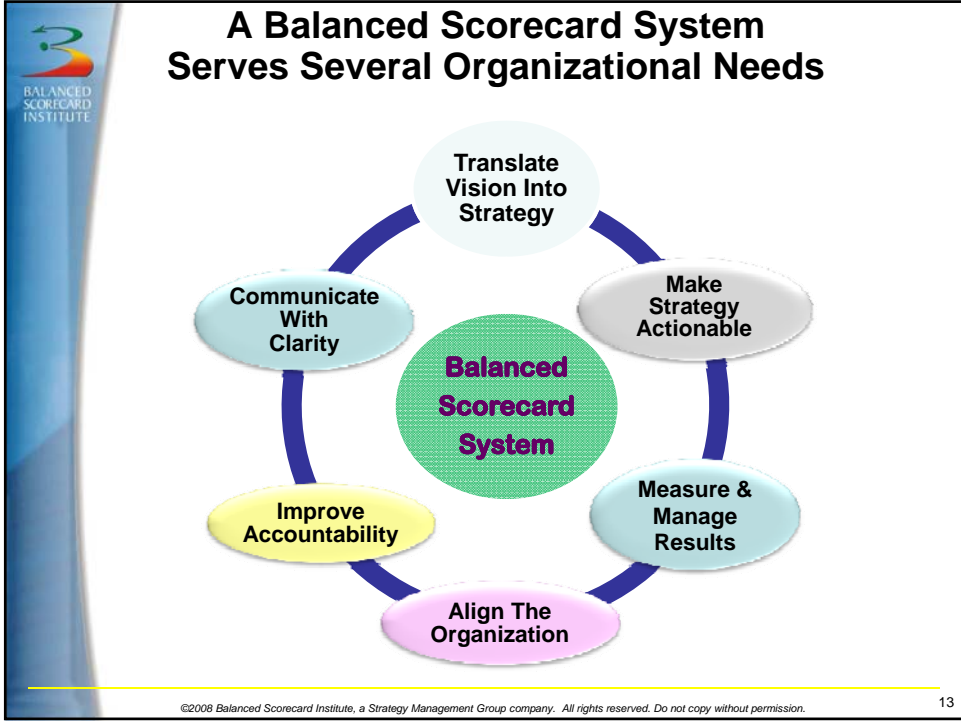
Where Are Balanced Scorecard Systems Used?

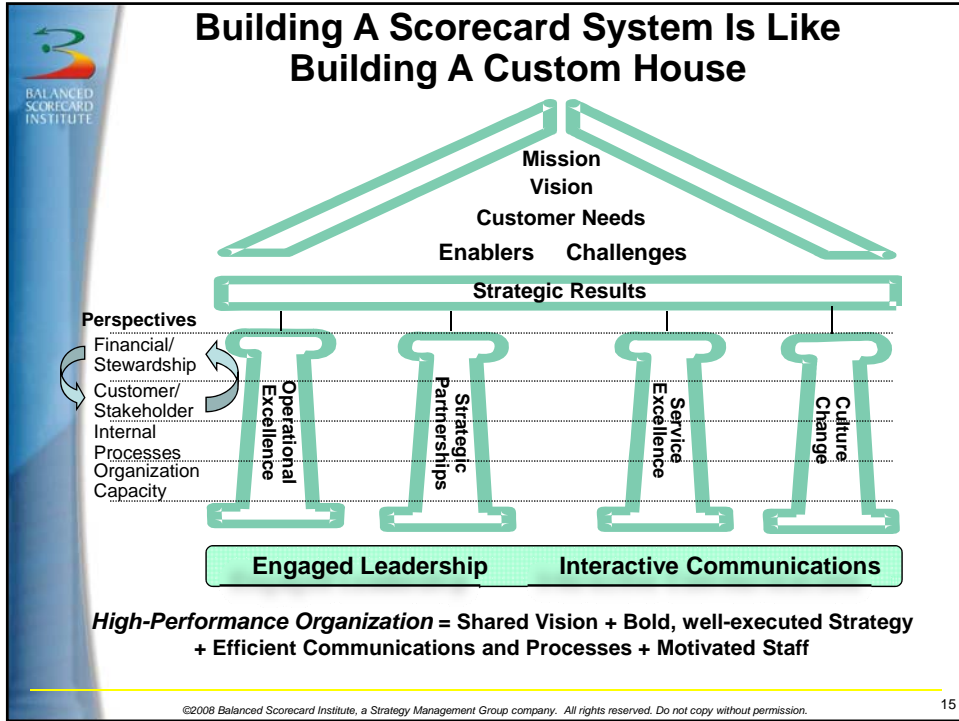
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Critical Step: View Strategy Through Different Perspectives

Perspective	Key Concept	Key Questions
Financial/Stewardship	<i>"Financial Performance"</i>	Through the eyes of the owners of the business, how will they judge financial success?
Customer	<i>"Satisfaction"</i>	Through the eyes of our customers, how will they judge the value of our products and services? How will we differentiate ourselves in the market?
Internal Business Processes	<i>"Efficiency"</i>	How can internal processes be improved, to improve product, program and service quality, timeliness, economics, and functionality?
Organization Capacity/Knowledge/Learning	<i>"Knowledge & Innovation"</i>	How can our employees continually get smarter, innovate, and improve?

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Critical Step: A Strategy Map Shows How Financial And Non-Financial Results Are Connected


- Understand how value is created for customers and stakeholders
- Link Strategic Objectives in cause-effect relationships to create a Strategy Map

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Measurement Is The Third Main Thing

“How will we know success when we see it?” We need to measure

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“Too often measurement systems are driven by what is available, rather than what is needed.”

Robert Kaplan

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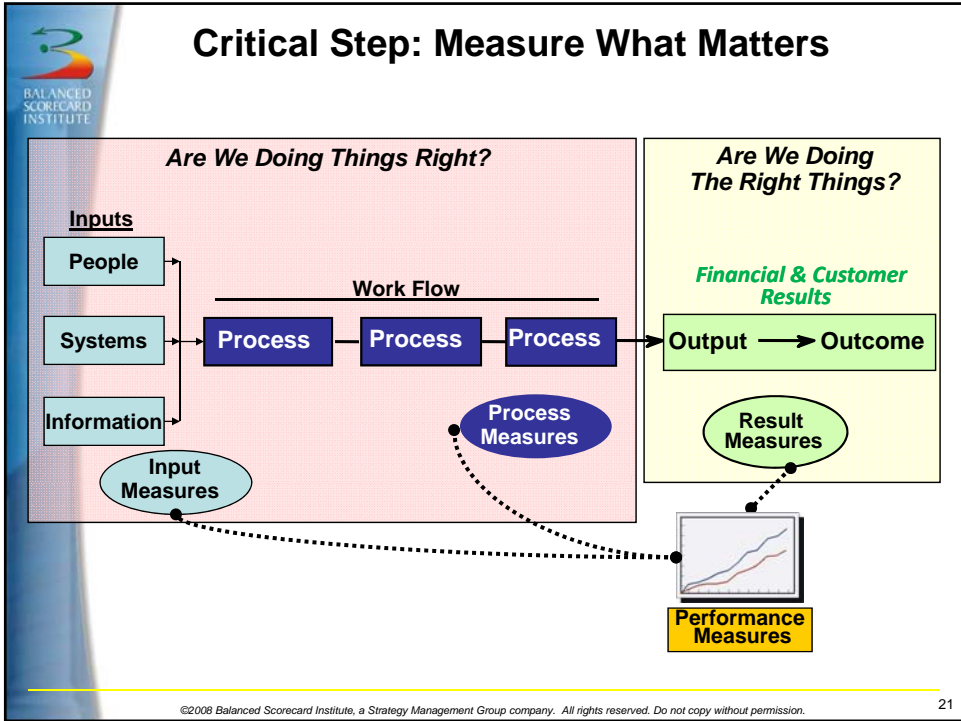
Find The Right Measures

Goal: Play in the World Series

Inputs:	Current players Budgeted payroll	Player draft Trades
Strategies:	Trade for quality players Build strong farm club	Spend big – quick team Lower cost – takes time
Output:	Games played	
Outcomes:	Games won	Win the pennant
Impacts:	Increase attendance by xx percent and revenues by xx percent over last year Increase club recognition	
Performance Measures:	Runs scored Runs allowed	Division Ranking Games won and lost Players' Composite Average

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Prioritizing The Work We Do Is The Fourth Main Thing

*“How can we optimize our resources?”.....
We need to prioritize*

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Example: Airline Balanced Scorecard

Mission: Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

Vision: Continue building on our unique position -- the *only* short haul, low-fare, high-frequency, point-to-point carrier in America.

Simplified Strategy Map	Objectives	Metrics	Targets	Initiatives
	<ul style="list-style-type: none"> Profitability Fewer planes Increased revenue 	<ul style="list-style-type: none"> Market Value Seat Revenue Plane Lease Cost 	<ul style="list-style-type: none"> 25% per year 20% per year 5% per year 	<ul style="list-style-type: none"> Optimize routes Standardize planes
	<ul style="list-style-type: none"> Increase on-time flights Lowest prices More Customers 	<ul style="list-style-type: none"> FAA On Time Arrival Rating Customer Ranking No. Customers 	<ul style="list-style-type: none"> First in industry 98% Satisfaction % change 	<ul style="list-style-type: none"> Quality management Customer loyalty program
	<ul style="list-style-type: none"> Improve ground turnaround time 	<ul style="list-style-type: none"> On Ground Time On-Time Departure 	<ul style="list-style-type: none"> <25 Min. 93% 	<ul style="list-style-type: none"> Cycle time optimization program
	<ul style="list-style-type: none"> Improve ground crew alignment 	<ul style="list-style-type: none"> % Ground crew stockholders % Ground crew trained 	<ul style="list-style-type: none"> yr. 1 70% yr. 4 90% yr. 6 100% 	<ul style="list-style-type: none"> Stock ownership plan Ground crew training

Source: Adapted from Harvard Business School

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Visualizing Performance Information

Views

Briefing Books

Maps

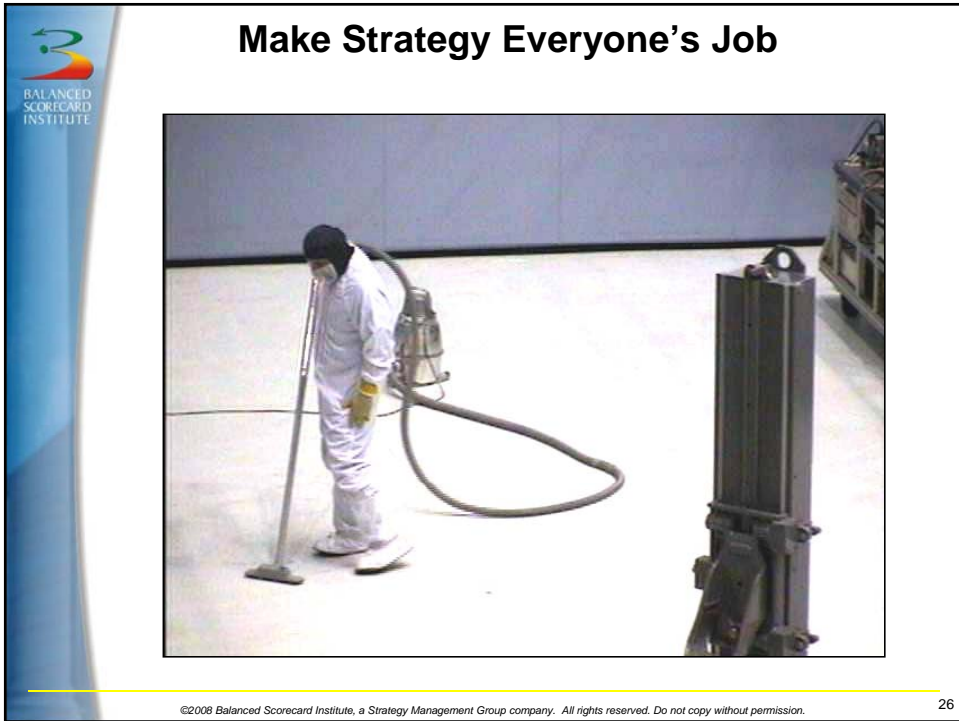
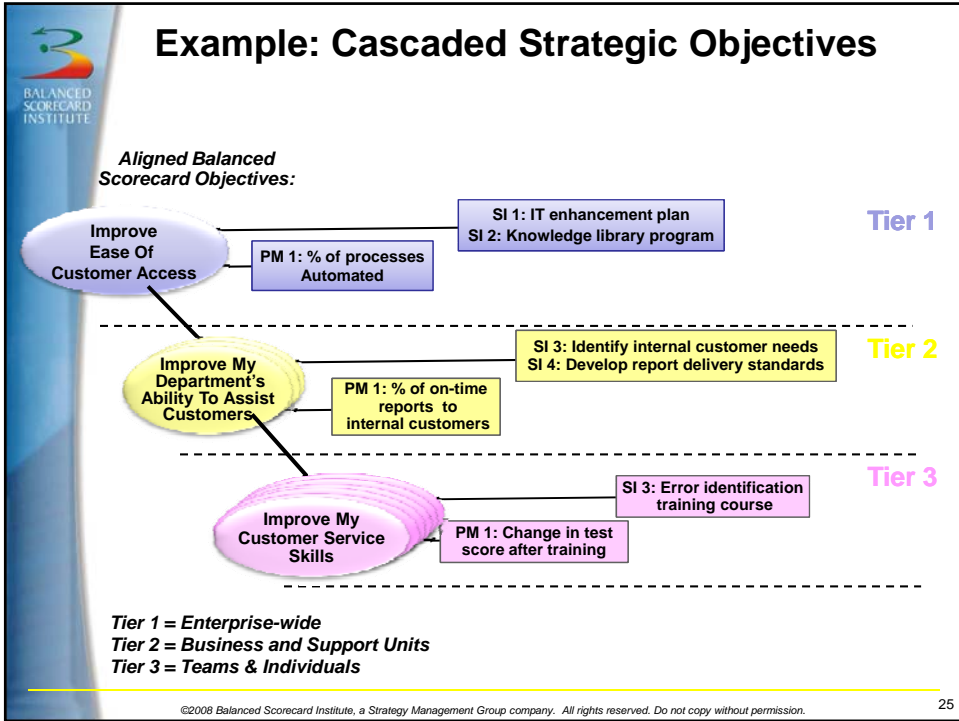
Reports


Internet Publishing

Links

Source: Actuate PerformanceSoft Views

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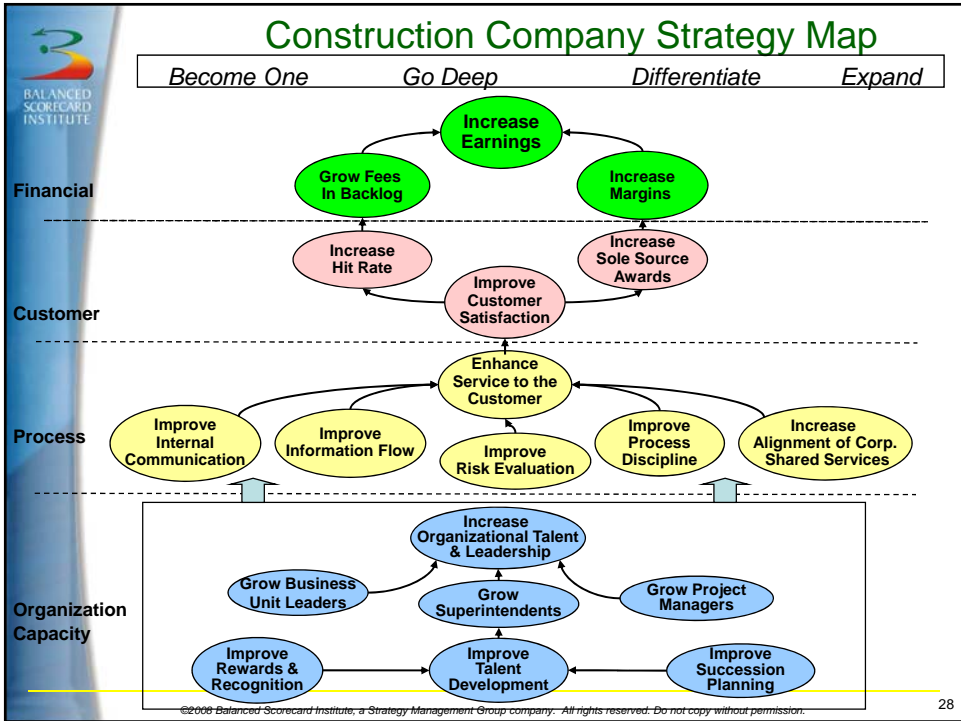


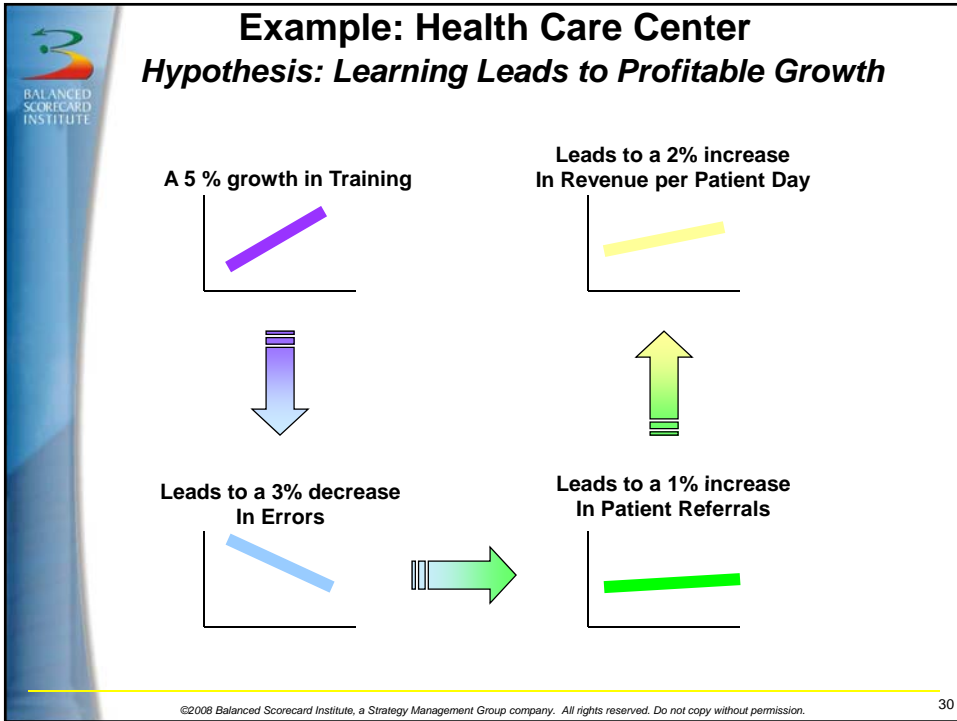
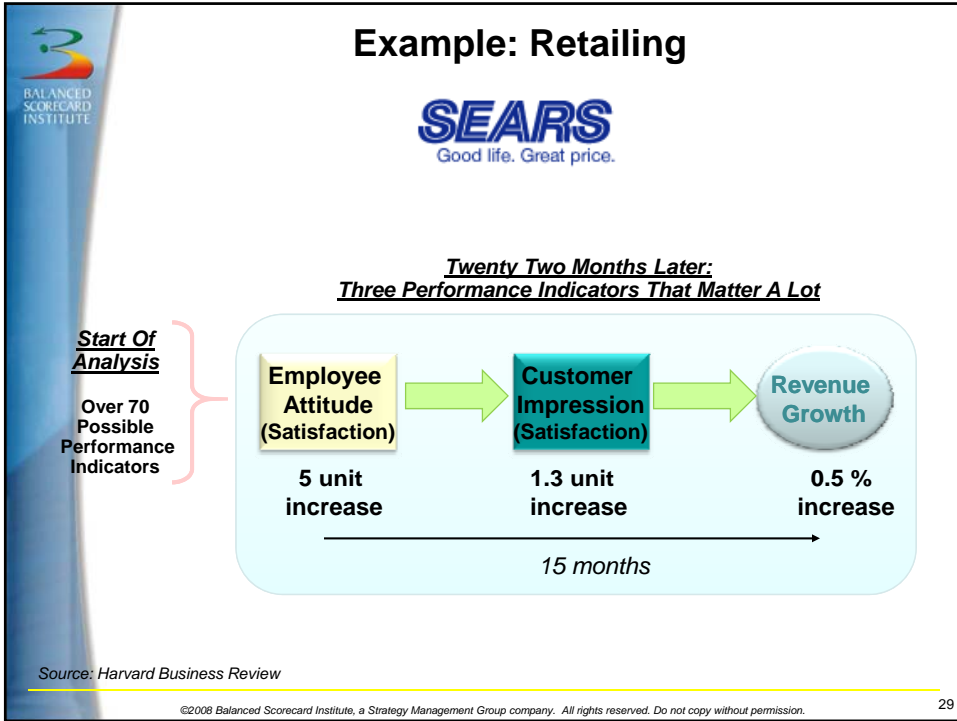


Examples

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2007 Balanced Scorecard Institute Award for Excellence




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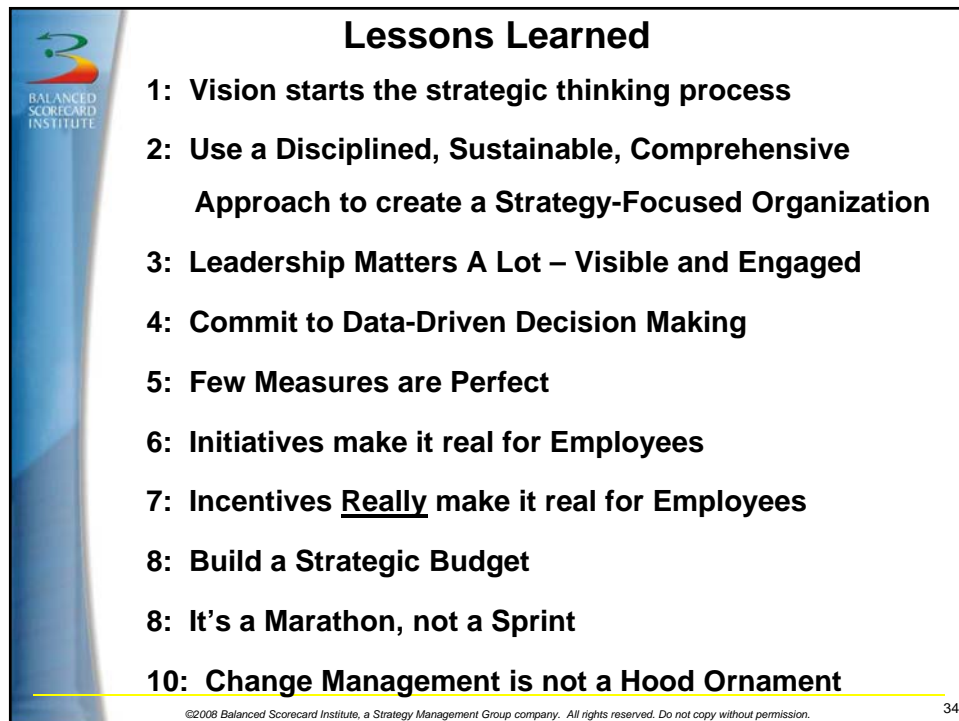
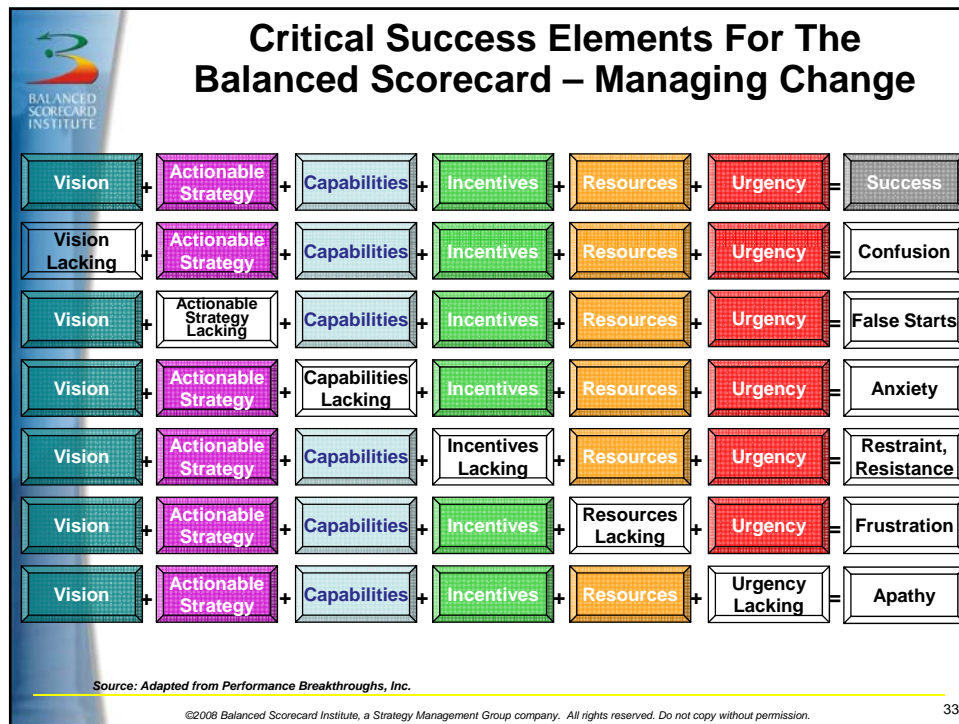
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Critical Success Factors and Challenges

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The Big Challenges

- Lack of *engaged* leadership
- Thinking it's just about measures
- Ignoring the history of strategic planning
- Using more than one sheet of music
- Communicating only with the special few


- “Rush to judgments”:
performance measures,
current projects, software
- Not planning for and incentivizing desired change
- Losing momentum and not following through

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It's Hard Work To Make It Simple



“I apologize, Dear Mother, for the length of this letter but I didn't have time to write a shorter one.”

*Winston Churchill,
from the war zone*

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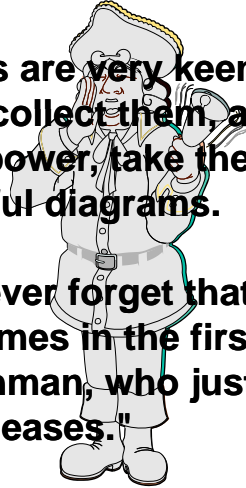
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But, Beware the Watchman !!

“ ... governments are very keen on amassing statistics. They collect them, add them, raise them to the Nth power, take the cube root and prepare wonderful diagrams.

But you must never forget that every one of these figures comes in the first instance from the village watchman, who just puts down what he damn pleases.”

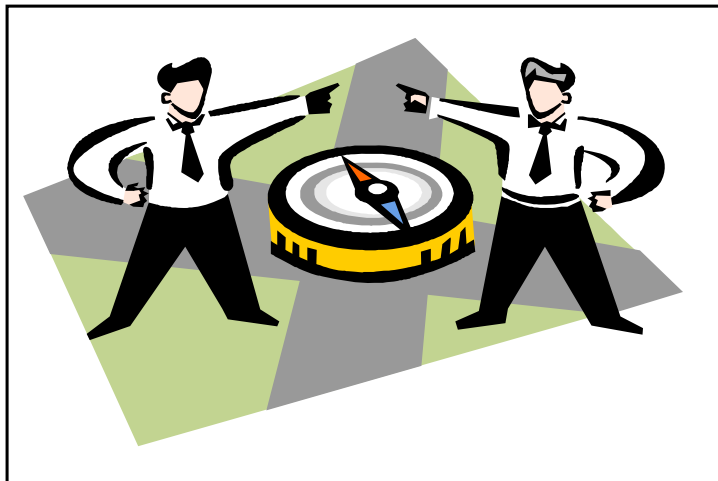


Sir Josiah Stamp, 1880-1944, Head, Bank of England

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Do Your Employees Know Which Way “North” Is?



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