

SCORECARD BEST PRACTICES

**Design, Implementation,
and Evaluation**

**RAEF LAWSON
TOBY HATCH
DENIS DESROCHES**



John Wiley & Sons, Inc.

“I am pleased to find so much practical value throughout this book. Of particular interest to academics is the linkage of empirical evidence to real-company experiences via the case studies. Academics should consider using this book in courses that focus on strategy as well as performance management.”

—William O. Stratton has served on the business faculties of the University of Washington and Pepperdine University and is coauthor of a leading textbook in management accounting.

“There is much confusion in the marketplace about scorecards including what the difference is between a dashboard and scorecard. This book is a significant contribution to clarifying the confusion. It emphasizes that improving an organization’s enterprise performance is not simply about monitoring the dials but *moving* the dials in a positive direction.

Holding managers and employee teams accountable with consequences is now a necessity—not a luxury. This book is a must read to better understand the complex topic of monitoring performance and driving organizations toward achieving strategy.”

—Gary Cokins
SAS, Global Manager of Performance Management Solutions

“*Scorecard Best Practices* provides valuable information on scorecard processes of successful organizations as well as pitfalls others have experienced and how to avoid them. The best practices considerations checklist and case studies alone are worth the price of admission!”

—Paul Sharman
President & CEO, IMA

“In the on-going business conversation between “what do we want to happen (and how)” and “what happened (and why)” —we are hearing that implementing a successful scorecard system facilitates the connection between strategy and execution. As in any Management System, scorecards have received their fair share of hype, but this book grounds us in reality: it’s what *real* people are *really* doing with the process and technology. The style is reminiscent of “The Goal” by Eliyahu Goldratt and “Communication Catalyst” by Connolly and Rianoshek, and reinforces the key findings about scorecard system best practices. *Scorecard Best Practices* is a must-read for anyone involved in or thinking about building and delivering a scorecard system. Learn from others, avoid mistakes, and save time by focusing on what works.”

—Ron Dimon
Chief Operating Officer, The Business Foundation Corporation

“This book captures and reinforces the purpose behind a balanced business scorecard—to link strategy throughout the company. The empirical research and demonstrated examples that the authors have included are compelling and

empower those who believe in the value of the scorecard to continue the journey of continual improvement within our companies.”

—John P. Monczewski

Director, Firmwide Planning & Reporting
General Dynamics Information Technology

“Outstanding collection of great ideas for metrics and measurement techniques being used by real organizations. Every reader should find information that will help improve their own performance measures.”

—Mark Graham Brown

MGB Management Consulting
Author of *Beyond the Balanced Scorecard: Improving Business Intelligence with Analytics*

“*Scorecard Best Practices* is an excellent summarization of the results of a comprehensive, world-wide study on scorecard use and adoption. The information included in this guidebook will help managers and consultants understand the key issues and challenges with designing and implementing scorecard systems.

What makes *Scorecard Best Practices* unique is its plural and independent approach. It does not advocate any specific methodology; rather it investigates the many possibilities available to organizations as they strive to enhance their performance.”

—Roberto Campos de Lima, Partner Consultant

3GEN—Gestão Estratégica

“*Scorecard Best Practices* **tells how** organizations can hit their marks, and **shows how** organizations successfully hit them.”

—Steve Player

Program Director, Beyond Budgeting Round Table
Author of Activity-Based Management: *Lessons from the ABM Battlefield*

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Contents

Foreword xi

Charles Horngren's Reflections xiii

Acknowledgments xv

1 Introduction 1

Shaps Study Overview 1

Study Analysis Groups 2

Contents of This Book 3

2 Scorecard Systems Overview 5

What is a Scorecard System? 6

Attributes of Scorecard Systems 6

Reasons for Implementing (Operational versus Strategic) 10

Impetus for a Scorecard System Initiative 12

Benefits of a Scorecard System 13

Best Practice Organization Benefits 15

Achieving Significant Benefits: International Results 16

Use of Scorecard Systems by Demographic Segment, Size, and Industry 18

What's Next? 18

3 Establishing Motivation 19

Background 20

Impetus for Implementation 21

Use of Targets 22

Linking Performance Measures to Compensation and Rewards 24

Aligning Measures and Employees to Organizational Goals 25

Advertising Success 26

Measures Used 26

Software Features Made Available 27

Communicating Appropriate Reasons for Scorecard Implementation 28

Summary 30

4 Enabling a Supportive Organizational Environment 33

Background 34

Have Buy-In from Top Level Management 36

Articulate and Communicate the Organizational Strategy 37

Define and Communicate the Reasons for and Benefits of

 Implementing a Scorecard System 38

Align Human Capital to the Strategy 39

Have a Strategy Champion to Maintain the Visibility Required to Be Successful	40
Have Employees That Accept and Use the System	41
Use a Feedback Loop to Understand Progress and Make Changes Where Required	42
Suitable Automation	43
An Eventual Link to Compensation and Reward Systems	43
Use Consultants Appropriately	44
Provide Adequate Time to Implement and Realize Benefits	44
Have a System That Is Pervasive, but Implemented in Phases	45
Summary	46
5 Design of a Scorecard System I: The Organizing Framework	49
Organizing Framework	50
What Is an Organizing Framework and Why Do We Need One?	51
Popular Frameworks	53
Frameworks Typically Chosen	59
Industry Example	60
Can an Organization Have Multiple Frameworks?	62
Multiple Frameworks or Management Initiatives?	63
Summary	65
6 Design of a Scorecard System II: Other Issues	67
Background	68
Ties between Measures and Organizational Strategy	68
Linking Compensation with Performance	73
A Pervasive Scorecard System	75
Tracking the “Right” Measures	77
Does Your Costing System Support Your Scorecard System?	81
Self-Evaluation Questionnaire	83
Summary	83
7 Implementation Strategies	85
Communicating Scorecard Concepts	86
Selling the Scorecard	87
Organization Levels	88
Approaches to Implementation	89
Impact of Implementation Approach	92
Industry Differences	93
Framework and Levels of Implementation	93
Plans for Future Rollout	94
Updating Scorecards	94
Summary	95

8 Implementation Issues	97
Implementation Time-Frame and Deadline	98
Implementation Time-Frame and Reason for Scorecard System Deployment	99
Implementation Time-Frame and the Approach	101
Effect of Rationale on Implementation	101
Number of Measures	102
Time to Implement Scorecard Software	103
Use of External Consultants	104
Consultants and Scorecard Automation	107
Organizational Buy-In	107
Scorecard and Other Performance/Cost Management Tools	108
Summary	112
9 Scorecard Automation	113
Need for Automation	114
Extent of Data and Report Automation	115
Software Options	118
Software Deployment	120
Reporting Results	121
System Functionality and Features	123
System Flexibility	124
Data Accessibility	125
Summary	125
10 Best Practice Considerations Checklist	127
Best Practice Considerations Checklist	128
Case Studies	131
Suzano Petroquímica	131
First National Bank: Banking Operations	134
City of Boston	137
Hospitality Services Company	141
Fujitsu Services Oy	148
Financial Services Company	151
Entertainment Subscription Company	154
Pfizer	157
Glossary of Terms	165
Index	173

Foreword

Businesses in the modern economy are in a constant balancing act. Each day, business leaders are faced with questions for which their response can have a profound impact on overall organizational success. How do we maintain cost-effective operations, while ensuring the appropriate resources to both support customers and maintain the right level of product inventory? How do we protect market share today but also prepare for the impact of evolving tastes and demands? How do we develop or acquire the resources necessary to meet new customer and regulatory requirements?

Determining how to grapple with such questions has resulted in an increased emphasis on performance management. Enterprise Performance Management (also called Business or Corporate Performance Management) is about understanding how you have performed and driving improvement for the future. It combines technology for activities such as planning, budgeting, and what-if analysis, as well as business intelligence data and tools, with processes that support better strategic business decision making.

During my frequent visits to customers and prospects, I see executives faced with similar performance management issues. There is a general appreciation for the traditional performance management activities—budgeting, planning, financial consolidation, and reporting—but organizations sometimes struggle with how to create and align everyone around a corporate strategy. Getting everyone on the same strategic page and moving in the same direction is harder than it appears.

While scorecards are being used more frequently and with more sophistication than ever before, this timely book goes a long way toward satisfying the need for more information and best practices. It offers observations and recommendations based on practical experience and a survey of business users. It includes numerous real-world case studies and a best practice considerations checklist that will help readers flesh out their scorecard plans.

Whether your organization is just beginning to consider the use of scorecards or you would like to get more out of your existing scorecard system, you will benefit from joining Patrick on his journey to scorecard enlightenment.

JOHN KOPCKE

SENIOR VICE PRESIDENT

Business Intelligence and Performance Management Global Business Unit

Oracle Corporation

CHARLES HORNGREN'S REFLECTIONS

Scorecard Best Practices is a timely contribution to the growing research on performance management. Scorecards have been increasingly used during the past 15 years throughout the entire world. This book summarizes extensive studies of several practices covering global regions as well as North America. Comparisons are tabulated of users and nonusers of scorecards. Several classifications ensue. Criteria for best practices are developed, including obtaining organizational alignment and achieving significant benefits.

One of the strengths of this book is its collection of the specific scorecard experiences presented in eight use studies. The writing is lively and marked by many comparative tables and figures. It is not limited to success stories, however. The reader gets straightforward analysis unslanted by sales pitches for scorecard systems.

In summary, *Scorecard Best Practices* provides an informative mix of the concepts underlying scorecard systems and best practices actually found in global organizations.

CHARLES T. HORNGREN
*Edmond W. Littlefield Professor of Accountancy, Emeritus
Stanford University*

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This book is the culmination of almost five years of research, collaboration with many organizations, discussions with experts, and a lot of sweat. Obviously, there are many organizations and individuals to be thanked for their valuable contributions.

Many of the book's findings are based on results gathered from the Online Scorecard studies (for North America and International). Thanks to the academic sponsors, Pepperdine University and the State University of New York at Albany, who provided the main Web site for the study and supported the supervisors and authors in volunteering their time to gather the results for the study from hundreds of organizations around the world. Thanks also to the Institute of Management Accountants for providing additional Web site services and support.

We offer our sincerest thanks to the *volunteer* organizational sponsors for their unwavering support throughout the studies. These sponsors played a large part in helping to advertise the study and to encourage participation from their membership. In return, the study team provided them with the opportunity to publish articles containing study results in their magazines and journals. A tremendous amount of value was received, all without monetary compensation. These organizations include:

- AICPA (American Institute of Certified Public Accountants)
- Balanced Scorecard Netherlands
- CAM-I (The Consortium of Advanced Management, International)
- CIMA (The Chartered Institute of Management Accountants)
- CMA Canada (Society of Management Accountants of Canada)
- CompetitiveScotland.com
- Deloitte Germany
- Hyperion Solutions
- IMA (Institute of Management Accountants)
- The Institute of Operations Management
- Yacsa.com
- Van der Leer Consulting

Heartfelt thanks go to Dr. William Stratton, a significant member of the research team from its inception until his recent retirement and a co-writer/presenter of the many presentations and articles created from the results of the study. His never-ending enthusiasm kept the research team going when times got tough.

The eight case studies in the book represent a significant effort. We believe these case studies not only highlight many of the items in the best practices considerations checklist, but they also outline the realities experienced for many implementations. There is no such thing as a perfect implementation—but there are many traps you can and should avoid. Our earnest appreciation goes to those individuals that assisted us in assembling and fine-tuning the case studies, including:

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Introduction

What if you had a management tool that would give you and all of your executives current information on the health of your organization *and* where you stand with respect to achieving your corporate goals? What if this tool could also be used by other managers to communicate changes in strategy, align the business units with the changes, and ultimately help to align employee behavior with the corporate strategy?

This type of tool, used appropriately, could help give you the competitive edge you need to outrun your competition. Globalization, acquisitions and mergers, commoditization, and many other worldwide opportunities/challenges mean that it is getting tougher and tougher to remain (and for some organizations, become) competitive and profitable. Scorecard systems are an excellent example of a *strategy management* tool that can provide this type of advantage.

SHAPS STUDY OVERVIEW

Many of the conclusions in this book are based upon the results from two studies conducted by a research team consisting of Dr. Raef Lawson, Dr. William Stratton, and Ms. Toby Hatch. The North American On-Line Scorecard Study presented results from an English language survey conducted between 2002 and 2004, and the International On-Line Scorecard Study summarized results from a similar survey conducted in eight languages from 2004 to 2006. Both studies revealed practical insights about the adoption and use of scorecards at the various phases of their implementation. The International Study provides a foundation for comparative analysis in the global arena as well as trend analysis for North America. Throughout the remainder of this book, these two studies are referred to as the SHAPs (i.e., SUNY, Hyperion, and Pepperdine scorecard) study.

These studies were conducted primarily on a voluntary basis and supported by nonmonetary sponsors.¹ The responsibility of the sponsors was to solicit their members and customers to participate in the study. In return, all respondents and sponsors received access to articles and presentations based on the studies' results.

The International Study received 382 usable responses from 44 countries. Of these, 193 respondents (50 percent) indicated that they use some kind of scorecard system. The North American study received 150 usable responses. Of these, approximately the same percentage indicated that they use a scorecard system. As there are many definitions for scorecard systems, survey respondents were asked to document their own definition of a scorecard system, and then use it when responding to the survey questions.

Exhibit 1.1 International Survey Respondents Using Scorecard Systems by Region

Region	Use Scorecard System	Total Respondents	Percentage Using Scorecard Systems
Africa (primarily South Africa)	13	19	68%
Asia (including the Middle East)	31	62	50%
Europe	53	137	39%
United States and Canada ("North America")	74	137	54%
South and Central America ("South America")	22	28	79%
Total	193	383	50%

Respondents from the International Survey were organized into the five geographic regions shown in Exhibit 1.1

Slightly more than half of the respondents use scorecard systems, with the highest usage rate in South America and the lowest rate in Europe.²

When reviewing scorecard adoption rates between the two surveys, 46 percent of the respondents of the North American Study used scorecard systems. Two years later, the International Study indicated that this percentage has increased to 54 percent. There has thus been a significant increase in the use of scorecard systems by North American organizations, consistent with the prediction from our original study.³

STUDY ANALYSIS GROUPS

Throughout the book, respondents are often presented by group types (see Exhibit 1.2). The two basic groups in each of the studies are those who have adopted the use of a scorecard system (*Adopters*) and those who are not using a scorecard system (*Non-Adopters*). The Adopters group is further divided into additional groups: the "*Significant Benefits Group*" (*SBG*) includes those organizations that reported significant benefits from their scorecard implementation, and the "*No Significant Benefits Group*" (*NSBG*) includes those that reported no significant benefits.

Best practice criteria for implementing and using a scorecard system were developed from these studies. Sixteen of the 382 organizations in the International Study met these criteria. This group is referred to as the "Best Practice Organizations" (*BP*). The criteria stipulate that the organization must have:

- Had a scorecard system in place for more than 1 year (average was 4.5 years)
- A scorecard system that they consider to be a vision driver
- Achieved sustainable alignment facilitated by a scorecard system
- Achieved significant benefits from their scorecard system

These group classifications will be referenced throughout this book.