

**The Balanced Scorecard  
Developing, Measuring, and Communicating Organizational Strategy**

**A Discussion Paper  
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**In preparation for CHAO Continued Strategic Planning Process – Dec 10, 2007**

## Introduction

In January 2007, the Board of CHAO embarked upon a strategic planning process which attempted to marry the concept of a “call” to the ministry of leadership in Catholic Health Care, the spirituality of leadership, and SMART (specific, measurable, attainable, realistic, and timely). The fruits of these discussions which included broad member consultation resulted in the acceptance of a revised vision, mission, values, and strategic priorities for CHAO. Having completed these important first steps, Lil Bergamo, Dianne Moser, and Ron Marr suggested that efforts be made to more clearly define the newly articulated strategic priorities using a Balanced scorecard approach. The use of the Balanced scorecard was chosen because of its broad recognition and acceptance among health care providers in the province of Ontario. In addition, the Balanced scorecard has proven effective in assisting organizations to develop strategies which are measureable, and provide clear accountabilities to those served.

With that background in mind and in preparation for the Dec 10, 2007 CHAO Board meeting, this paper will present a broad-brush overview of the theory and mechanics of developing a balanced scorecard for CHAO. Two main information sources were used including an overview of the work of the creators of the balanced scorecard, Robert Kaplan and David Norton<sup>1</sup> and Paul Niven<sup>2</sup>. Concepts reviewed will include:

- Why use a Balanced scorecard
- Balanced Scorecard Components
- Building Strategy Maps

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<sup>1</sup> Kaplan, Robert S. and David P. Norton. (2001). *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston: Harvard Business School Press.

<sup>2</sup> Niven, Paul R. (2006). *Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Results*. Hoboken, New Jersey: John Wiley & Sons, Inc.

- Using balanced scorecard in non-profit organizations, government agencies & hospital
- Suggestions for developing a balanced scorecard for CHAO
- Closing Remarks

### **Why Use Balanced Scorecards?**

Many if not most organizations dutifully complete strategic planning on a regular basis.

However, studies suggest that fewer than 10% are successful in implementing the strategies created.<sup>3</sup> In 1999, *Fortune* magazine noted the majority of CEOs fail their responsibility to their organizations by assuming that defining strategy was a sufficient predictor of corporate success. “In the majority of cases – we estimate 70% - the real problem isn’t [bad strategy but] . . . bad execution.”<sup>4</sup> Niven<sup>5</sup> notes the following barriers to strategy execution.

1. Vision barrier – only 5% of the workforce understand the strategy
2. People barrier – only 25% of managers have incentives linked to strategy
3. Management barrier – 85% of executive teams spend less than one hour per month discussing strategy
4. Resource barrier – 60% of organizations don’t link budgets to strategy.

When first developed in 1990, Kaplan and Norton’s balanced scorecard offered a tool for measuring (quantifiably) strategy realization. It provided opportunities to measure tangible and intangible (knowledge-based) assets. Knowledge-based assets included customer relationships, innovative products and services, high-quality and responsive operating processes, information

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<sup>3</sup> Kiechel, Walter. (1982). “Corporate Strategists under Fire.” *Fortune*, 27, December, pl 38

<sup>4</sup> Charan, R., and G. Colvin. (1999). “Why CEOs Fail”. *Fortune*. June 21.

<sup>5</sup> Niven, Paul R. (2006). *Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Result*. Hoboken, New Jersey: John Wiley & Sons, Inc., p. 10

technology and databases, and employee capabilities, skills, and motivation.<sup>6</sup> More recent studies (2000) suggest the book value of tangible assets accounted for only 10 to 15% of any company's market value.<sup>7</sup> When this is coupled with a 1998 study by Ernst and Young<sup>8</sup> noting the ability to execute strategy was more important than the quality of the strategy itself, it becomes apparent that developing a strategy implementation system for CHAO's strategic priorities is essential to the realization of its mission and ensuring accountability to those whom we serve in the ministry of Catholic health care in Ontario. The balanced scorecard will offer CHAO 3 things:<sup>9</sup>

1. A communication tool
2. A measurement system
3. A strategic management system

The fundamental question is, "Do we really need a balanced scorecard for CHAO?" Niven<sup>10</sup> offers a litmus test for organizational readiness for developing and implementing a balanced scorecard. Answering "yes" to any of these scenarios provides an appropriate stepping stone to the balanced scorecard development.

1. Business crisis
2. Setting the management agenda
3. New leadership
4. Implementing strategy (I would suggest this is one of the primary rationales for CHAO to consider a balanced scorecard approach)

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<sup>6</sup> Kaplan, Robert S. and David P. Norton. (2001). *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston: Harvard Business School Press, p. 2

<sup>7</sup> Ibid

<sup>8</sup> "Measures that matter", Ernst & Young, Boston, 1998, p. 9)

<sup>9</sup> Niven, Paul R. (2006). *Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Result*. Hoboken, New Jersey: John Wiley & Sons, Inc., p. 13

<sup>10</sup> Ibid, p. 37

5. Prioritizing initiatives
6. New organizational strategy
7. Aligning employee goals
8. Communication and education

## **BALANCED SCORECARD COMPONENTS**

The foundational **principles** of the balanced scorecard (Exhibit 1) include the following.

1. Translate the strategy to operational terms
2. Align the organization to the strategy
3. Make strategy everyone's everyday job
4. Make strategy a continual process
5. Mobilize change through executive leadership

The balanced scorecard is not a “metrics” project: it is a change project. Initially, the focus is on mobilization and creating momentum to get the process launched. Once the organization is mobilized, the focus shifts to governance, with emphasis on fluid, team-based approaches to deal with the unstructured nature of the transition to a new performance tool. It provides a framework to look at the strategy used for value creation from four different perspectives:

1. Financial: What is the organization's strategy for growth, profitability, and risk viewed from the perspective of the shareholder? While CHAO is not a publicly traded commodity, it is dependent on member association fees for ongoing financial viability.
2. Customer: How do we create value and differentiation from the perspective of the customer? This perspective answers three critical questions:
  - a. Who are our target customers?

- b. What is our value proposition in serving them?
  - c. What do our customers expect or demand from us?
3. Internal business processes. What are the strategic priorities for various business processes which create customer and shareholder satisfaction? The organization identifies processes from which the best possible objectives and measures can be developed. I would suggest that this is where the major work of the CHAO board will be focused in the creation of the organization's balanced scorecard.
4. Employee Learning and Growth: What [board] or employee priorities are needed to create a climate that supports organizational change, innovation, and growth? Niven suggests that this is the foundation on which balanced scorecards are built, noting that once you have identified objectives and measures related to customer and internal process perspectives, you can be certain of discovering some gaps between your current organizational infrastructure of employee skills, information systems, and environment required to maintain success. He suggests we think of the employee [and board] learning and growth perspective as the roots of the tree that will ultimately lead through the trunk of internal processes to the branches of customer results and finally to the leaves of financial return.<sup>11</sup> An examination of Mobil Oil's balanced scorecard (Exhibit 2) will help to clarify the concepts.

The key to successful implementation of any plan is the development of strategy. Strategy cannot be executed if it cannot be understood, and it cannot be understood if it cannot be

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<sup>11</sup> Niven, Paul R. (2006). *Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Result*. Hoboken, New Jersey: John Wiley & Sons, Inc., p. 16

described. Therefore, Kaplan and Norton developed a reliable and consistent framework for describing strategy.

### **Building Strategy Maps**

Niven<sup>12</sup> notes key principles of strategy.

1. Differentiate activities: Strategy is about choosing a different set of activities from your rivals, the pursuit of which leads to a unique and valuable position in the market
2. Develop trade-offs: Strategy is more about the choice of what not to do than what to do
3. Fit: Activities chosen must fit one another for sustainable success
4. Continuity: Strategy crystallizes your thinking on basic issues
5. Various thought processes: Strategy development involves conceptual and analytical exercises.

Lawrence and McGregor<sup>13</sup> offers the following quiz to emphasize the importance of strategy development: *Question #1: three frogs are sitting on a log. One decides to jump off. How many are left? You might think two, but the answer is three. One has **decided** to jump off.*

*Question #2: three companies have poor earnings. One decides to revitalize key product lines, strengthen distribution channels, and become customer intimate. How many companies have poor earnings? You get the idea: **deciding and doing are two different things.** Strategy maps for balanced scorecards make explicit the strategy's hypotheses. They answer the question,*

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<sup>12</sup> Ibid p. 89

<sup>13</sup> Lawrence, B. and Serven MacGregor. (1999). "Can your Company Actually Execute its Strategy?" *Harvard Management Update: May*

“What must we do well in each of the perspectives in order to execute the strategy?”<sup>14</sup> They offer a framework to assist the organization to move from *deciding* to *doing*.

Strategy maps are usually a one-page graphical representation of what you must do well in each of the four perspectives in order to successfully implement your strategy. They bring problems and issues from darkness to light. *“Most ailing organizations have developed a functional blindness to their own defects. They are not suffering because they cannot resolve their problems but because they cannot see their problems.” (John Gardner)*<sup>15</sup>

Each measure of the balanced scorecard becomes embedded in a chain of cause-and-effect logic that connects the desired outcomes from the strategy with the drivers that will lead to the strategic outcomes. In developing strategy maps, the overarching mission of the organization provides the starting point. The organization’s mission and core values remain fairly stable over time. The vision paints a picture of the future that clarifies the direction of the organization. The vision also is the springboard to strategy, bridging the gap between the more stable mission and core values and the organization’s preferred future (vision). Michael Porter describes the foundation of strategy maps as those activities in which the organization elects to excel.<sup>16</sup> The essence of strategy is to develop cause-and-effect activities that create a unique value-added or market niche for the services offered by the organization, moving the organization from its present position closer to its vision. The sequence of events is modelled in Exhibit 3,4,&5.

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<sup>14</sup> Niven, Paul R. (2006). *Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Result*. Hoboken, New Jersey: John Wiley & Sons, Inc., p. 16

<sup>15</sup> *Ibid*, p. 101

<sup>16</sup> Kaplan, Robert S. and David P. Norton. (2001). *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston: Harvard Business School Press, p. 75

## **Balanced Scorecards in Non-profit, Government, and Health Care Organizations**

In 1996, non-profit, government and health care organizations began to recognize the value of the balanced scorecard model. Could a tool that attempted to quantify all aspects of organizational strategy be adopted in the non-profit, government or health care world? The short answer was “no” – not in its for-profit format. However, modification of the balanced scorecard architecture allowed these sectors to benefit from the theory and template. Modifications include placing the customers or constituents at the top of the hierarchy. The key questions for non-profit organizations are usually not issues of profit, although balanced budgets and stewardship of all resources is a goal of any organization. Examples of a non-profit organization’s balanced scorecard will assist in understanding the concept. (Exhibit 6 & 7)

### **Building a Balanced Scorecard for CHAO**

Niven (2006) noted the balanced scorecard can produce tremendous results, but to attain those results the organization must overcome numerous pitfalls that can derail or significantly damage the implementation efforts. He notes that “at the root of our measurement misery is an almost exclusive reliance on financial measures of performance”<sup>17</sup>, while intangible measure such as employee knowledge, customer and supplier relationships, and innovative culture are the key to producing value in today’s economy. Common measures for each balanced scorecard perspective which the board of CHAO Board may want to consider include the following.

#### **Measures from the Financial Perspective**

- total assets
- return on investment
- return on total assets

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<sup>17</sup> Niven, Paul R. (2006). *Balanced Scorecard Step-by-step: Maximizing Performance and Maintaining Results*. Hoboken, New Jersey: John Wiley & Sons Inc., p. xii

- revenues/total assets
- net income
- revenue
- return on equity
- return on investment
- cash flow
- total costs
- debt
- debt to equity

### **Measure from the Customer Perspective**

- Measures of Operational Excellence
  - i. Price
  - ii. Selection
  - iii. Convenience
  - iv. Zero defects
  - v. Growth
- Product Leadership Measures
  - i. Getting the word out (branding)
  - ii. Functionality
- Measures of Customer Intimacy
  - i. Customer knowledge
  - ii. Solutions offered – e.g., total # of solutions offered per client
  - iii. Penetration – market share
  - iv. Culture of driving client success
  - v. Relationships for the long term
  - vi. The customers' voice – hearing what the customer wants/needs
  - vii. Moments of truth – any point at which a customer comes in contact with a business
  - viii. Channels of connection with customers – e.g., internet, print documents
  - ix. Customer experience – examine the experience you are designing for your customers to unearth critical measures of success for customers – e.g., customer satisfaction/complaints

### **Measures for Internal Processes**

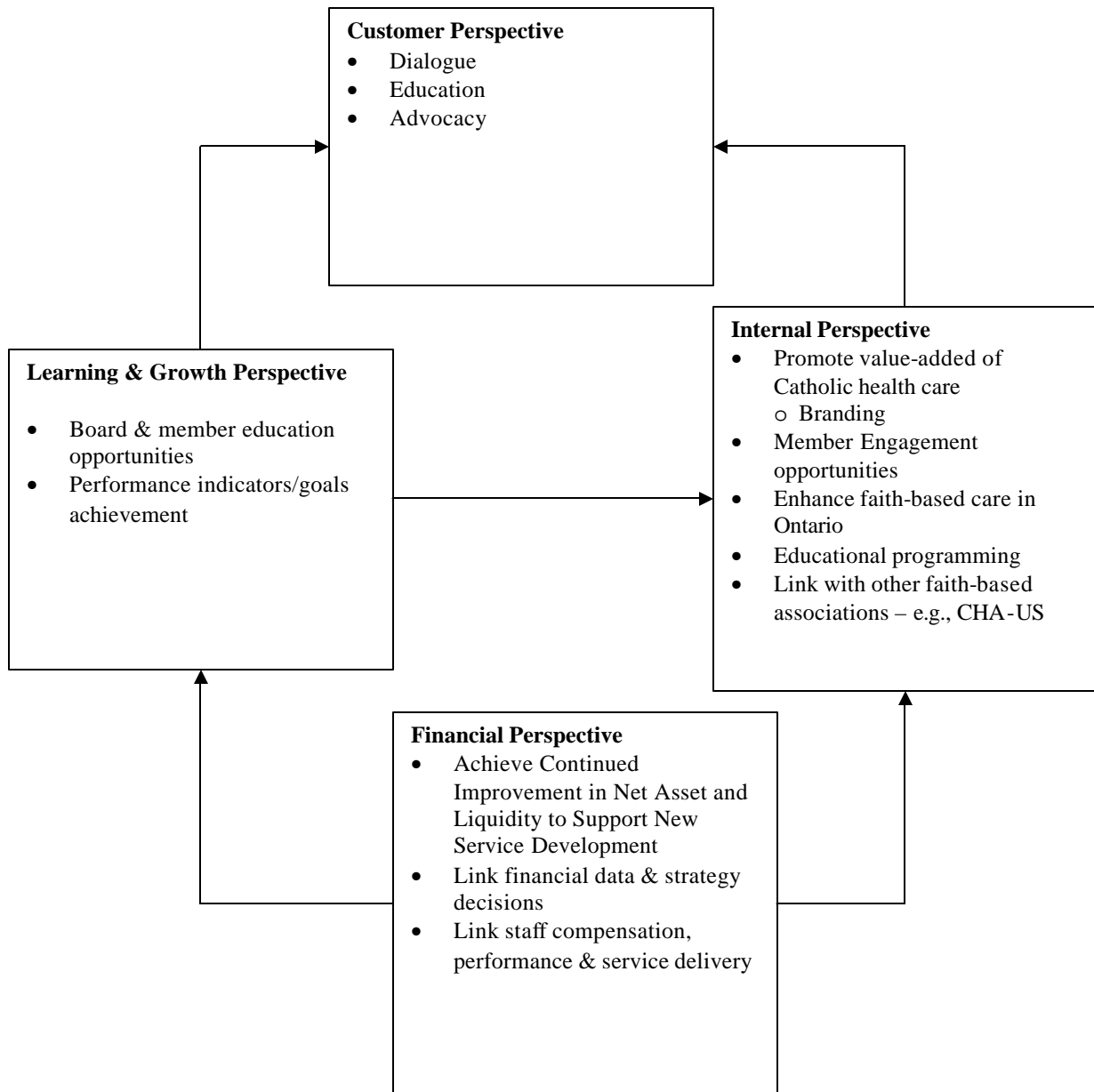
- How will we know we are successful in achieving this objective?
- Research and development expenses
- Community involvement
- Ratio of new products to total offerings
- Response time to customer requests
- Continuous improvement
- Products and services in the pipeline
- Time to market of new products/services
- New products introduced
- Number of positive media stories

**Measures for Employee Learning and Growth**

- Employee participation in profession associations
- Average years of service
- Percentage of employees with advanced degrees
- Absenteeism
- Employee suggestions
- Employee satisfaction
- Internal communication rating
- Health promotion
- Training hours
- Personal goal achievement
- Leadership development
- Communication planning
- Knowledge management

Given the strategic planning efforts completed by the board of CHAO to this time including the development of a new vision, mission, values, and strategic priorities, what might a balanced scorecard look like for CHAO? One model might use The May Institute or Duke Hospital balanced scorecards as a templates. This is of course, only a cursory model and in no way suggests the final balanced scorecard CHAO would want to consider. Again, the key question to ask for every perspective is, “What must we do well in each of the perspectives in order to execute the strategy?”

## Draft #1 CHAO Balanced Scorecard – based on May Institute Balanced Scorecard





### **Closing Remarks**

The Board of CHAO is well along the way in its planning and strategy development. The key to successful strategy implementation will be the development of measurable performance criteria for each perspective of the balanced scorecard, reviewing progress on these criteria regularly, and reporting developments to customers. This process will ensure the board's strategic priorities are realized. Developing a strategic plan is not difficult, but *deciding* and *doing* strategy is figuratively "the straw that breaks the camels back." This is where a balanced scorecard strategy may be of great assistance.

The Board will have additional opportunity to discuss this at the Dec 10, 2007 meeting. I look forward to seeing you then.

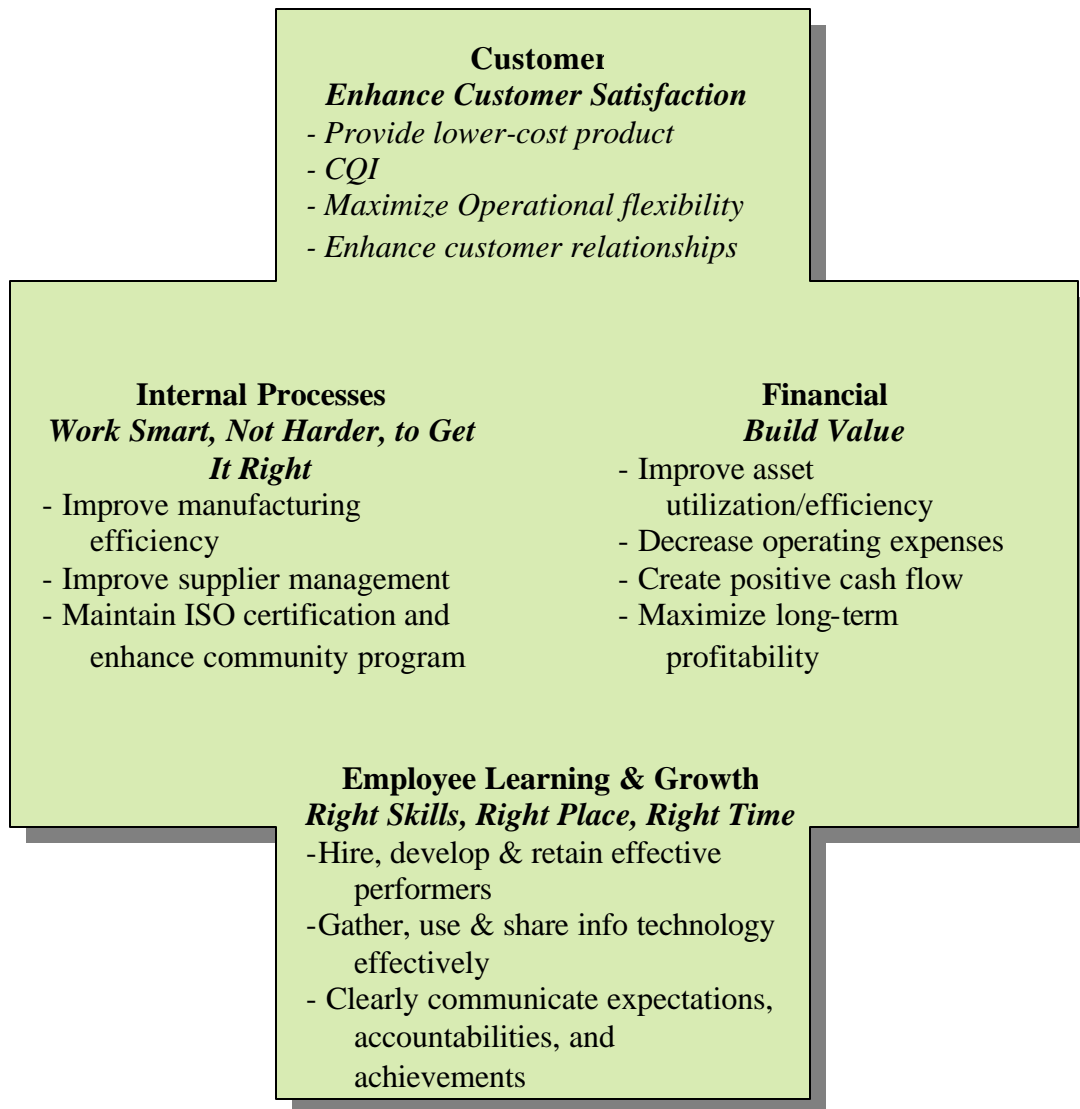
Exhibit 1 - **The Principles of a Strategy-Focused Organization** (Kaplan & Norton, p. 9)

**Principle 1: Translate the Strategy to Operational Terms**



**Exhibit 2 - Strategy Map for Brother Industries  
(USA) Inc**

Paul Niven, 2006, p. 139



**Exhibit #2 Mobil NAM&R's Balanced Scorecard (Kaplan & Norton, p. 41)**

	<b>Strategic Theme</b>	<b>Strategic Objectives</b>	<b>Strategic Measures</b>
<b>Financial (F)</b>	Financial growth	<b>F1</b> Return on Capital Employed <b>F2</b> Existing Asset Utilization <b>F3</b> Profitability <b>F4</b> Industry Cost Leader <b>F5</b> Profitable Growth	<ul style="list-style-type: none"> <li>• ROCE</li> <li>• Cash flow</li> <li>• Net margin rank (vs. competition)</li> <li>• Full cost per gallon delivered (vs. competition)</li> <li>• Volume growth rate vs. industry</li> <li>• Premium ratio</li> <li>• Nongasoline revenue and margin</li> </ul>
<b>Customer (C)</b>	Delight the customer  Win-Win dealer relations	<b>C1</b> Continually delight the Targeted consumer <b>C2</b> Build win-win relations With dealer	<ul style="list-style-type: none"> <li>• Share of segment in selected key markets</li> <li>• Mystery shopper rating</li> <li>• Dealer gross profit growth</li> <li>• Dealer survey</li> </ul>
<b>Internal (I)</b>	Build the Franchise  Safe and Reliable  Competitive Supplier  Quality  Good Neighbour	<b>I1</b> Innovative products & Services <b>I2</b> Best-in-class franchise Teams  <b>I3</b> Refinery performance  <b>I4</b> Inventory management <b>I5</b> Industry cost leader  <b>I6</b> On spec, on time  <b>I7</b> Improve EHS	<ul style="list-style-type: none"> <li>• New product ROI</li> <li>• New product acceptance rate</li> <li>• Dealer quality score</li> <li>• Yield gap</li> <li>• Unplanned down time</li> <li>• Inventory levels</li> <li>• Run-out rate</li> <li>• Activity cost vs. competition</li> <li>• Perfect orders</li>   <li>• Number of environmental incidents</li> <li>• Days away from work rate</li> </ul>
<b>Learning and Growth (L)</b>	Motivated and prepared workforce	<b>L1</b> Climate for action <b>L2</b> Core competencies & skills <b>L3</b> Access to strategic Information	<ul style="list-style-type: none"> <li>• Employee survey</li> <li>• Personal Balanced Scorecard (%)</li> <li>• Strategic competency availability</li> <li>• Strategic information availability</li> </ul>

**Exhibit 3 - Translating a Mission into Desired Outcomes (Kaplan & Norton, 2005, p. 73)****Mission***Why we exist***Core Values***What we believe in***Vision***What we want to be***Strategy***Our game plan***Balanced Score Card***Implementation and focus***Strategic Initiatives***What we need to do***Personal Objectives***What I need to do***STRATEGIC OUTCOMES**

Satisfied  
Shareholders

Delighted  
Customers

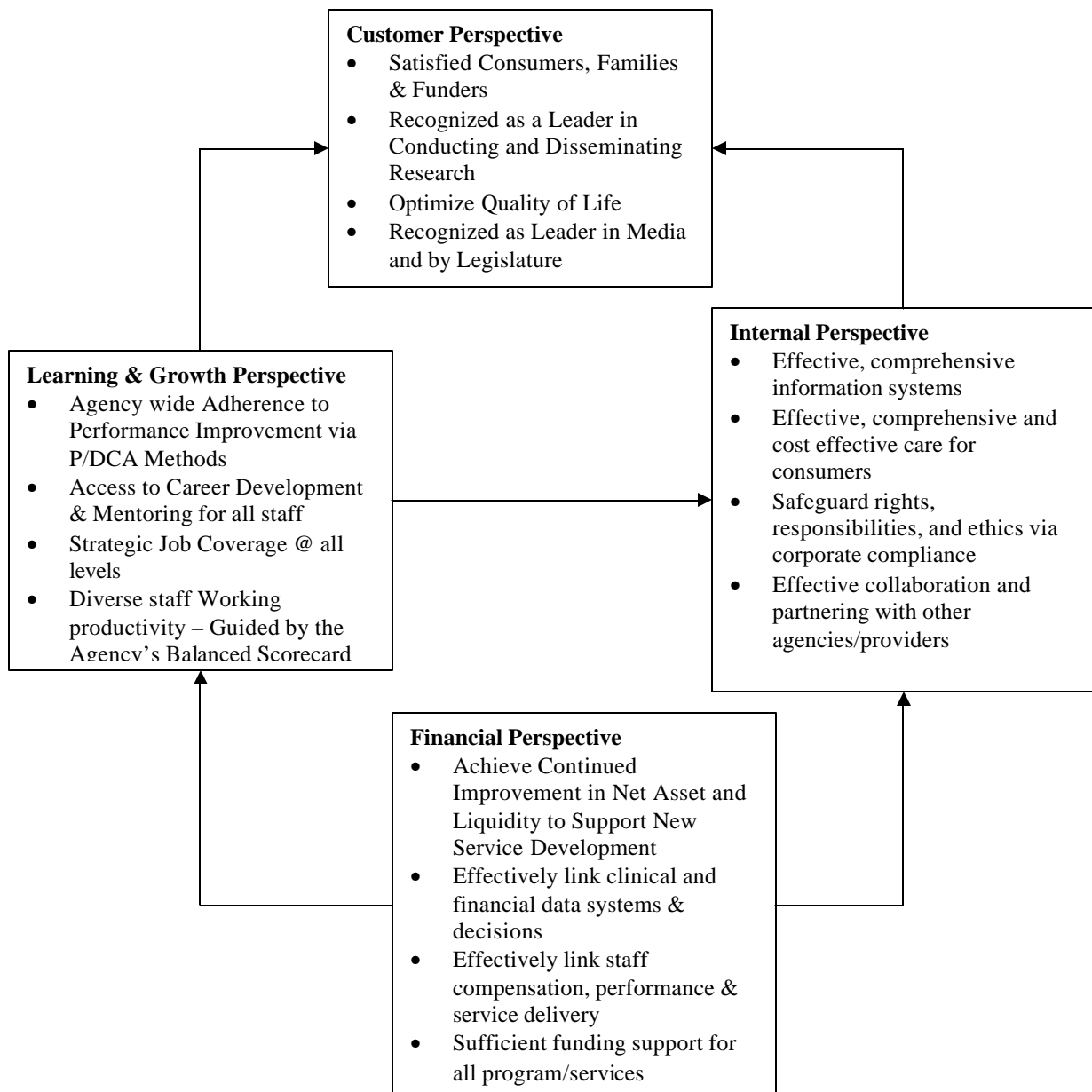
Effective  
Processes

Motivated &  
Prepared  
workforce

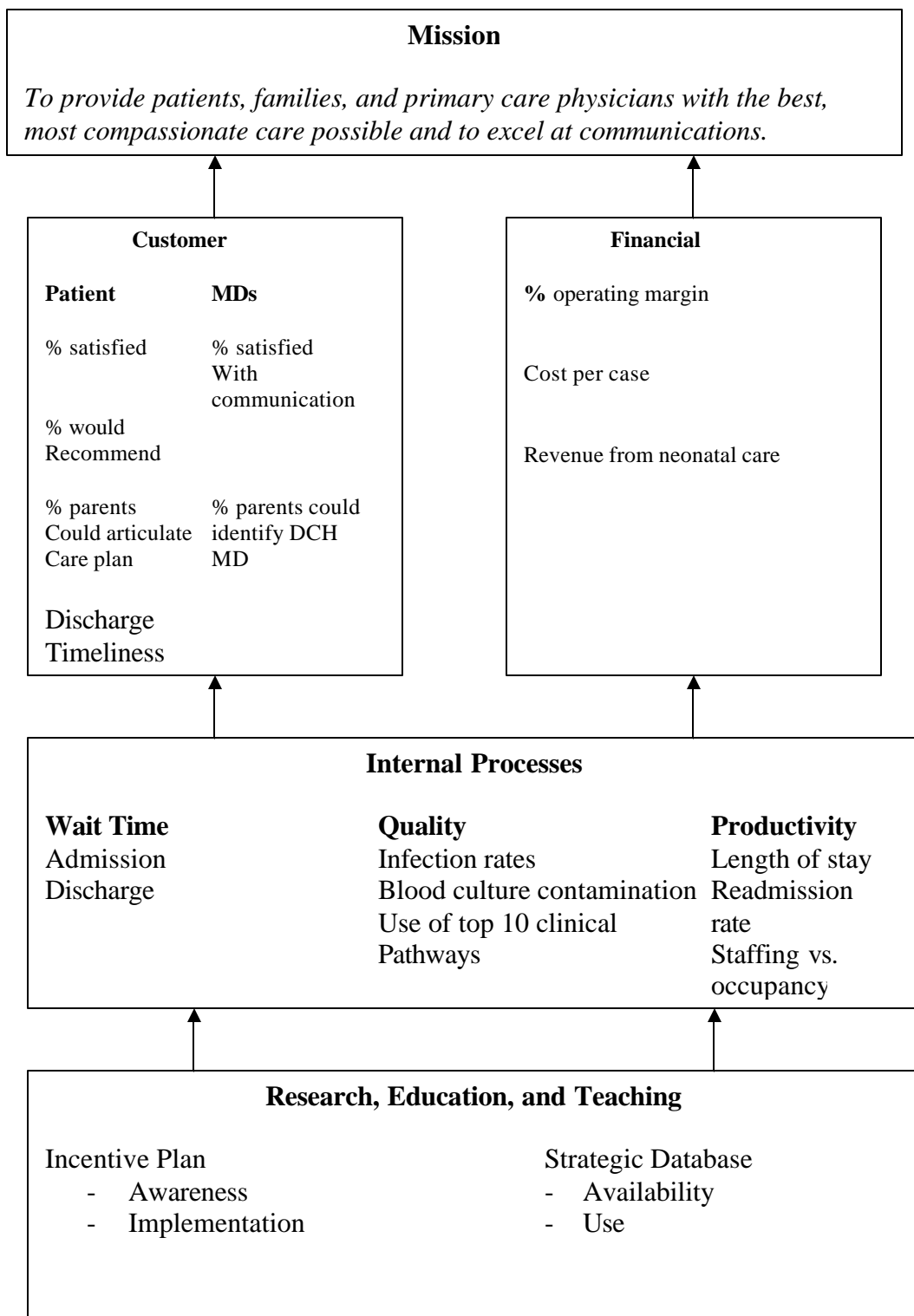
**Exhibit 4 - The May Institute's Balanced Scorecard (Kaplan & Norton, 2001, p 149)**

**Our Mission:** Provide excellent Services, Research, and Training, and meet the highest possible standards of behavioural health care and rehabilitation to our consumers, who face the challenges of autism, brain injury, mental retardation/developmental disabilities, and other physical and mental health issues.

Working together we seek to contribute to every individual's independence and promote maximum community integration



**Exhibit 5 - Duke Hospital Balanced Scorecard (Kaplan & Norton, 2001, p. 155)**



**Exhibit 6: A Fashion Retailers Strategy Map** (Kaplan & Norton, 2001, p 70)

**The Revenue Growth Strategy**

*Achieve aggressive, profitable growth by increasing our share of the customer's closet*

**The Productivity Strategy**

*Improve operating efficiency through real estate productivity and improved inventory management*

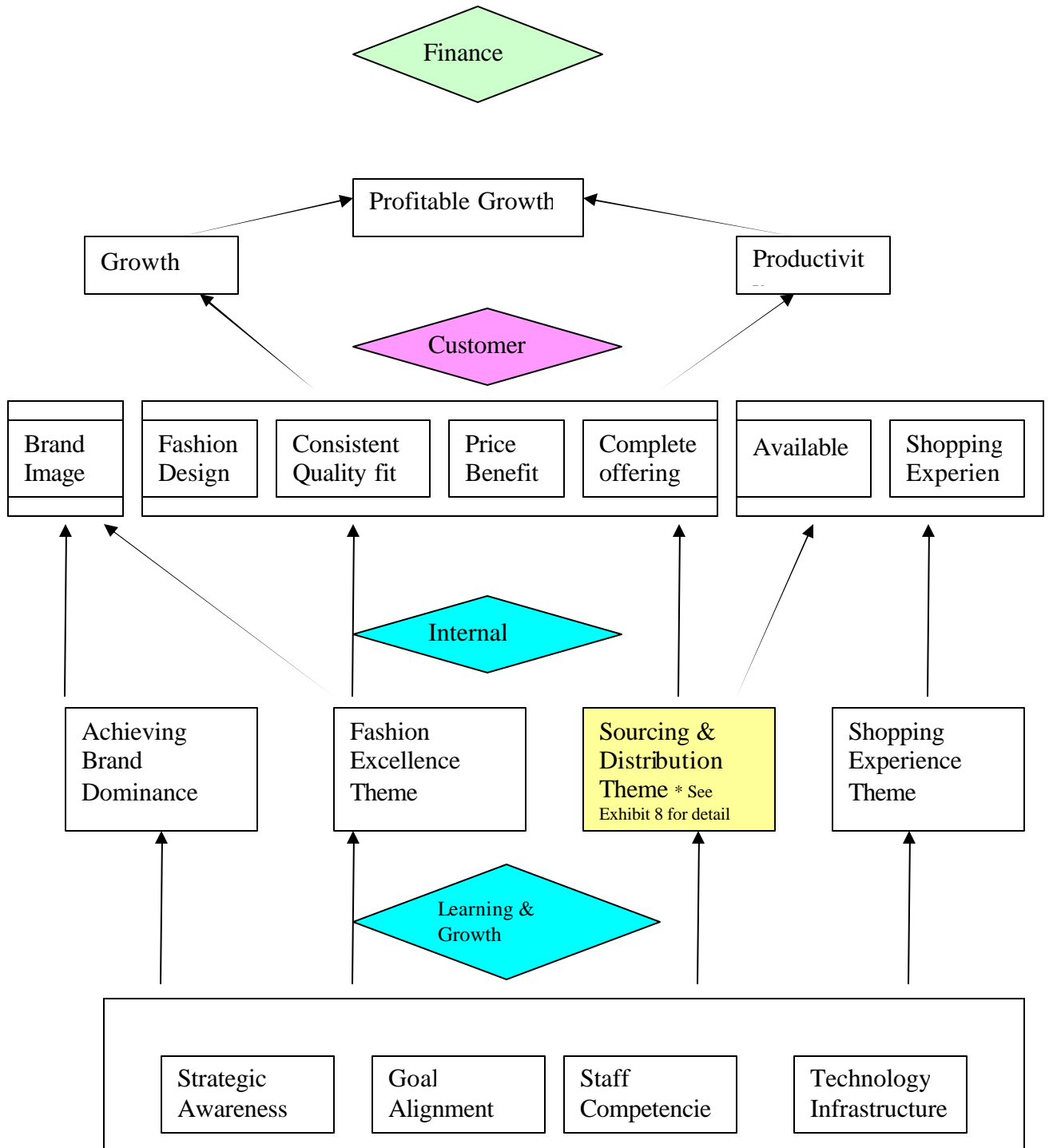


Exhibit 7 - **Source & Distribution Theme** (Kaplan & Norton, 2005, p 71)

<b>Sourcing &amp; Distribution Theme</b>	<b>Measurement</b>	<b>Target</b>	<b>Initiative</b>
<p><b>Financial</b></p>	<p>Operating Income</p> <p>Same Store Growth</p>	<p>20% Increase</p> <p>12% increase</p>	<p>Likes Program</p>
<p><b>Customer</b></p>	<p>Return rate</p> <ul style="list-style-type: none"> <li>- Quality</li> <li>- Other</li> </ul> <p>Customer loyalty</p> <ul style="list-style-type: none"> <li>- Ever active</li> <li>- # units</li> </ul>	<p>Reduce by 50% each year</p> <p>60%</p> <p>2.4 units</p>	<p>Quality Management</p> <p>Customer Loyalty</p>
<p><b>Internal</b></p>	<p>Merchandise from Class "A" factories</p> <p>Items in stock</p>	<p>70% by year 3</p> <p>85%</p>	<p>Corporate Factory Development Program</p>
<p><b>Learning</b></p>	<p>% of strategic skills available</p> <p>Strategic system vs. plan</p>	<p>Year 1 (50%)</p> <p>Year 3 (75%)</p> <p>Year 5 (90%)</p>	<p>Strategic Skills Plan</p> <p>Merchant's desktop</p>