

The Balanced Scorecard for Port Authorities

Presentation for



Paul Arveson

Balanced Scorecard Institute

www.balancedscorecard.org

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US Army CIOG-6 (Chief Information Officer)

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Transportation




EUROCONTROL

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The Key Strategic Issue

*“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

What Is the Balanced Scorecard (BSC)?

- The balanced scorecard is a ***strategic management system*** for establishing and communicating an organization's vision, mission, and strategy to stakeholders and employees, and for aligning day-to-day work to the strategy
- The balanced scorecard provides a framework for ***planning and measuring strategy*** as viewed from different dimensions, or perspectives, of organizational performance
- The balanced scorecard uses performance measures to monitor strategic success and guide the selection of strategic initiatives. The measurements also provide guidance in budgeting and ***allow the organization to learn what works.***

Balanced Scorecard History

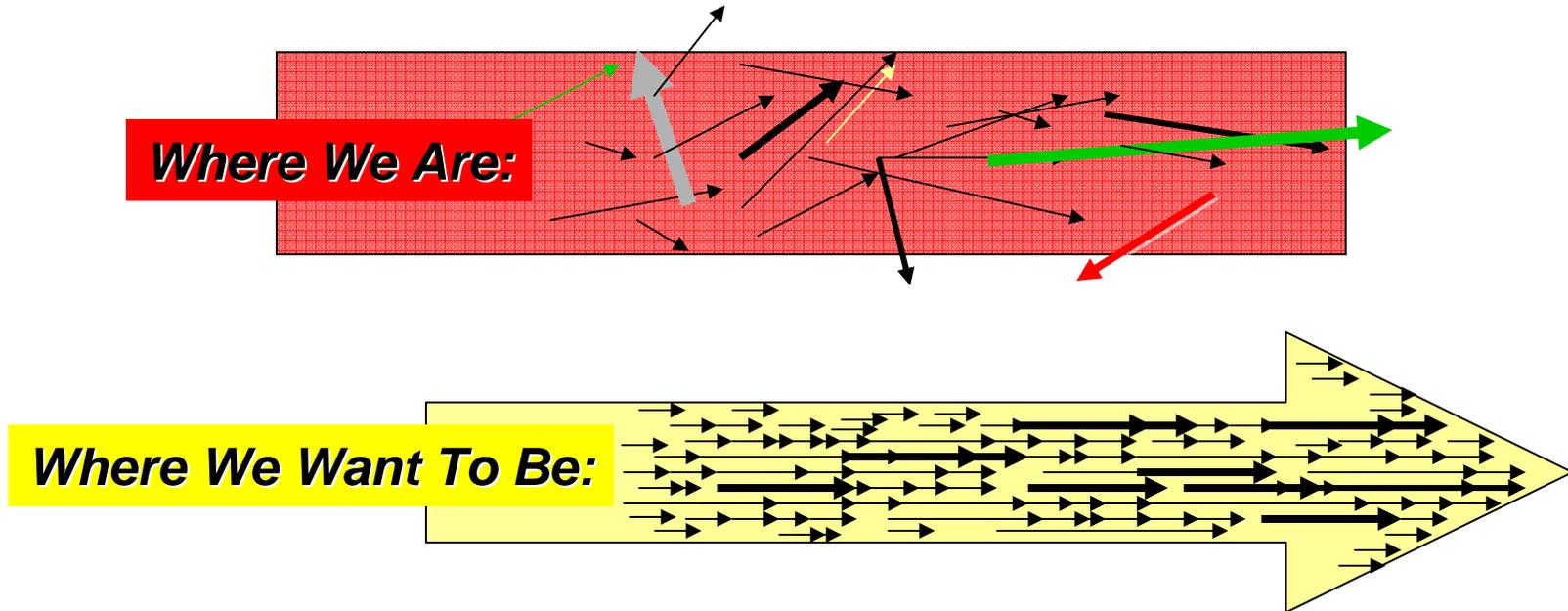
- **1990 - Nolan Norton Institute study on balanced measures of financial and non-financial performance in several organizations**
 - David Norton, study leader
 - Robert Kaplan, academic consultant from Harvard
- **1996 - “*The Balanced Scorecard*” book published**
 - *Introduced the BSC concept and rationale for balanced measures*
- **1997 - Foundation for Performance Measurement founded**
- **1998 - Balanced Scorecard Institute founded**
 - Merged 2003, now incorporated as Strategy Management Group, Inc.
- **2001 - “*The Strategy-Focused Organization*” book published**
 - *Introduced the strategy map*
- **2004 - “*Strategy Maps*” book published**
 - *450 pages of strategy map examples and case studies*
- **The BSC is now used by over 65% of Fortune 1000 companies; increasingly being adopted by Federal agencies, by state and local organizations, and internationally.**



How the BSC Can Help Port Authorities

- ***Simplifies management*** by focusing attention on a few high-impact Strategic Themes
- ***Communicates vision and strategy effectively*** by using Strategic Objectives and Strategy Maps
- Uses performance measures to ***maintain alignment*** to strategies and reward the right behaviors
- Provides ***agility and flexibility*** in the midst of rapid and continuous change
- ***Helps everyone to maintain focus on the most important things***

Why Strategic Management And The Balanced Scorecard?



- **Alignment of the organization leads to:**
 - *Identifying Strategic Performance Measures*
 - *Customer focus*
 - *Improved Communication*
 - *Results-based justification for funding*
 - *Mission effectiveness*

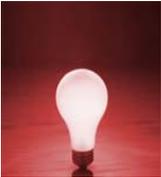
Make Strategy Everyone's Job



The Balanced Scorecard ...

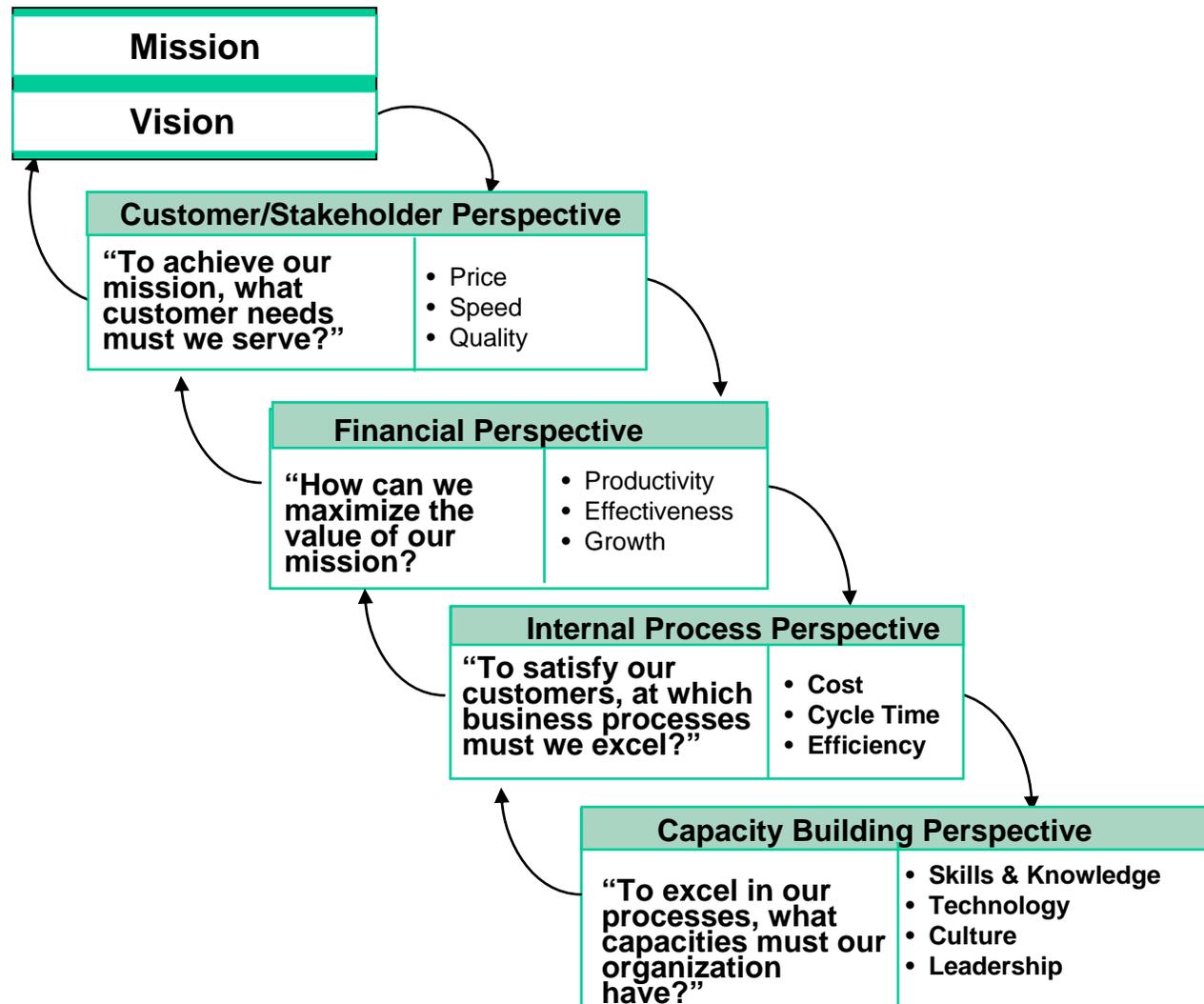
IS:	IS NOT:
A strategic management system	Only a performance measurement system
A tool for evaluating organizational performance	A report card on my individual performance
A system for providing feedback where it is needed	An executive information system for top leaders only
Supported by software after metrics are defined	A piece of software you can just buy and plug in
A long-term journey	A short-term project

Balanced Scorecard Perspectives

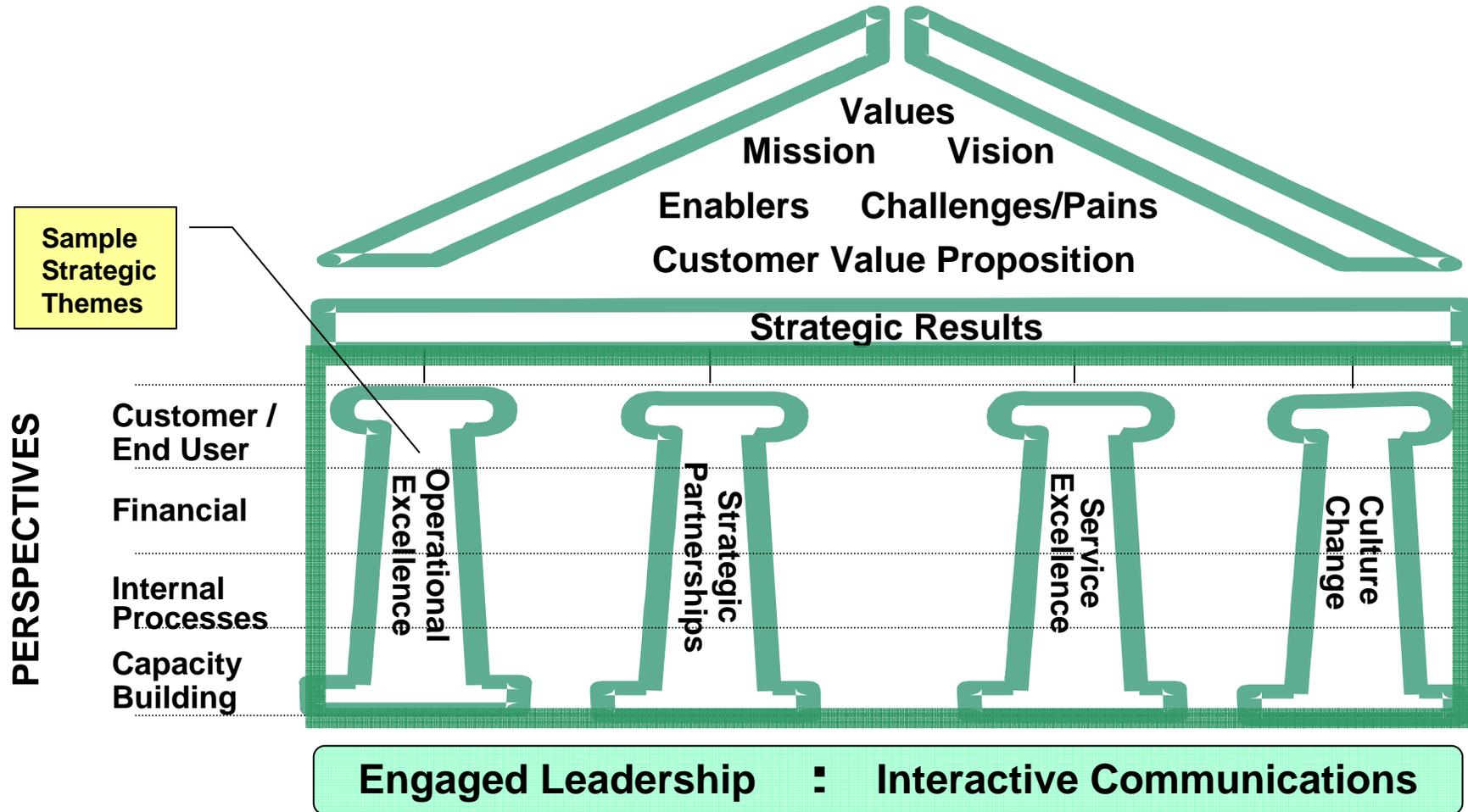
<u>Perspective</u>		<u>Key Result</u>	<u>Key Questions</u>
Customer/ Stakeholder		<i>Satisfaction</i>	Through the eyes of our customers and stakeholders: how well do our products and services meet their needs?
Financial Stewardship		<i>Increased revenues, Reduced costs</i>	For businesses: how do we create value for our owners? For government and not-for-profits: how do we maximize value and effectiveness of our mission?
Internal Processes		<i>Operational Efficiency</i>	How can our employees improve internal processes to deliver our products and services better, faster, and cheaper?
Capacity Building		<i>Knowledge, Tools & Innovation</i>	How can we support the internal processes through improved skills, technology, & leadership?

The Balanced Scorecard Translates Strategy Into Operational Terms

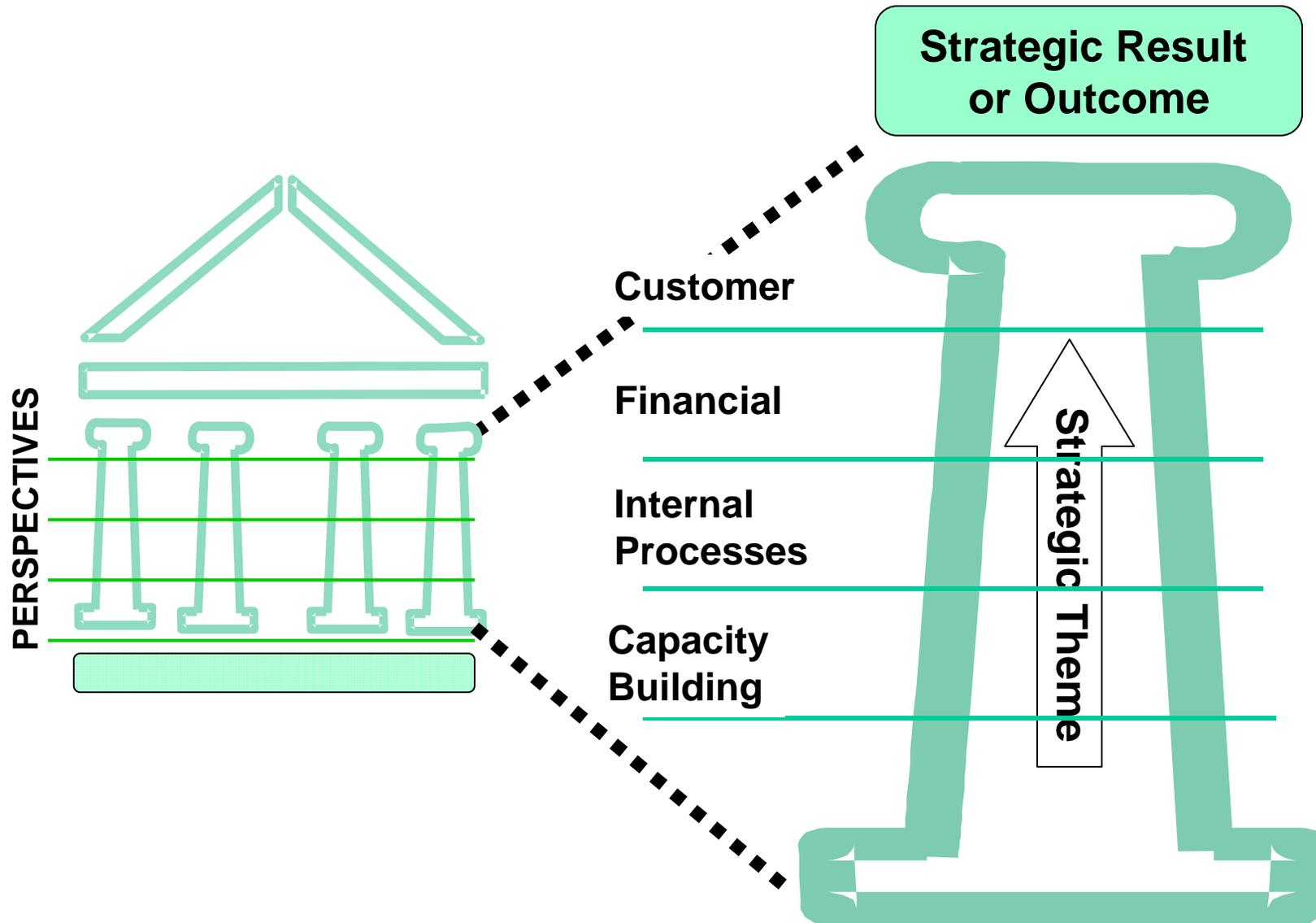
(Public Sector)



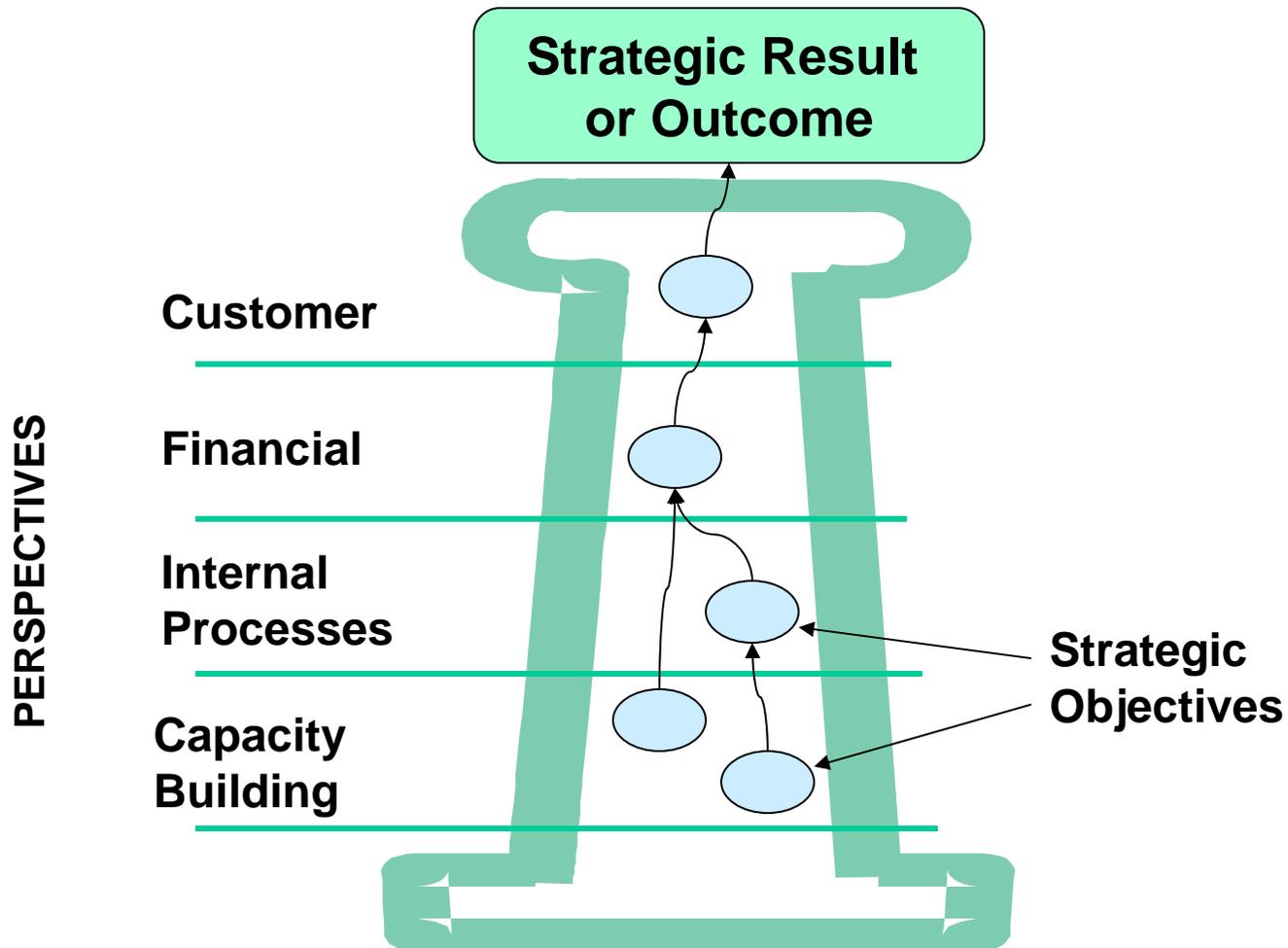
Strategic Planning Framework: The “BSC House”



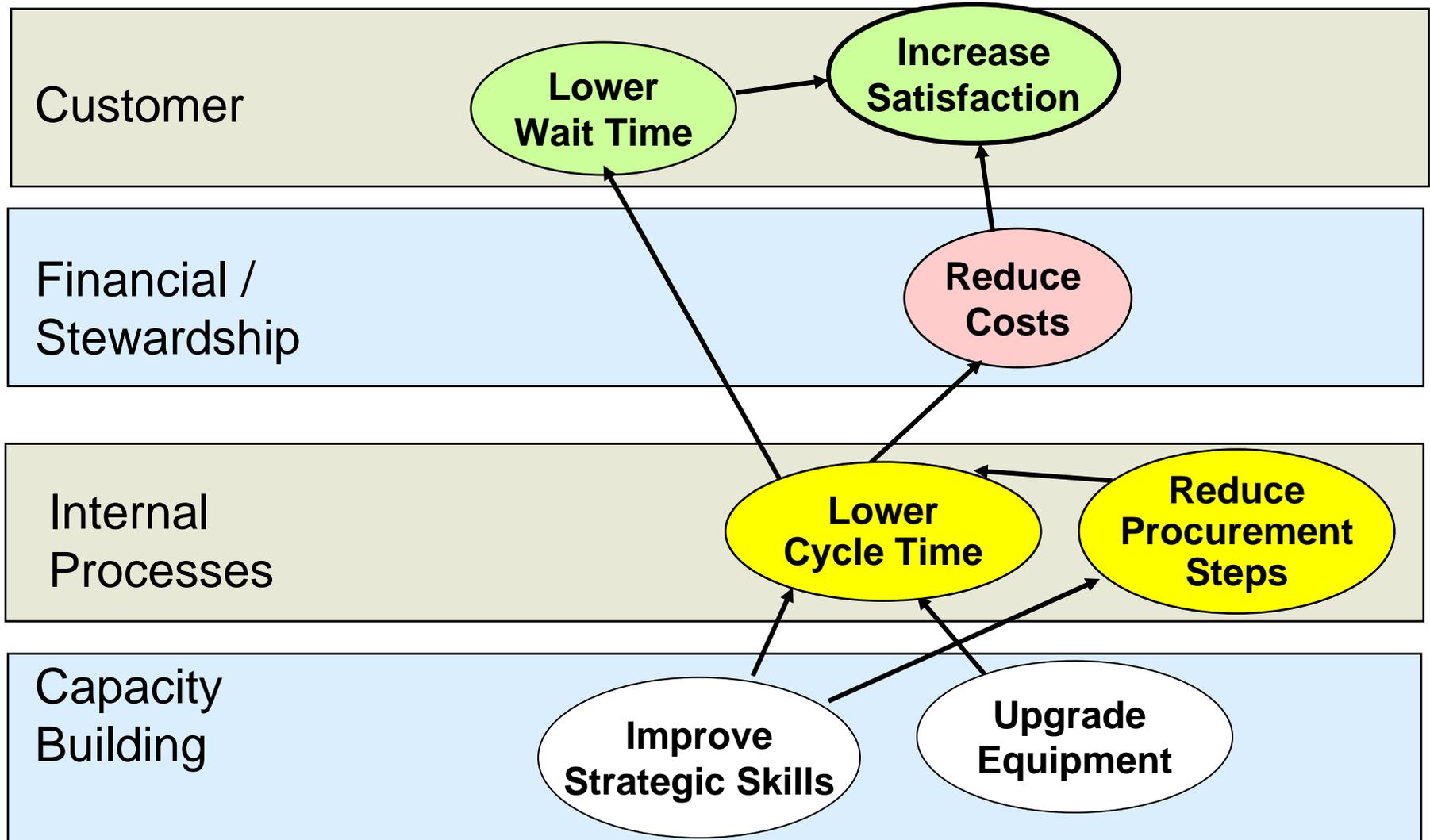
Each Strategic Theme Supports A Strategic Result



A Strategic Theme Contains Strategic Objectives



Key To A Successful Scorecard: a Strategy Map



EXAMPLE

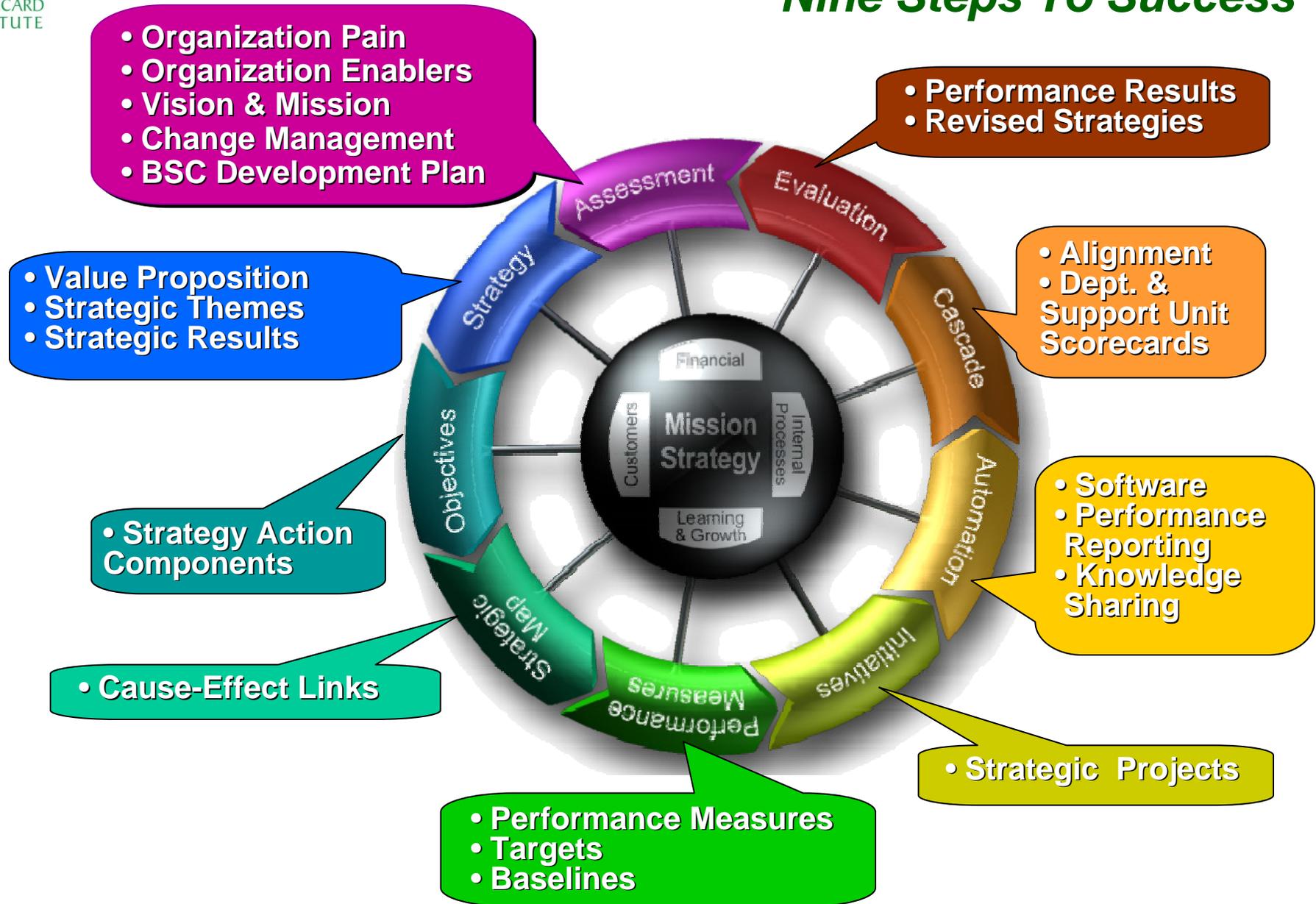
BSC for a Regional Airline

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.

Strategic Theme: Operating Efficiency		Objectives	Measures	Targets	Initiatives
PERSPECTIVES	Financial	<ul style="list-style-type: none"> Profitability Lower costs Increase Revenue 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
	Customer	<ul style="list-style-type: none"> On-time flights Lowest prices More Customers 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
	Internal Process	<ul style="list-style-type: none"> Reduce Turnaround Time 	<ul style="list-style-type: none"> On Ground Time On-Time Departure 	<ul style="list-style-type: none"> <25 Minutes 93% 	<ul style="list-style-type: none"> Cycle time optimization program
	Capacity Building	<ul style="list-style-type: none"> Align Ground Crews 	<ul style="list-style-type: none"> Align ground crews 	<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%

Building & Implementing A Balanced Scorecard: *Nine Steps To Success™*



Balanced Scorecard Development: a Strategic Thinking Process



Step 1

Step 1: Deploy the BSC Team



- **Secure a mandate from senior leadership**
- **Team must have representation across the organization**
 - **Cross-functional**
 - **Many ranks and roles**
 - **Stakeholders or their representatives**
- **Desired attributes of team members:**
 - **Analytical thinker, visionary, change agent, internal process experts, proactive (“outside the box”) thinkers**

Organizational Assessment



*Cross-functional team
Conducting an Organizational
Assessment*

- **What are the facts?**
 - Current levels of performance
 - Challenges, Enablers, Pains
 - Internal Strengths, Weaknesses
 - External Opportunities, Threats
- **Who are the customers?**
 - Primary customers
 - Secondary customers
 - Stakeholders
- **What do customers need?**
 - Functions, services
 - Timeliness
 - Quality, reliability
 - Relationship, communication
 - Image, reputation

What are Your Port Challenges?



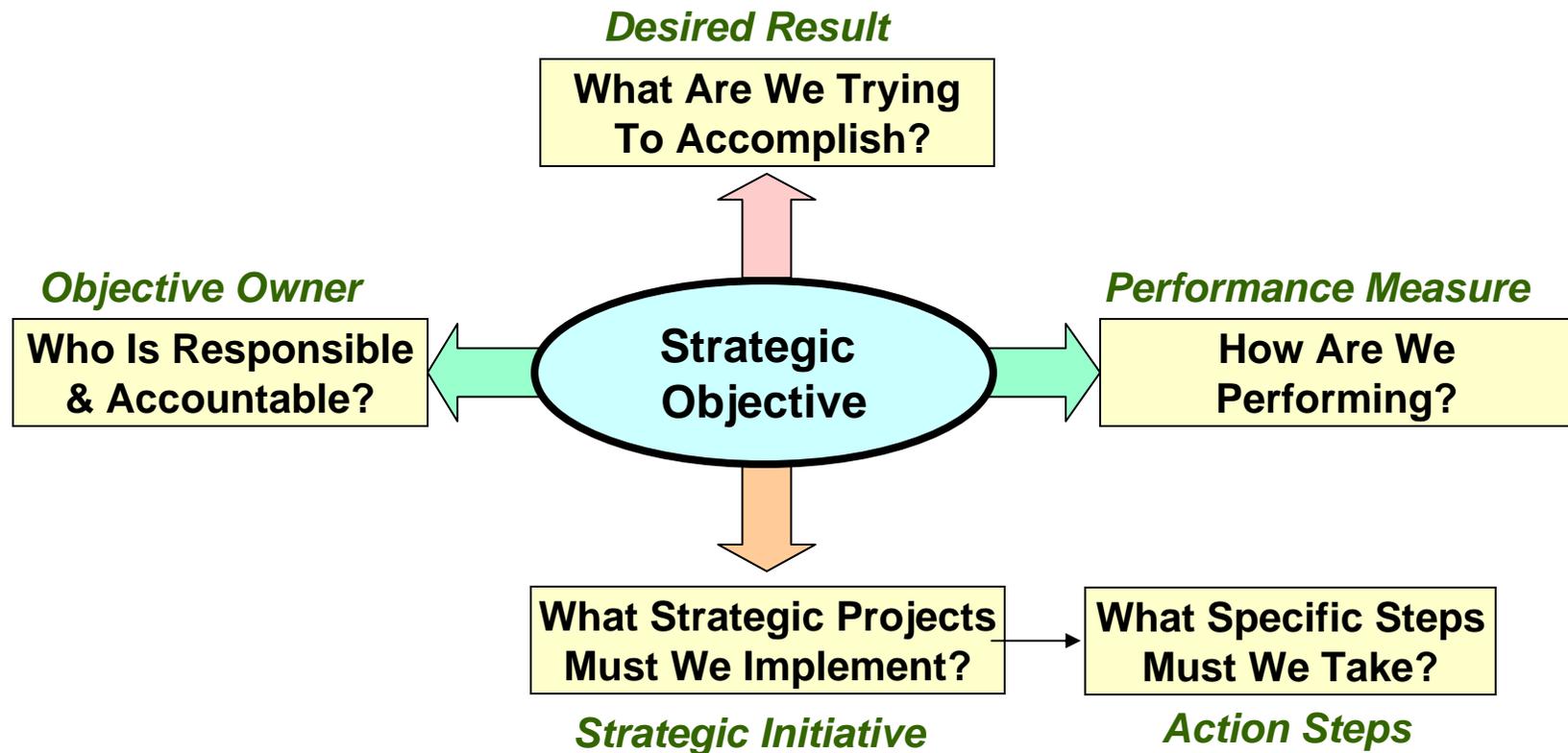
Step 2: Identify Strategic Themes

- Strategic Themes:
 - Brief titles that indicate the “pillars of excellence” where the organization must excel to increase value for its customers
 - Represent the main areas on which the organization must focus its efforts to achieve success
 - Encompass all the major functional and support units of the organization
 - Typically, three to five in number
- Each Strategic Theme has one Strategic Result

Common Strategic Themes And Results

- **Theme: Build the Business**
 - **Result:** Increased number of customers and sales per customer
- **Theme: Operational Excellence**
 - **Result:** Improved efficiency in delivery of customer-facing services
- **Theme: Strategic Partnering**
 - **Result:** Increased number of partners and quality of partnerships
- **Theme: Delight the Customer**
 - **Result:** Increased customer satisfaction and retention
- **Theme: Life Cycle Management**
 - **Result:** Reduced cost of ownership and improved reliability
- **Theme: Flatten the Organization**
 - **Result:** Improved coordination; more efficient services
- **Theme: Good Governance**
 - **Result:** Clean audits and increased accountability
- **Theme: Community Involvement**
 - **Result:** Increased community involvement and satisfaction

Step 3: Develop Strategic Objectives



How To Write Strategic Objectives

- 1. Start from the Strategic Results at the top of the Strategy Map.
- 2. Work downward from the top asking the question “How can we achieve this objective?”
- 3. Check by reading upward from the bottom asking the “Why?” question

Good Objectives: Brief; start with imperative quantitative verbs (e.g., “Improve, Increase, Reduce”); continuous improvement potential (no projects, or on/off activities; show innovation & creativity; linked to desired strategic results.)

Calibrate Your “Strategic Altitude”



Sample Strategic Objectives

Good Objectives:

- Improve knowledge of customer requirements
- Reduce workplace accident rate
- Improve ability to estimate resource needs
- Lower cost per unit
- Improve employee morale
- Reduce process cycle time
- Improve reliability of network
- Increase critical employee skills
- Increase “smarter/faster” headcount
- Increase workforce diversity

Not-So-Good Objectives:

- Write a strategic plan (*Better: Improve employee understanding of our strategic direction*)
- Complete the IT upgrade project (*Better: Increase network reliability*)
- Train all employees (*Better: Improve employee knowledge and skills*)
- Secure more funding for XYZ program (*Better: Improve program cost-effectiveness*)

Step 4: The Strategy Map

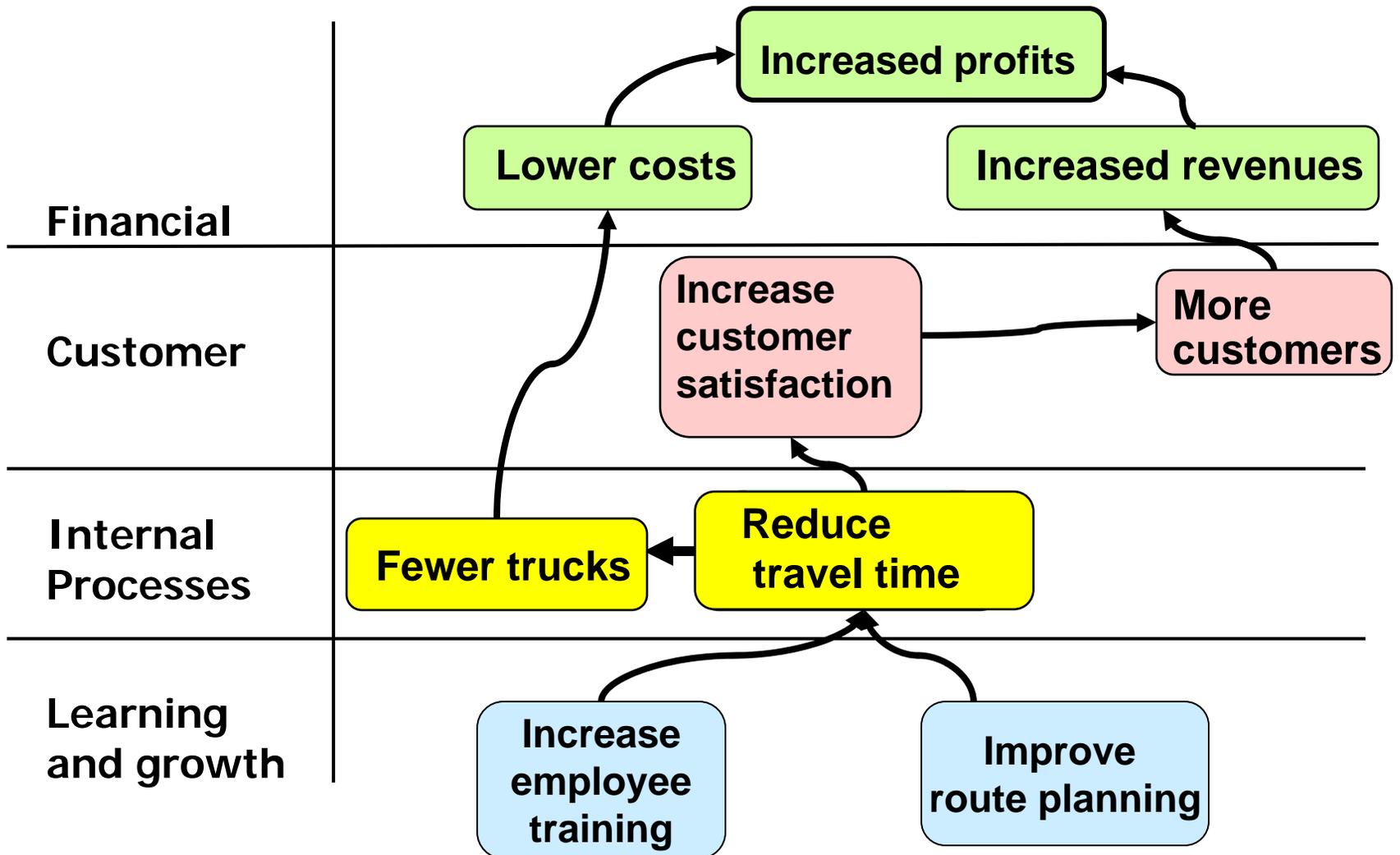


A Strategy Map:

- Defines the relationships among objectives that are causes (performance drivers) and objectives that are effects
- Helps create a balance among objectives, performance measures, and initiatives
- Helps define the logical consistency of the scorecard

EXAMPLE

A Shipping Company Strategy Map



A County Department Strategy Map

Leading the Way for a Safer County

PEOPLE

PARTNERSHIPS
& COMMUNITY

QUALITY
SERVICES

ACCOUNTABILITY

CITIZENS

**INCREASE
COMMUNITY
CONFIDENCE**

CULTIVATE
SAFER
NEIGHBORHOODS

INCREASE
QUALITY OF
SERVICES

FORGE
COMMUNITY
PARTNERSHIPS

FISCAL RESPONSIBILITY

OPTIMIZE
FINANCIAL
RESOURCES

IDENTIFY
FUNDING
OPPORTUNITIES

INTERNAL
BUSINESS
PROCESSES

INTEGRATE
TECHNOLOGICAL PROGRAMS
& EFFECTIVE
RESOURCE UTILIZATION

ENSURE
ACCOUNTABILITY
AT ALL LEVELS

INCREASE
EFFICIENCY &
PRODUCTIVITY

INTENSIFY
INTERNAL/EXTERNAL
MARKETING

DETER CRIME

PROPOGATE
CULTURALLY DIVERSE
WORKFORCE OF
EXCELLENCE

ENHANCE EFFECTIVE
CAREER DEVELOPMENT
PROGRAMS

PROMOTE CLEAR
& EFFECTIVE
COMMUNICATION

ASSESS COMMUNITY
PARTNERSHIPS,
PROGRAMS &
RESOURCES

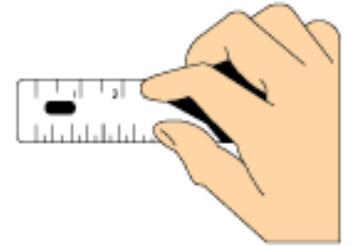
EMPLOYEES &
INNOVATION

ENSURE
COMPETITIVE
PAY & BENEFITS

FOSTER POSITIVE
WORK/TEAM
ENVIRONMENT

PROMOTE
EFFECTIVE
LEADERSHIP

Step 5: Performance Measures (Metrics)



- Provide a tangible way to see if our strategy is working
- Focus employees' attention on what matters most to success
- Allow measurement of accomplishments, not just of the work that is performed
- Provide a common language for communication

“What gets measured gets done.”

“If you don't measure results, you can't tell success from failure, you can't claim success or reward it, and you may be rewarding failure.”

“If you can't recognize success, you can't learn from it; if you can't recognize failure, you can't correct it.”

“If you can't measure it, you can't manage it and improve it!”

Exercise: Evaluate Your Metrics

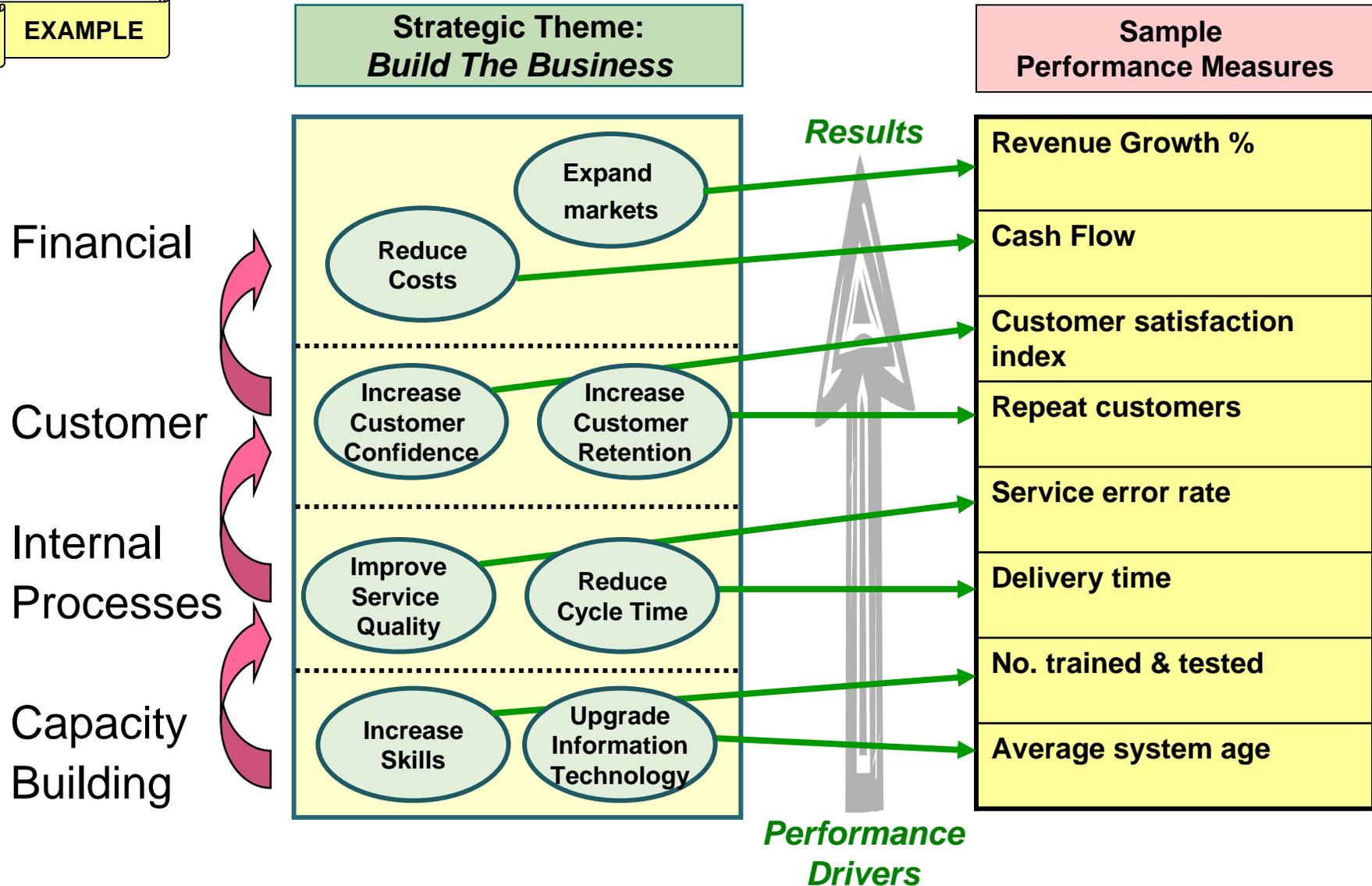
Points	Level
1	Not very well
2	Somewhat
3	Quite a bit
4	Very well; outstanding

<i>How well do your performance metrics:</i>	Score
Help translate your business strategy into operational terms?	
Align all business units toward common strategic goals?	
Fully reflect what your customers and stakeholders care about?	
Provide the leverage to create change?	
Account for intangible value?	
Manage end-to-end results across departments and business units?	
Enhance your ability to compete in the future?	
Drive improvements in how work is performed?	
Include proper benchmarks to judge performance?	
Total Score	

Adapted from: Measuring Performance, Dr Bob Frost, Fairway Press, 1998

Step 5 Performance Measures Are Derived from Strategic Objectives

EXAMPLE



Step 6: Select Strategic Initiatives



- New strategic projects identified during the scorecard development process
- Widely recognized as solving significant organization problems
- Prioritized and ranked by: potential alleviation of organization pain, cost and time to implement, benefits and time to realize the benefits
- Schedule, deliverables, resource commitments and ownership defined
- Dependencies and sequencing considered

Steps 1-6 Summary: A Government Task Force BSC

Mission: Conduct counter-illicit trafficking activities to achieve an effective international effort.

Vision: Leverage assets to cause major reductions in illicit trafficking.

Strategy Map <i>Strategy: Improved Operating Efficiency</i>		Objectives	Metrics	Targets	Initiatives
Customer/ Stakeholder		<ul style="list-style-type: none"> Best assets Improve effectiveness 	<ul style="list-style-type: none"> Asset Index Coordination Index 	<ul style="list-style-type: none"> +15% in one year + 20% in one year 	<ul style="list-style-type: none"> Develop new coordination initiatives Develop a Command Capabilities Brief
Internal Processes		<ul style="list-style-type: none"> Increase field asset availability 	<ul style="list-style-type: none"> Capability Availability 	<ul style="list-style-type: none"> 10 new types by next FY Reduce delays 10% per year 	<ul style="list-style-type: none"> Interagency roles and responsibilities study Quarterly tactical meetings
Budget/ Financial		<ul style="list-style-type: none"> Internal & external resource allocation system 	<ul style="list-style-type: none"> Percentage priorities covered Resources received 	<ul style="list-style-type: none"> 95% by next FY \$20M by next FY 	<ul style="list-style-type: none"> Command resource information system
Organization Capacity		<ul style="list-style-type: none"> Improve training & development Develop cross-functional teams Increase leadership accessibility 	<ul style="list-style-type: none"> Employee satisfaction score Percent signatories Team building index 	<ul style="list-style-type: none"> 90% 95% 85% by next year 	<ul style="list-style-type: none"> Integrated Assessment Capability Command orientation training



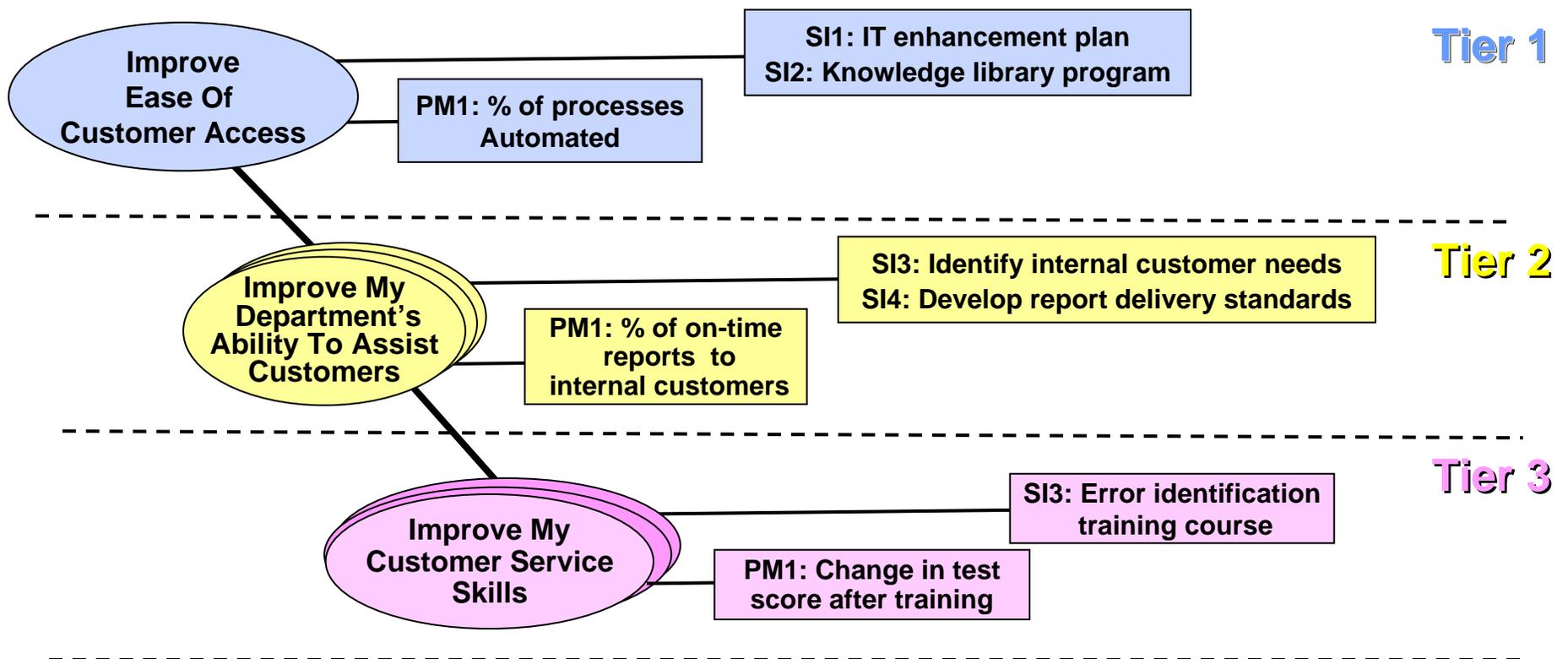
Step 7: Automation of the BSC

- ***Automation:*** Applying performance measurement software to get the right performance information to the right people at the right time to be used for effective feedback.
- There are now over 100 vendors of “Balanced Scorecard” software
- Prices range from free to several \$100K, depending on requirements
- Popular vendors include:
 - ActiveStrategy, CorVu, Cognos, Hyperion, Microsoft, OpenRatings, Oracle, PerformanceSoft, Pilot, Rocket Software (CorVu), SAP, SAS, etc.
- ***Call us to discuss recommendations to fit your requirements.***

Step 8: Cascade Strategic Objectives Through the Organization

Tier 1: Enterprise-wide
Tier 2: Business and Support Units
Tier 3: Teams & Individuals

Aligned Balanced Scorecard Objectives:





Step 9: Evaluation

- **Real data are necessary in order to understand organizational performance**
- **Evaluation requires comparisons of BSC data:**
 - With past performance
 - Between organizational units
 - Between processes in different organizations
- **All aspects of the organization can be questioned**
- **Tie evaluation to budget decisions**
- **Repeat the cycle**

The Ten Big Challenges

- 1. Lack of engaged leadership**
- 2. Lack of strategic thinking**
- 3. Using different definitions of common terms**
- 4. Communicating only with the special few**
- 5. Thinking it's a sprint, not a marathon**
- 6. Thinking it's only about performance measures**
- 7. Bad software decisions**
- 8. Weak facilitation skills**
- 9. Not planning for and managing change**
- 10. Losing momentum and not following through**

The Main Thing ...

*... is to keep
The Main Thing
The Main Thing!*



The BSC Strategic Management System Is A Journey

Strategy + Operations + Change

A cost-effective
game plan,
communicated
and executed
well

Efficient
processes run by
empowered,
satisfied
employees

Effectively
managing the
complexities of
people, tools,
innovation and
action

***In other words, learning to do the right
things right, better.***



The Balanced Scorecard Institute, *a Strategy Management Group company*

An organization of highly experienced professionals providing instructional, development, and implementation services in strategic management and performance improvement through:

Public Workshops

On-Site Customized Training

Balanced Scorecard Consulting & Re-Balancing

Balanced Scorecard-Baldrige-ISO-Six Sigma-Lean Integration

Strategic Planning

Expert Facilitator and Change Management Consulting

Performance Management/Measurement Software Integration

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(800) 409-2009**

**Washington, DC
(202) 465-4253**



*Thank you, and good luck on
your balanced scorecard
journey!*

Paul Arveson
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The Balanced Scorecard Institute

Balanced Scorecard Definitions

Core Values: Our guiding principles; what we believe in.

Customers: Direct beneficiaries of our services or products.

Input: A resource consumed in work activities and processes, such as money, labor, time, equipment etc.

Logic Model: A basic description of a work process in terms of inputs, activities, outputs, and outcomes (or results).

Mission: What we are about; our purpose for existence as an organization.

Outcome: Results that are desired by producing outputs; accomplishments.

Output: What is produced by a work process; immediate deliverables in terms of products and services.

Performance Measure (Lagging): An indicator of past performance that show how successful we were in achieving our outcomes.

Performance Measure (Leading): An indicator of performance that is a precursor of future success; a performance driver

Perspectives: Different views of our organization; performance dimensions.

Process: A chain of work activities that transforms inputs into outputs and thereby adds value.

Stakeholders: The universe of people with an interest in our success.

Strategic Initiative: Action program designed to achieve our performance goals.

Strategic Objective: Strategy component; continuous improvement activity that must be done.

Strategy: How we intend to accomplish our vision; a long-term approach, or “game plan”.

Strategy Map: Cause-effect relationships among the objectives that make up a strategy.

Strategic Result: Desired outcome for a strategic theme.

Strategic Theme: Main focus areas of an organization’s vision; the organization’s “Pillars of Excellence”, used to focus staff effort on accomplishing the vision.

Target: Desired level of performance for a performance measure.

Vision: What we want to accomplish several years in the future; our “picture of the future”.